INTERRA RESOURCES LIMITED Annual Report 2006

interra resources

Beneath the Surface:

Our Future is Clear

As we strive towards our goal of becoming a leading regional independent producer of oil and gas, we are focused on bringing the value underlying Interra and its assets to the surface and delivering it to our shareholders.

Contents

Corporate Profile

** Not drawn to scale*

ABOUT INTERRA

Interra Resources Limited is a Singapore listed company engaged in the business of upstream petroleum exploration and production ("E&P"). Our E&P activities include petroleum production, field development and low risk exploration through strategic alliances and partnerships. We are positioning ourselves to becoming a leading regional independent producer of oil and gas.

Since our inception, we have grown both organically by developing our existing assets and through disciplined acquisitions by seeking attractive acquisition targets across Southeast Asia.

Today, we have established oil and gas interests and operations in various parts of Southeast Asia. Our balanced portfolio of production, development and exploration assets comprises three contract areas in Indonesia and Myanmar. Our proved plus probable reserves were about 15 million barrels of oil as at 31 December 2006.

E&P OPERATIONS

Chauk and Yenangyaung IPRCs

In central Myanmar, we hold 60% of the rights to operate in two of the largest onshore oil fields, being the Chauk and Yenangyaung Improved Petroleum Recovery Contracts ("IPRCs"). The IPRCs with the Myanma Oil and Gas Enterprise ("MOGE") commenced on 4 October 1996 for a term of 20 years and 6 months. We own the operatorship of the fields jointly with a partner. The Myanmar concessions cover a total area of approximately 1,800 square kilometres and are located along the Ayeyarwaddy River, almost 580 kilometres north of Yangon. During 2006 the combined gross production for both fields was 770,402 barrels of oil.

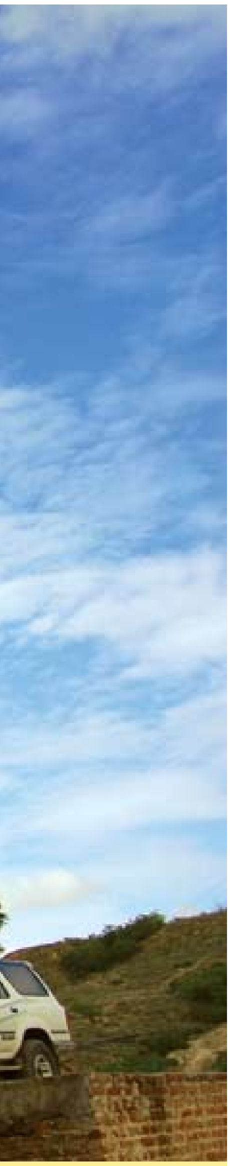
Tanjung Miring Timur TAC

Onshore south Sumatra, we own a 70% non-operated interest in the Tanjung Miring Timur ("TMT") Technical Assistance Contract ("TAC"). The TAC with Pertamina commenced on 17 December 1996 for a term of 20 years. The operator of the oil field is PT Retco Prima Energy ("Retco"). TMT covers an area of approximately 61 square kilometres and is located around 30 kilometres southeast of Prabumulih and about 120 kilometres southwest of Palembang. During 2006 gross production was 263,452 barrels of oil.

HOW DEEP?

The concept of value drives every decision at Interra. It determines how we grow, what we invest in and where we focus the energy and talents of our people.

Beneath the surface, our future is clear.



Dear Shareholders,

It is my pleasure to report to you regarding an eventful 2006. One of the key themes during 2006 was to strengthen the financial position of the Company. We believe we have achieved this as we now have no interest bearing debt and approximately US$24.23 million cash on hand as at 31 December 2006.

AN EVENTFUL 2006

There were three particularly significant events during the year:

1. **Call of All Outstanding Warrants and Redemption of All Outstanding Secured Bonds (US$11 million)**
   In June 2006, we requested the warrantholder to exercise all the outstanding warrants issued by the Company. The warrantholder, who was also the bondholder, elected to surrender all of the bonds rather than pay the cash subscription price for the new shares. As a result, the exercise of the warrants increased the number of shares on issue and the redemption of all the outstanding secured bonds enabled the pledges over several of the Group's assets to be released. This has delivered significant freedom and flexibility to Interra to pursue its strategy.

2. **Sale of Interest in Orchard Energy Holding Java & Sumatra B.V. ("Orchard")**
   In August 2006, we completed the sale of our 50% shareholding in Orchard which owned a 5% non-operated interest in the Onshore Northwest Java PSC ("ONWJ") and the Southeast Sumatra PSC ("SES"). The consideration comprised US$20.5 million cash and US$1 million worth of shares in the acquirer's (now Salamander Energy plc) planned initial public offering. As part of the sale, Interra was relieved of all repayment obligations with respect to Orchard's high yield senior debt of US$39.3 million. The sale value implies a total asset value of US$78 million compared to the initial purchase price of US$48 million. As a result, Interra recognised an extraordinary gain of US$5.86 million. The sale has led to a reduction in our oil and gas reserves and level of production.

3. **Impairment of Myanmar Assets**
   In March 2006, we announced that there was a substantial increase in the prospects and leads in the Chauk and Yenangyang fields in Myanmar. Together with our partner, we decided to test these prospects and leads by planning to undertake a deep drilling program. Unfortunately, the irregular payment of trade receivables by the national oil company, Myanma Oil and Gas Enterprise ("MOGE") continued and the proposed deep drilling program was suspended in November 2006. As the trade receivables situation had deteriorated, the Board of Directors felt that it was only prudent to impair the carrying value of the Myanmar assets in the Group's financial accounts. The total impairment and allowance for doubtful debts for the year amounted to US$10.01 million although a major component of this comprised past expenditure which had been capitalised. Unfortunately, Interra's bottom line was adversely affected by this write-down.

PERFORMANCE REVIEW

During 2006, our annual shareable production again exceeded 1 million barrels of oil equivalent ("boe") (although current production levels have significantly reduced due to the sale of Orchard). Our revenue for the year rose almost 21% to US$13.08 million fuelled by strong oil prices. Furthermore, we booked a significant profit of US$5.86 million from the divestment of our equity stake in Orchard. In spite of these, we incurred a net loss after tax of US$1.74 million in 2006. This was because of the recognition of impairment loss and allowance for doubtful debts with respect to our Myanmar assets of US$10.01 million.

Tanjung Miring Timur ("TMT") continues to perform well with total gross production

during 2006 higher than the previous year. However, due to the very tight market for drilling rigs, the planned three infill well drilling program was delayed.

Total gross production at the Myanmar fields declined slightly during 2006. Three shallow infill wells were drilled during the year. The first is currently producing whilst the second well was unsuccessful due to drilling difficulties and abandoned. We are awaiting the results of the third shallow infill well which was completed in early 2007. Despite the trade receivables arrears, the Company and its partner have indicated to MOGE and the Myanmar government that we intend to continue operating the fields pursuant to the relevant contracts. As foreshadowed in our 2005 annual report, the joint owners of the Myanmar fields explored locating a strategic partner to participate in higher risk exploration projects. Whilst nothing has been agreed to date, the partners are still open to this possibility.

We are committed to continuing to deliver an excellent health, safety and environment performance from our oil fields. Also, as part of our corporate values, we will continue to undertake community initiatives in the areas where we operate.

THE WAY FORWARD

During 2006, we faced similar issues to the previous year being replacement of remaining reserves, scarcity of quality people and operating equipment resulting in escalating costs and very high prices paid for oil and gas acreage.

We have previously indicated that our strategy includes the following key elements:

1. continued growth by way of maximising existing assets and disciplined acquisitions
2. focussing on smaller scale exploration and producing assets
3. having major stakes in assets and obtaining operatorship, where possible and realistic
4. undertaking low risk exploration, preferably within proved areas and basins
5. concentrating on Southeast Asia particularly Indonesia
6. increasing our human resources

Our strategy remains intact and the Board is focusses on maximising shareholder value by ensuring its implementation in a disciplined manner. Our determination is evidenced by our decision to sell Orchard as it did not fit within our defined strategic elements.

Replacement of our reserves remains a priority for the Company and accordingly, we must either conduct exploration or development activities to prove additional reserves or make external acquisitions to add new reserves. The market for oil and gas properties remains tight with the number of industry participants increasing. Prices paid for assets are high and we have seen many transactions at prices which appear commercially unrealistic. It is particularly challenging locating assets of a suitable quality and potential value which are consistent with Interra's strategy. During 2006, we screened and evaluated various opportunities which would fit with Interra's strategy and operational capabilities. Despite making certain bids, no acquisitions were consummated. We continue to actively seek new opportunities which will provide

ongoing growth. In 2007, we expect that our ongoing efforts will enable us to successfully close at least one acquisition.

The well documented scarcity of oil and gas opportunities at reasonable purchase prices means that we will consider making investments within other areas of the resources and related sectors, provided that they meet strict investment return hurdles and are consistent with the core elements of our strategy. We will continue to leverage off the network and experience of my fellow directors in this regard.

During the year, we continued to increase our technical and operating ability with the addition of technical staff, equipment and software. For example, in July 2006 we announced the appointment of a vastly experienced Chief Technical Officer. We continue to build our technical database and we are increasingly able to maximise our existing assets and to evaluate exploration and production opportunities in-house. Continuing staff training and development is a strong part of the Group's ethos. Unlike many companies in the oil and gas industry, we have been fortunate to experience little staff turnover. This is a testament to the loyalty and dedication of our people. Implementation of the employee share scheme foreshadowed in the 2005 annual report was delayed and it is now planned to be implemented in 2007.

LAST WORDS

We are committed to the highest standards of corporate governance. For more detailed information regarding this matter, please refer to the corporate governance report in this annual report. The quality, timing and content of our financial reporting and shareholder communications reflect our commitment to keep shareholders fully informed of developments, both positive and negative. During 2006, we also changed the Company's functional and reporting currency from Singapore dollars to United States dollars to better reflect the economic substance of our operations. In addition, we undertook a capital reduction to better reflect the underlying assets and liabilities of the Company.

At this time, the Board considers that no dividend should be declared.

On behalf of the Board of Directors, I would like to thank our shareholders for their past and continuous support of the Company. I would also like to thank our staff for their loyalty and dedication to the Group.

The Company is financially strong which will enable us to confidently pursue the next phase of our evolution. Our ultimate success depends on our ability to execute our strategy. We look forward to the Company returning to profitability during 2007 and beyond.

Yours sincerely,

Edwin Soeryadjaya
Chairman

Edwin Soeryadjaya
Chairman
Mr Edwin Soeryadjaya, who joined Interra as a Non-Executive Director on 14 December 2004, has been Chairman of the Interra Board since 1 July 2005.

Mr Soeryadjaya is presently the Chairman of the Saratoga group in Indonesian and has deep insight into the Indonesian economy. He spent 15 years in PT Astra International Tbk and was responsible for its financial restructuring and public listing. He left Astra as Vice President Director in 1993 to set up his own investment companies. His chairmanships include being the President Commissioner of PT Mitra Global Telekomunikasi Indonesia, PT Adaro Indonesia, PT Saptaindra Sejati and PT Global Kalimantan Makmur. He also sits on the board of directors of PT Indonesia Bulk Terminal, L & M Group Investments Ltd and Fleur Enterprises Limited.

Mr Soeryadjaya graduated with a Bachelor of Science, majoring in Business Administration, from the University of Southern California, Los Angeles in 1974.

Mr Soeryadjaya was last re-elected as a director at Interra's Annual General Meeting on 26 April 2006.

Sandiaga Salahuddin Uno
Deputy Chairman
Mr Sandiaga Salahuddin Uno, who joined Interra as a Non-Executive Director on 1 July 2003, has been the Deputy Chairman of the Interra Board since 1 July 2005. He also serves as a Member of the Audit Committee, a Member of the Nominating Committee and a Member of the Remuneration Committee.

Currently, Mr Sandiaga is the Principal and Managing Director of PT Saratoga Investama Sedaya, a private equity and direct investment company in Indonesia. He is also the Chairman of the Indonesian Young Entrepreneurs Association (HIPMI) and the Permanent Committee for Small and Medium Enterprises of the Indonesian Chamber of Commerce and Industry (KADIN).

He sits on the board of directors of PT Adaro Indonesia, PT Indonesia Bulk Terminal, PT Mitra Global Telekomunikasi Indonesia, PT Mentari Abdi Pertiwi, PT Capitalinc Investment Tbk, Fleur Enterprises Limited and Attica Finance Limited. He also serves on the board of commissioners of PT Saptaindra Sejati, PT Global Kalimantan Makmur and PT Makmur Sejahtera Wisesa.

Mr Sandiaga received a Bachelor of Business Administration with *summa cum laude* from the Wichita State University, Kansas in 1990 and a Master of Business Administration with *summa cum laude* from The George Washington University, Washington D.C. in 1992.

Mr Sandiaga was last re-elected as a director at Interra's Annual General Meeting on 26 April 2005.

Luke Christopher Targett
Chief Executive Officer & Executive Director
Mr Luke Christopher Targett has been the Chief Executive Officer and Executive Director of Interra since 1 July 2005. He also sits on the boards and management committees of Interra's subsidiary companies and joint venture entities.

He was previously a Partner at Ernst & Young in Corporate Finance with over 17 years experience in mergers and acquisitions, valuations, restructuring and risk management gained in Australia, London, Thailand and Indonesia.

Mr Targett graduated with a Bachelor of Commerce from The University of Melbourne in 1991 and completed the Professional Year Program at the Institute of Chartered Accountants in Australia in 1993. Subsequently, he obtained a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia. He is a Member of the Institute of Chartered Accountants in Australia and a Fellow of the Financial Services Institute of Australasia.

Mr Targett was last re-elected as a director at Interra's Annual General Meeting on 26 April 2006.

Subianto Arpan Sumodikoro
Non-Executive Director
Mr Subianto Arpan Sumodikoro has been a Non-Executive Director of Interra since 14 December 2004. He commenced his career with PT Astra International Tbk in 1969 and held a variety of positions within the Astra group, rising to be its Vice Chairman in 2000. Before he retired from the Astra group in 2006, he also served on the board of commissioners of PT Astra Agro Lestari Tbk.

Currently, Mr Subianto leads the board of directors of his own investment and holding companies, PT Tri Nur Cakrawala, PT Pandu Alam Persada, PT Persada Capital, PT Persada Capital Investama and Canyon Gate Investments Ltd. In addition, he is the President Commissioner of PT Kirana Megatara and the Chairman of Multi-Corporation (S) Pte Ltd. He also sits on the board of commissioners of PT Adaro Indonesia and PT Saptaindra Sejati.

Mr Subianto graduated from the Bandung Institute of Technology in 1969 with a Bachelor Degree in Mechanical Engineering.

Mr Subianto was last re-elected as a director at Interra's Annual General Meeting on 26 April 2006.

Allan Charles Buckler

Independent Director

Mr Allan Charles Buckler has been an Independent Director of Interra since 14 December 2004. He also serves as the Chairman of the Nominating Committee, a Member of the Audit Committee and a Member of the Remuneration Committee. His previous directorships include PT Adaro Indonesia and PT Indonesia Bulk Terminal.

Mr Buckler holds a Certificate in Mine Surveying and Mining. He also holds a First Class Mine Managers Certificate and a Mine Surveyor Certificate issued by the Queensland Government's Department of Mines.

Mr Buckler was last re-elected as a director at Interra's Annual General Meeting on 26 April 2006.

Lim Hock San

Independent Director

Mr Lim Hock San has been an Independent Director of Interra since 3 July 2004. He also serves as the Chairman of the Audit Committee, the Chairman of the Remuneration Committee and a Member of the Nominating Committee.

Mr Lim is currently the President and Chief Executive Officer of both United Industrial Corporation Limited and Singapore Land Limited.

Mr Lim graduated from the University of Singapore with a Bachelor of Accountancy. He obtained a Master of Science in Management from Massachusetts Institute of Technology, USA in 1973 and attended the Advanced Management Program at Harvard Business School. He is a Fellow of The Chartered Institute of Management Accountants, UK and a Fellow of the Institute of Certified Public Accountants of Singapore.

Mr Lim was last re-elected as a director at Interra's Annual General Meeting on 26 April 2005.

Ng Soon Kai

Independent Director

Mr Ng Soon Kai has been an Independent Director of Interra since 1 November 2005. He also serves as a Member of the Nominating Committee. He is currently the Managing Director of Ng Chong & Hue LLC and has vast legal experience in litigation, mergers and acquisitions, corporate restructuring, reverse takeovers and schemes of arrangement. He is also a member of the board of L & M Group Investments Ltd.

Mr Ng obtained Second Class Upper Division Honours in Law from the National University of Singapore in 1989. He is a Commissioner for Oaths and a Notary Public.

Mr Ng was last re-elected as a director at Interra's Annual General Meeting on 26 April 2006.

Crescento Hermawan

Alternate Director to Subianto Arpan Sumodikoro

Mr Crescento Hermawan has been the Alternate Director to Mr Subianto Arpan Sumodikoro since 19 May 2005. He is currently the President Director of PT Persada Capital and Director of PT Persada Capital Investama. He also serves on the board of commissioners of PT Sahabat Finance.

Mr Crescento holds a Bachelor of Finance from The University of Toledo, Ohio.

Steven Lwi Tong Boon
Chief Financial Officer
Mr Steven Lwi Tong Boon, the Chief Financial Officer of Interra, joined the Company in August 2003. He has overall responsibility for the Group's financial and management accounting, treasury, taxation and other corporate compliance matters.

Prior to Interra, Mr Lwi accumulated his financial and compliance experience as Financial Controller of Ferrell Asset Management Pte Ltd, a boutique fund management company and as Compliance and Internal Audit Manager of Fraser Securities Pte Ltd, a member company of the Singapore Exchange Securities Trading Limited.

Mr Lwi graduated with Honours in Accountancy from the Nanyang Technological University, Singapore in 1992. He was initially trained as an auditor at Price Waterhouse. In 1996, he was admitted into the Institute of Certified Public Accountants of Singapore as a non-practising Certified Public Accountant.

Frank Overall Hollinger
Chief Technical Officer
Mr Frank Overall Hollinger has been the Chief Technical Officer of Interra since July 2006. He manages the geoscience and other technical aspects of the petroleum exploration and production business.

Prior to joining Interra, Mr Hollinger spent 8 years in Myanmar as a Geophysical Consultant for Premier Petroleum Myanmar Ltd., Myanmar Petroleum Resources Ltd. and Goldpetrol JOC Inc. He commenced his geoscience career in 1971 while in graduate school as a National Aeronautics and Space Administration research assistant at The University of New Mexico, USA. Subsequently, he worked on numerous exploration and development projects in different capacities with oil and gas corporations such as Texaco Inc., Petroleum Exploration Consultants Worldwide Inc., Mapco Production Co., Ladd Petroleum Corp., Enron Oil & Gas, Columbia Gas Development Corporation, and Petronas Carigali Sdn Bhd. He has more than 30 years experience in the petroleum industry.

Mr Hollinger graduated from the University of South Alabama with a Bachelor of Science in Geology in 1971. Subsequently, he obtained a Master of Science in Geology from The University of New Mexico in 1973. In 1988, Mr Hollinger completed the Professional Degree Program in Geology at the Colorado School of Mines. He is a Member of the American Association of Petroleum Geologists.

Joseph Taruno Poedjohardjo
Technical Manager
Mr Joseph Taruno Poedjohardjo joined the Interra Group as Technical Manager in September 2004. He focusses on the technical aspects of the Group's projects in Indonesia and Myanmar.

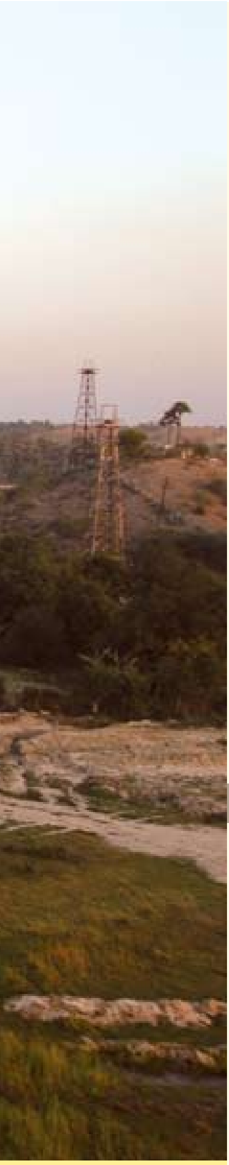
Mr Taruno commenced his career in the oil and gas industry with Pertamina in 1971. His assignments included Head of General Geophysics Research & Development, Head of Geophysical Exploration Development, Exploration Manager for Kalimantan-Sulawesi Area and Raja-Pendopo Block, Head of Upstream Research for Planning and Development and General Manager for Madura Block. Before he retired from Pertamina in 2000, he was responsible for running the entire upstream general operations and controlling both technical and non-technical matters.

Mr Taruno obtained his Degree in Geology and Magister Management majoring in Financial Management from the Gadjah Mada University, Yogyakarta. He was also trained in Geology and Geophysics in Indonesia and abroad. In addition, he attended the Oil & Gas Management Course at the Indonesia National Defence Institute and the Executive Program at the University of Michigan.

HOW WIDE?

Financially empowered by the divestment of Orchard Energy Holding, Interra is poised to exploit new opportunities for growth. We have a passion for excellence and an instinct for opportunity that knows no borders.

Financial Highlights

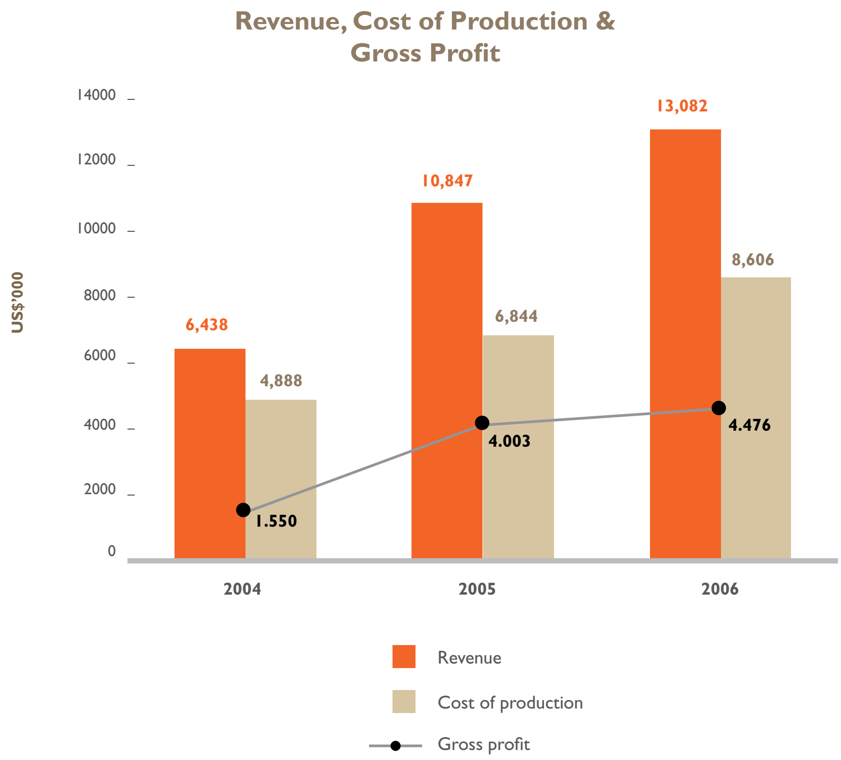


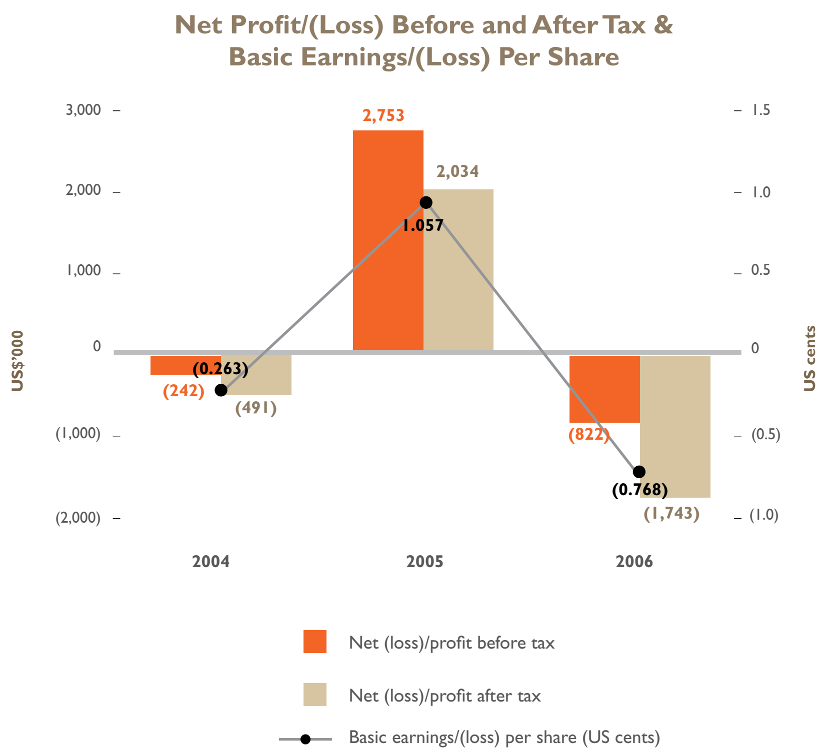
Group	2004	2005	2006
Financial Performance	**US$'000**	**US$'000**	**US$'000**
Revenue	6,438^	10,847^	13,082
Cost of production	4,888^	6,844^	8,606
Gross profit	1,550^	4,003^	4,476
Gross profit margin	24%	37%	34%
Net (loss)/profit before tax	(242)^	2,753^	(822)
Net (loss)/profit after tax	(491)^	2,034^	(1,743)
Financial Strength	**US$'000**	**US$'000**	**US$'000**
Cash and cash equivalents	4,748^	4,829^	24,229
Debt and borrowings	4,381^	15,282^	4,041
Net current assets	3,355^	4,005^	23,822
Shareholders' equity	18,556^	21,347^	30,921
Cash Flow	**US$'000**	**US$'000**	**US$'000**
Operating cash flow	644^	797^	748
Investing cash flow	(7,559)^	(11,998)^	20,061
Financing cash flow	9,146^	11,283^	(1,409)

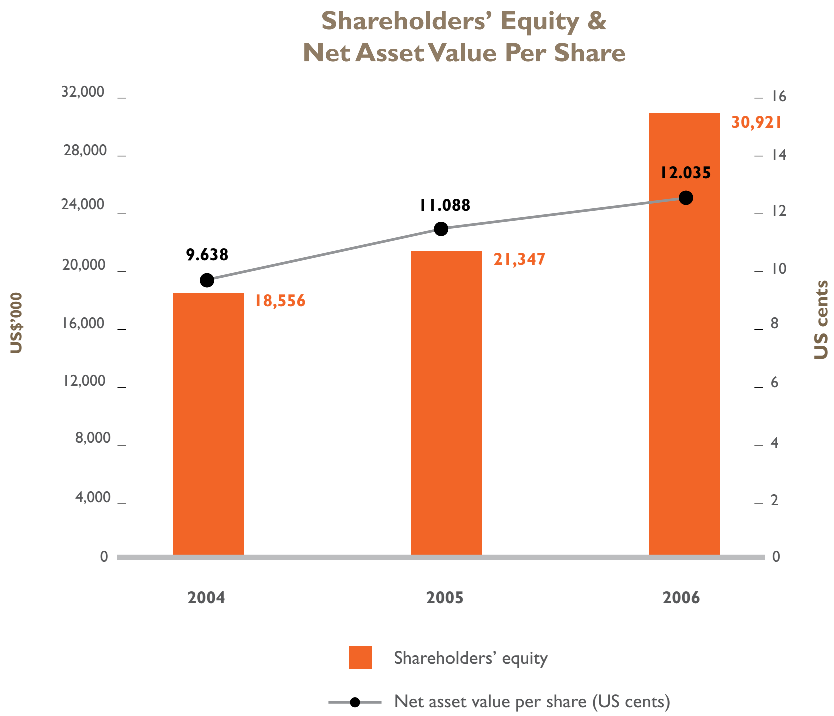
Group	2004	2005	2006
Shareholders' Wealth			
Number of shares on issue	192,527,024*	192,527,024	256,920,238
Basic earnings/(loss) per share (US cents)#	(0.263)*	1.057	(0.768)
Net asset value per share (US cents)	9.638*	11.088	12.035
Stock Information	**S$**	**S$**	**S$**
Year-end share price	0.600*	0.2150	0.2900
Average share price	0.810*	0.3375*	0.3489
Highest share price	1.675*	0.7000*	0.6400
Lowest share price	0.475*	0.1850*	0.2200
Year-end market capitalisation	115,516,214	41,393,310	74,506,869
Average market capitalisation	151,213,696*	64,977,871*	79,886,449

^ *Restated in US$*
* *Adjusted for 5-to-1 share consolidation*
\# *See Note 36 of the notes to financial statements for full details on fully diluted earnings per share*

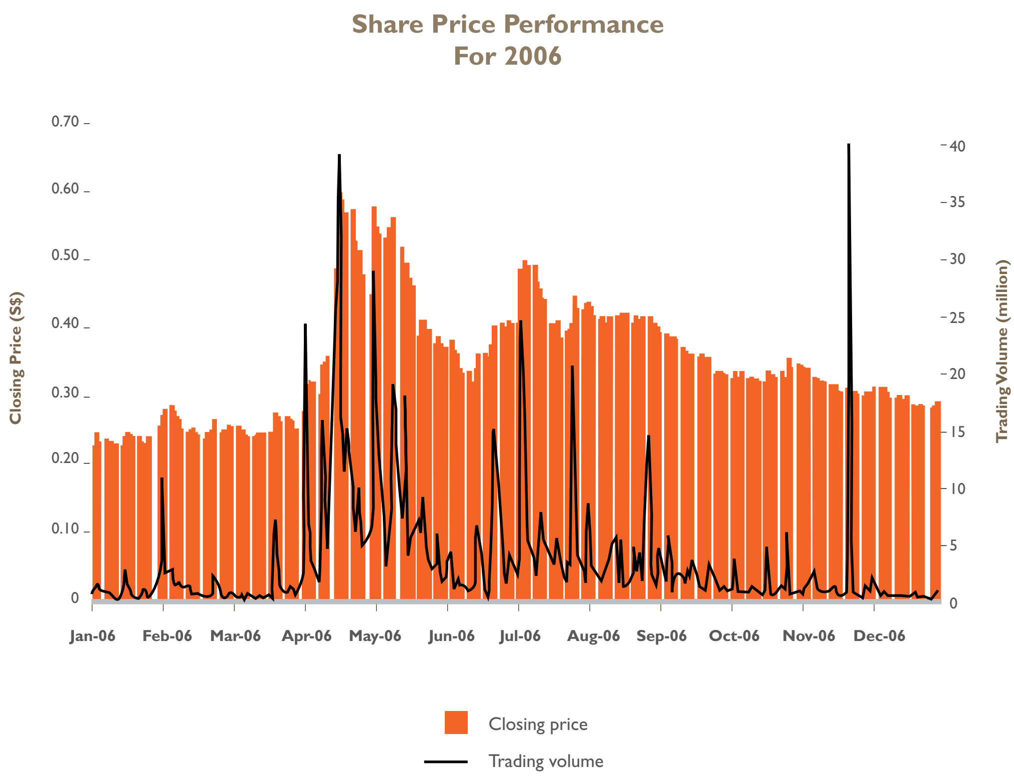
Financial Highlights







Shareholders' Equity &
Net Asset Value Per Share
US$'000
32,000
28,000
24,000
20,000
16,000
12,000
8,000
4,000
0
16
14
12
10
8
6
4
2
0
US cents
9.638
18,556
11.088
21,347
12.035
30,921
2004
2005
2006
Shareholders' equity
Net asset value per share (US cents)



Share Price Performance
For 2006
Closing Price (S$)
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0
40
35
30
25
20
15
10
5
0
Trading Volume (million)
Jan-06
Feb-06
Mar-06
Apr-06
May-06
Jun-06
Jul-06
Aug-06
Sep-06
Oct-06
Nov-06
Dec-06
Closing price
Trading volume

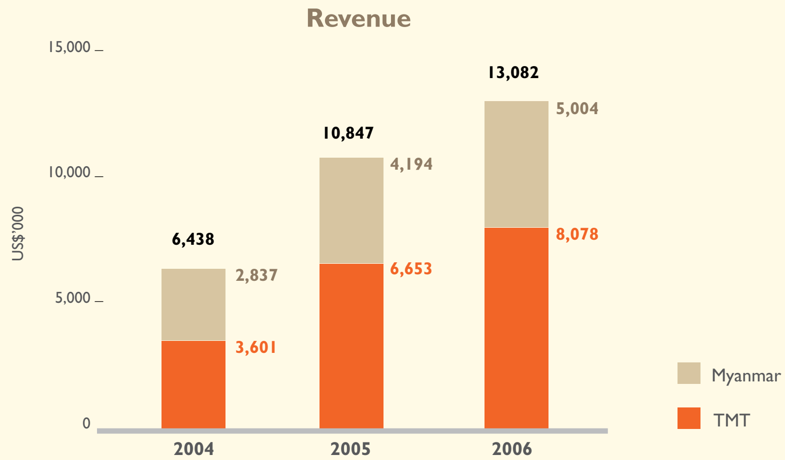
HOW FAR?

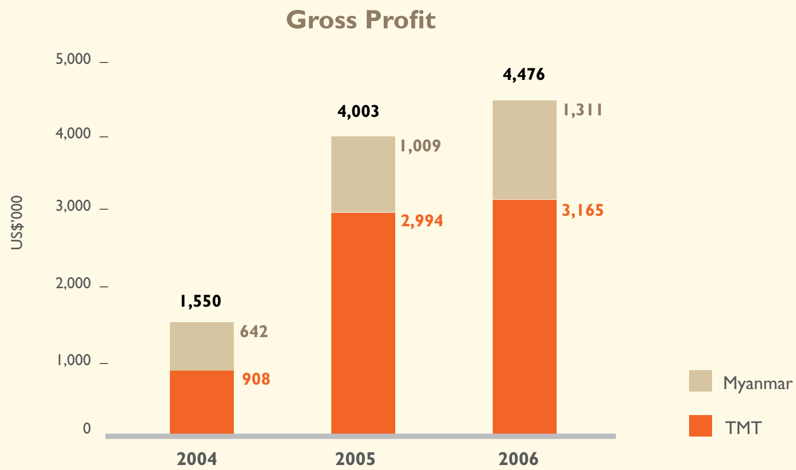
Our journey to achieve excellence in upstream petroleum exploration and production has followed a deliberate path. As we continue to make strides, we are confident Interra is on track to deliver long term profitable growth.

FINANCIAL REVIEW

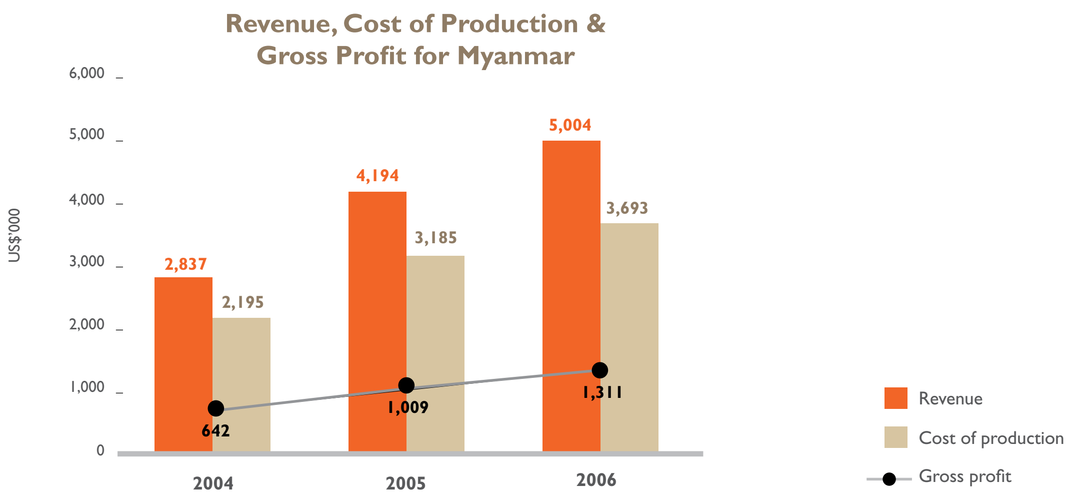
Financial Performance

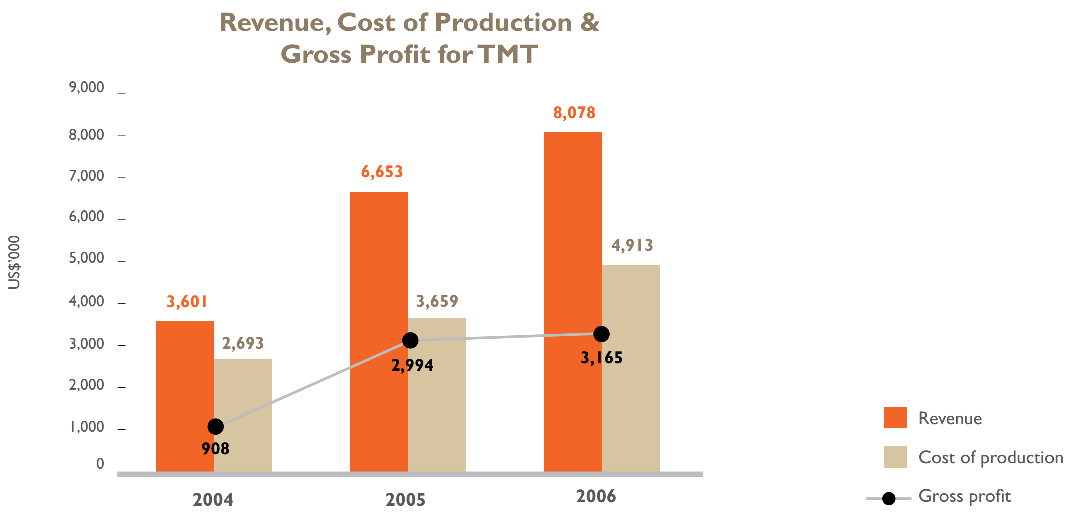
The Group's revenue increased from US$10.85 million in 2005 to US$13.08 million in 2006. The almost 21% increase was driven by increases in the prevailing oil price and the Group's shareable production. Gross profit also increased 12% in 2006 to US$4.48 million compared with US$4.00 million in 2005. The revenue and gross profit by field are as follows:





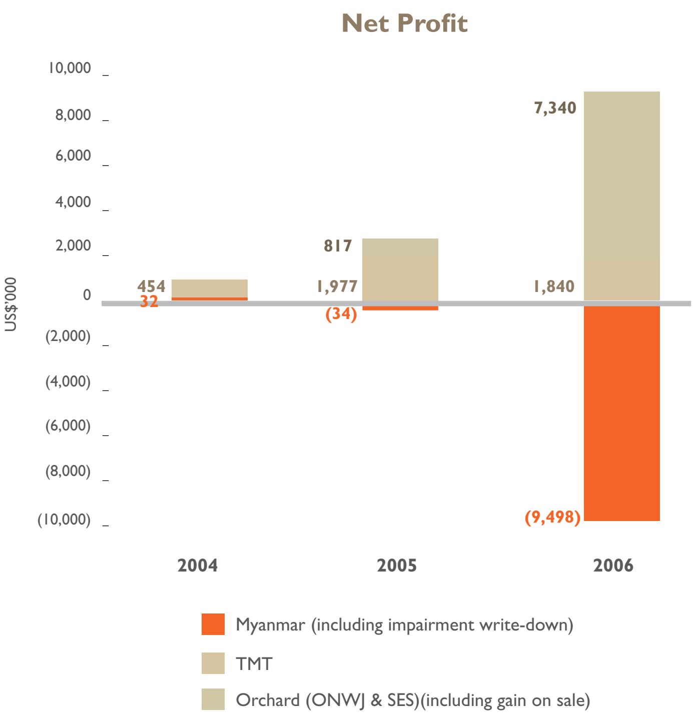
As with all players in the upstream petroleum industry, the costs of production increased across almost all categories during 2006. The cost of production rose 26% to US$8.61 million in 2006 from US$6.84 million in 2005. This includes US$0.50 million of costs relating to the shallow wells drilled in Myanmar and also US$0.30 million of cancellation fees incurred as a result of the suspension of the proposed deep drilling program in Myanmar. The revenue, cost of production and gross profit for each field is as follows:





The Group incurred a net loss after tax of US$1.74 million for the year whereas in 2005, a net profit after tax of US$2.03 million was earned. The reason for the net loss was the impairment write-down and allowance for doubtful debts of US$10.01 million with respect to the Myanmar assets as a result of the ongoing arrears of payment of trade receivables.

During the year, TMT contributed US$1.84 million to the Group after tax and allocated financing and other costs whereas Orchard contributed US$1.43 million on the same basis. Myanmar posted a net loss of US$9.50 million after the impairment write-down and allowance for doubtful debts of US$10.01 million for the year. The net profit by field are as follows:



Financial Position

Despite the impairment of the carrying value of the Myanmar assets, the Group's financial position improved significantly during 2006. Total shareholders' equity as at 31 December 2006 was US$30.92 million which compares favourably to the previous year end amount of US$21.35 million. This increase of almost 45% was attributable to the gain realised with respect to the sale of Orchard and the exercise of the warrants by way of cancellation of the US$11 million secured bonds issued by the Company. The redemption of the bonds also meant that all security which had been pledged was released. None of the Group's assets are now encumbered.

The net asset value per share as at year end 2006 increased more than 8% to 12.04 US cents per share compared with 11.09 US cents per share a year earlier. The Group repaid all interest bearing debt during the year so that only unsecured loans totalling US$4.38 million from a director, a substantial shareholder and a third party remain outstanding. The lenders who are the founding shareholders of Goldwater Company Limited have pledged not to call for repayment of the loans and to waive interest payments until 30 April 2008.

The Group holds US$1 million worth of shares in Salamander Energy plc which are listed on the London Stock Exchange. This was part of the consideration from the sale of Orchard.

Cash Flow

The Group's cash position improved significantly during 2006, primarily as a result of the sale of Orchard which contributed a net cash inflow of US$19.83 million. The cash at bank as at 31 December 2006 was US$24.23 million compared with US$4.83 million as at 31 December 2005.

The net cash inflow from operating activities of US$0.75 million for 2006 was less than expected due to the increase in outstanding trade receivables as a result of the delayed payment from MOGE in Myanmar. During the year, Myanmar projects suffered a cash outflow of US$0.83 million whereas TMT generated a cash inflow of US$2.73 million.

The net cash outflow in respect of financing activities of US$1.41 million arose due to the repayment of an interest bearing unsecured loan of US$0.75 million and interest payments totalling US$0.66 million in respect of the unsecured loan and the secured bonds. As the bonds have been redeemed in full and the unsecured loan fully repaid, the Group is not required to make any interest payments in 2007 (unless new interest bearing debt is incurred).

Capital

In January 2006, the abolition of the par value concept by the Companies (Amendment) Act 2005 led to an increase of S$174.1 million (US$106.4 million) in the share capital of the Company. This is essentially a reclassification of the share premium of the Company from reserves into issued and paid-up share capital.

The exercise of all outstanding warrants at S$0.28 per share in June 2006 resulted in the issue of almost 64.4 million new shares so that the total number of shares on issue increased to 256.9 million.

In October 2006, the Company completed a capital reduction exercise which had been approved by shareholders in an extraordinary general meeting. The exercise was to write off accumulated losses of S$177.7 million (US$112.9 million) sitting in the Company's books as at 31 December 2005. The losses mainly arose during the period prior to the reverse takeover of the Company (under its former name, Van der Horst Limited) in July 2003. The capital reduction helps rationalise the Company's balance sheet and more accurately reflects the value of its underlying assets, and thus the financial position of the Company.

Myanmar

The Group's earnings will continue to be influenced by developments in Myanmar, particularly with respect to the payment of outstanding trade receivables. The impairment of the carrying value of the Myanmar assets is based upon the persistent irregular payment pattern. However, if the payment situation improves and circumstances warrant, the Board may write back all or part of the impairment in the future. Any write-back would be subject to the prevailing Financial Reporting Standards. Conversely, as impairment tests are conducted regularly, if circumstances deteriorate, a further impairment write-down may be required.

Shareholders should be aware that there is inherent uncertainty and unpredictability regarding the interpretation and implementation of various laws and regulations in Myanmar. For more detailed information regarding this matter, please refer to the notes to the financial statements on contingent liabilities.

Other Matters

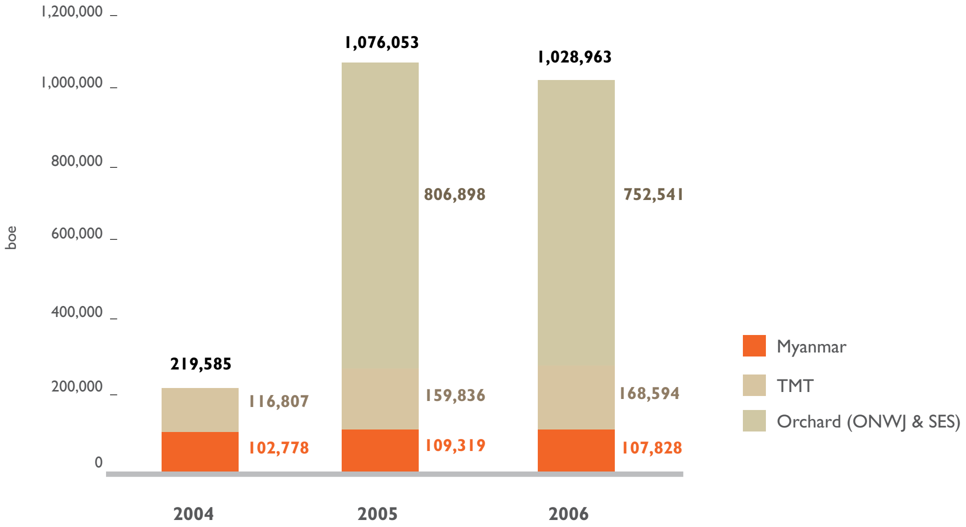
During 2006, the Company changed its functional currency and reporting currency from Singapore dollars into United States dollars ("USD"). The Group considers that USD is the currency of the primary economic environment in which it operates. As a consequence, almost all of the Group's cash at bank is held in USD denominated term deposits.

OPERATING REVIEW

Production

The Group's annual shareable production by field before application of the contractual arrangements with the relavant host government for the past 3 years is as follows:

Annual Shareable Production



Notes:

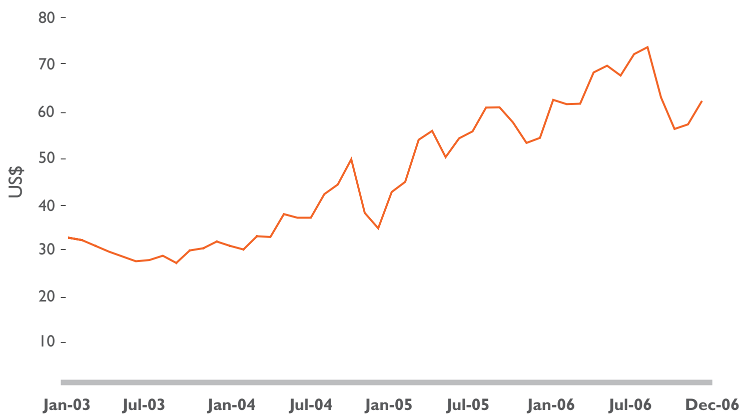
1. Revenue from Orchard (ONWJ and SES) was not consolidated into the Group's top line revenue as it was consolidated based on equity accounting.
2. "boe" means "barrels of oil equivalent".

During 2006, the Group's annual shareable production was again in excess of 1 million boe although production decreased significantly after the sale of Orchard. Accordingly, production for 2007 is likely to be less than 2006 unless there are drilling successes and acquisitions of new producing fields during the year. The Group no longer produces gas commercially due to the sale of Orchard.

Oil Prices and Hedging

Oil prices continued their upward momentum during 2006 with a peak of approximately US$74 per barrel. The forward pricing curves suggest that the oil price will continue to be volatile, however, it is still expected to be strong. The Sumatran Light Crude ("SLC") price (the oil price at which all of the Group's oil is sold) for the past 4 years is as follows:

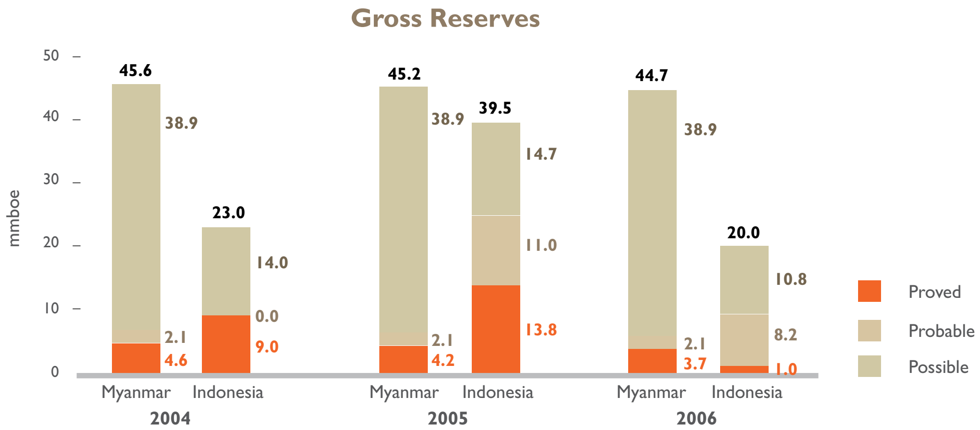
Sumatran Light Crude Price



As with previous years, the Group did not enter into any hedge or derivative agreements during 2006. As such, the Group remains in a position to benefit from any increase in the oil price. It is likely that the Group will only enter into hedge arrangements if they are considered necessary as part of any acquisition. This situation is closely monitored in light of the prevailing circumstances.

Reserves

The Group's gross reserves by country which represent its working interest in the reserves of the fields for the past 3 years are as follows:



Notes:

1. Gross reserves refer to the estimated oil and gas reserves before application of the contractual arrangements with the relavant host government.
2. "mmboe" means "million barrels of oil equivalent".
3. For the purpose of converting gas reserves to barrels of oil equivalent, a factor of 6,000 standard cubic feet of gas to 1 barrel of oil equivalent was used.
4. The gross reserves are internal estimations based upon the following sources:

Field	Source of Data
Chauk & Yenangyaung, Myanmar	Certificate of Oil Reserves as of April 2002* By Lemigas dated September 2002
TMT, Indonesia	Reserves Certification of Tanjung Miring Timur as of 1 August 2005* By Gaffney, Cline & Associates (Consultants) Pte Ltd dated March 2006
ONWJ, Indonesia	Oil and Gas Reserves Report as of 1 January 2006 By BP West Java Ltd dated January 2006
SES, Indonesia	Estimated Future Gross and Net Reserves as of 31 December 2005 By Ryder Scott Company Petroleum Consultants dated February 2006

**Actual production since the cut-off date has been deducted from the quantum of proved reserves*

The reserves as at 31 December 2006 decreased compared to the previous year end as a result of actual production and the sale of Orchard. The reserves in the Group's remaining fields did not increase during the year as there was no exploration or development drilling conducted at Myanmar or TMT.

The detailed geophysical and geological field study completed by Schlumberger Logelco Inc in December 2005 highlighted eight prospective areas including various exploration prospects and leads. These would likely be classified as prospective resources under the draft petroleum reserves and resources classification definitions and guidelines issued by the SPE/WPC/AAPG/SPEE. Accordingly, they are not included in the gross reserves chart above.

Factors Affecting Performance of the Business

The key factors affecting the performance of the business are as follows:

1. **Oil Prices**

   As mentioned above, the Group does not have any hedge or derivative arrangements which would have the effect of giving the business a certain and fixed sale price for the oil it produces.

2. **Costs**

   There has been a well publicised increase in all cost categories associated with the petroleum industry. In this environment, it is critical to be able to control the escalation of costs in the business.

3. **Shortage of Quality Staff and Equipment**

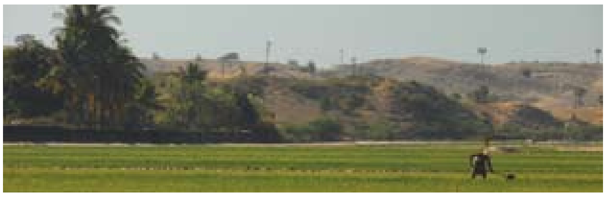
   Due to the surging oil prices and resultant increased activity in the sector, there is a severe shortage of quality experienced industry professionals. There is also a shortage of equipment such as drilling rigs which could delay the development and optimal performance of the fields. To ensure that we retain and motivate key staff, the Group intends to implement an employee share scheme in 2007.

4. **Reserve Replacement and Actual Production**

   The Group is working towards increasing its oil and gas reserves. This can be achieved by either drilling at our existing fields or acquiring new fields. To date, the shallow infill well drilling program in Myanmar has not added significant production. Further, the proposed three deep well drilling program has been suspended. At TMT, three infill wells were planned to be drilled during 2006, however, a drilling rig could not be secured on a timely basis. The drilling is due to commence in the first quarter of 2007 and the three wells will be drilled back to back. As detailed in the Chairman's Statement of this annual report, the Group is actively seeking acquisitions although the competition for fields and new acreage is presently extreme with sometimes commercially unrealistic prices being paid.

5. **Reserves Risk**

   There are numerous uncertainties inherent in estimating quantities of reserves and cash flows. Evaluations of reserves and cash flows include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. Many of these assumptions are subject to change and are beyond the control of the Company.



Field by Field Review

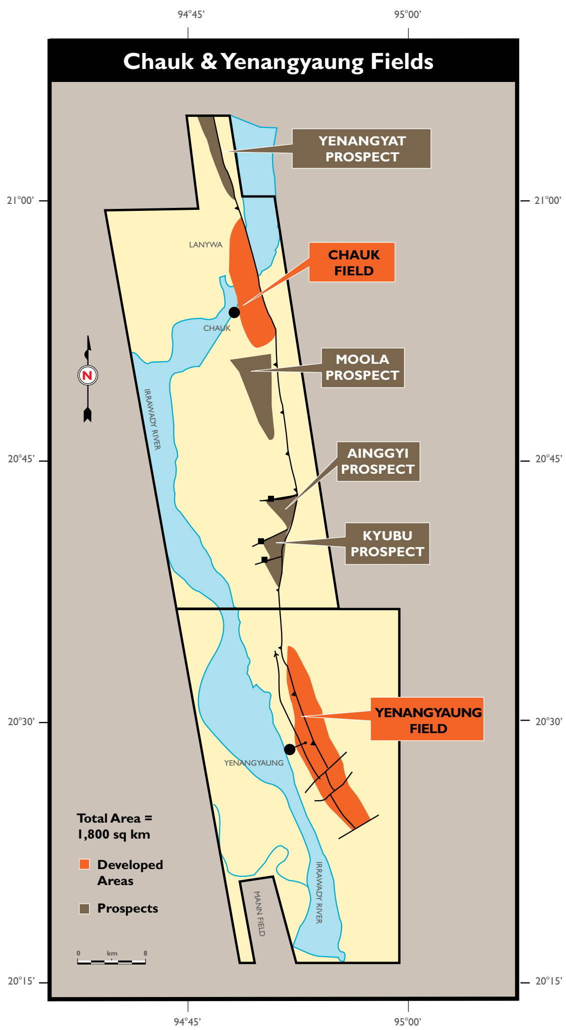
Myanmar - Chauk and Yenangyaung Fields

Total gross oil production was 770,402 barrels of oil during the year compared to 798,671 barrels of oil during 2005. The 3.5% decline was not unreasonable given the operational difficulties encountered during the year. The Group's shareable production actually increased to 44,389 barrels of oil in Chauk compared to 2005 whereas it decreased to 63,440 barrels of oil in Yenangyaung, yielding an overall decrease of 1.3% during the year.

A three shallow infill well drilling program was undertaken during the year using the fields' own drilling rig. The first well is currently producing whilst the second well was unsuccessful due to drilling difficulties and abandoned. The third well has been successfully drilled to total depth with testing ongoing.

As previously mentioned, the proposed three deep infill and exploration well drilling program was suspended in late 2006. Extensive work was undertaken with respect to this proposed drilling program including interpreting reprocessed seismic data to identify the best drilling locations, preparation of detailed drilling programs, drilling rig and other service contracts tendered, negotiated and awarded, and site and logistical preparation.

During the year, numerous workovers, reactivations, in-house stimulations and sediment cleaning jobs were also performed. In addition, significant geosciences tasks were undertaken including petrophysical reinterpretation of old wells using the latest newly acquired specialist software. Software was also acquired to conduct structural mapping and preparation of stratigraphic cross-sections which enabled outdated autocad maps to be replaced by draft quality contour maps.

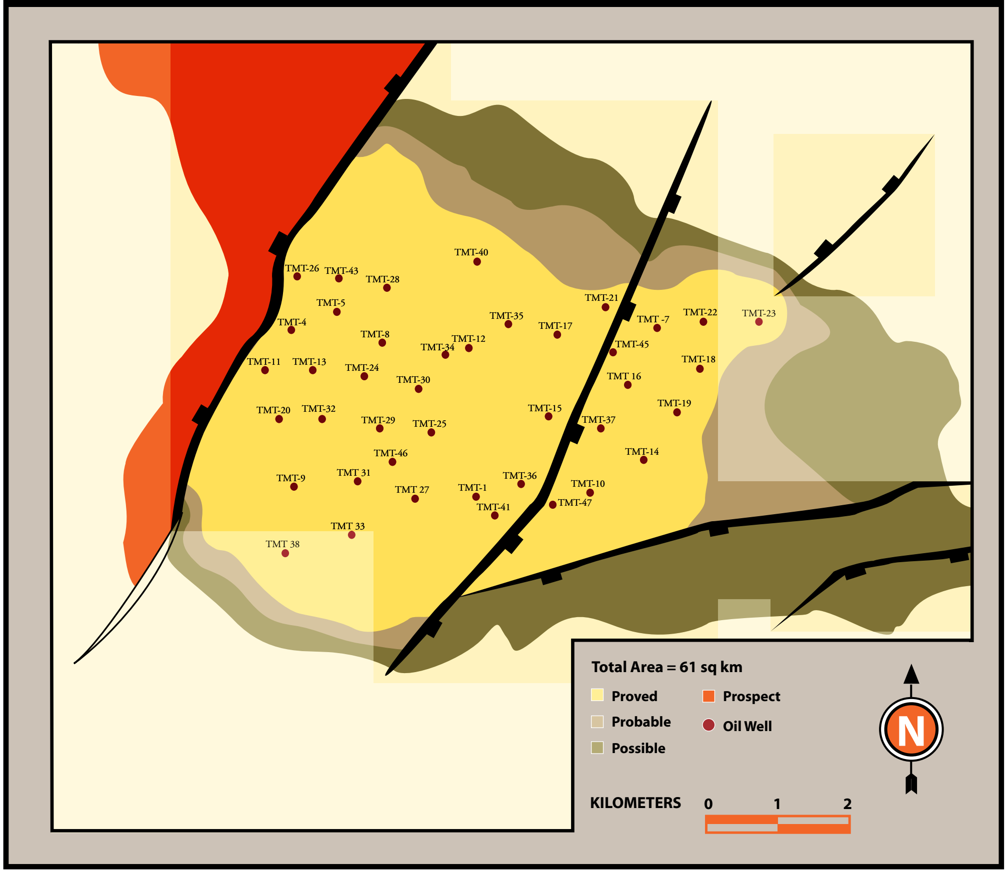


TMT

TMT performed well during 2006. Total gross oil production was 263,452 barrels of oil during the year compared to 259,069 barrels of oil during 2005. The 1.7% increase is particularly encouraging given that there was no new drilling conducted during the year. The Group's shareable production increased by almost 4.8% or 7,756 barrels of oil during the year compared to 2005.

Intensive field and well maintenance including workovers and stimulations were conducted so that there was no annual decline which is what would normally occur in a mature oil field. A preliminary pressure maintenance program was carried out at the field to optimise production levels. The field also commenced implementation of state-of-the-art geological, geophysical and reservoir engineering techniques to aid in understanding reservoirs and identifying prospective areas. The owners had agreed that a three infill well drilling program would be conducted during 2006, however, this was delayed due to the inability to secure a drilling rig. It is now expected that this drilling program will commence in the first quarter of 2007.

Tanjung Miring Timur Field



The Company is required, under the Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Manual, to describe its corporate governance practices with specific reference to the Code of Corporate Governance 2005 (the "Code") which came into effect on 1 January 2007.

The following report discloses the Company's corporate governance policies and practices in 2006, with specific references to the principles and guidelines found in the Code.

BOARD MATTERS

Principle 1 – Board's Conduct of its Affairs

The Company is headed by the Board which leads and controls, and is collectively responsible for the success of the Company. The Board works with the management to achieve this and the management remains accountable to the Board.

The role of the Board includes:

(a) providing entrepreneurial leadership;

(b) setting strategic aims;

(c) ensuring that the necessary financial and human resources are in place for the Company to meet its objectives;

(d) establishing a framework of prudent and effective controls which enables risk to be assessed and managed;

(e) reviewing management performance and set the Company's values and standards; and

(f) ensuring that obligations to shareholders and others are understood and met.

To assist in the efficient discharge of its fiduciary duties, the Board had previously established three (3) Board Committees namely, the Audit Committee ("AC"), the Nominating Committee ("NC") and the Remuneration Committee ("RC"). Each Committee has its own terms of reference to address their respective areas of focus.

All directors objectively take decisions in the interests of the Company. The management provides the Board with regular financial and operational updates and decisions on all key matters such as material acquisition and disposal of assets or undertakings and the release of the Company's results and other significant announcements are made by the Board.

During the year, the Board met on five (5) occasions to review and approve various matters relating to business strategies, activities and performance of the Group. Whenever possible, Board meetings were scheduled to coincide with quarterly financial results reporting in order to facilitate a review of the financial statements and announcement of the unaudited quarterly results of the Group. Ad hoc Board meetings to discuss and approve material acquisition and disposal of assets and major undertakings of the Group were convened when the need arose. Where the attendance of certain directors was not physically possible, the meeting was conducted with these directors communicating through teleconferencing. To further facilitate the efficient management of the Group, resolutions of the Board would be passed by way of circulating minutes pursuant to Article 105 of the Articles of Association of the Company.

Upon the appointment of each new director, the Company will provide a formal letter to the director, setting out clearly the director's duties and obligations. For first-time directors, the Company will endeavour to also provide training appropriate to the level of their previous experience in areas such as accounting, legal and industry specific knowledge. Further, the Company will put in place an orientation program to ensure that the incoming and/or new directors become familiar with the Group's businesses and corporate governance practices.

Changes to regulations and accounting standards are monitored closely by the management, especially where these changes have an important bearing on the Company's or Directors' disclosure obligations. Directors are kept informed of such changes periodically through the circulation of summaries of relavant changes which are also tabled during Board meetings.

The attendance of every member at Board meetings and various Committee meetings expressed as a ratio of the total number of meetings held during each director's period of appointment is set out as follows:

Name	Board Meeting Attendance	Audit Committee Meeting Attendance	Nominating Committee Meeting Attendance	Remuneration Committee Meeting Attendance
Edwin Soeryadjaya	3/5	-	-	-
Sandiaga Salahuddin Uno	3/5	2/4#	1/1	1/1
Luke Christopher Targett	5/5	5/5^	1/1^	-
Subianto Arpan Sumodikoro	4/5	-	-	-
Allan Charles Buckler	4/5	5/5	1/1	1/1
Lim Hock San	5/5	5/5	1/1	1/1
Ng Soon Kai*	4/5	1/1^	0/0	-
Crescento Hermawan	3/5	-	-	-

* *Mr Ng Soon Kai was appointed to the Nominating Committee on 1 June 2006.*

\# *Mr Sandiaga Salahuddin Uno was exempted from one of the Audit Committee meetings as he was deemed interested in a potential interested person transaction.*

^ *Attended by invitation*

Principle 2 – Board Composition and Balance

The Board comprises seven (7) directors and one (1) alternate director to Mr Subianto Arpan Sumodikoro. It is chaired by Mr Edwin Soeryadjaya who is a non-executive director. He is responsible for the leadership and objective functioning of the Board. Profiles of the directors are set out in the Board of Directors section of this Annual Report.

The compositions of the Board and Board Committees are set out below.

Name	Date of First Appointment / Last Re-election	Board	Audit Committee	Nominating Committee	Remuneration Committee
Edwin Soeryadjaya	26-Apr-2006	Non-Executive, Chairman	-	-	-
Sandiaga Salahuddin Uno	26-Apr-2005	Non-Executive, Deputy Chairman	Member	Member	Member
Luke Christopher Targett	26-Apr-2006	Executive, CEO	-	-	-
Subianto Arpan Sumodikoro	26-Apr-2006	Non-Executive	-	-	-

Name	Date of First Appointment / Last Re-election	Board	Audit Committee	Nominating Committee	Remuneration Committee
Allan Charles Buckler	26-Apr-2006	Non-Executive, Independent	Member	Chairman	Member
Lim Hock San	26-Apr-2005	Non-Executive, Independent	Chairman	Member	Chairman
Ng Soon Kai	26-Apr-2006	Non-Executive, Independent	-	Member	-
Crescento Hermawan	26-Apr-2006	Alternate director to Subianto Arpan Sumodikoro	-	-	-

Currently, there are three (3) independent directors appointed on the Board thereby fulfilling the Code's recommendation that independent directors make up one third (1/3) of the Board.

The Board of Directors possesses the requisite experience and knowledge in various fields. As a group, the Board is skilled in core competencies such as law, accounting/finance, business/management, knowledge of the industry and strategic planning.

The Board is of the view that the current Board size is appropriate, taking into consideration the nature and scope of the Company's operations.

In order to facilitate a more effective check on the management, non-executive directors held meetings without the presence of the management. The matters discussed included developing proposals on strategy, reviewing the performance of the management in meeting agreed goals and objectives, and monitoring the reporting of performance.

Principle 3 – Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer ("CEO") are kept separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. The Chairman and the CEO are not related to each other within the meaning of the Code. The CEO has his role and responsibilities clearly established by the Board and set out in writing under the employment contract.

The role of the Chairman includes:

(a) scheduling meetings that enable the Board to perform its duties in a responsible manner while, at the same time, not interfering with the flow of the Company's operations;

(b) being responsible for preparing meeting agendas together with the CEO; and

(c) exercising control over the quality, quantity and timelines of the flow of information between the management and the Board.

Principle 4 – Board Membership

The existing NC comprises:

(a) Mr Allan Charles Buckler (Chairman);

(b) Mr Lim Hock San;

(c) Mr Ng Soon Kai; and

(d) Mr Sandiaga Salahuddin Uno.

The NC comprises four (4) directors, the majority of whom, including the Chairman are independent. The Chairman of the NC is not directly associated with a substantial shareholder of the Company within the meaning of the Code.

The NC has written terms of reference that describe the responsibilities of its members.

The role of the NC includes:

(a) developing and maintaining a formal and transparent process for the appointment of new directors, including the nomination and selection process of the new director and how he/she will fit in the overall competency of the Board;

(b) reviewing all nominations for the re-appointment of members of the Board at the annual general meeting having regard to the director's contribution and performance (e.g. attendance, preparedness, participation, candour and any other salient factors);

(c) ensuring that all directors submit themselves for re-nomination and re-election at regular intervals and at least every three (3) years in accordance with the Articles of Association of the Company;

(d) determining annually whether a director is independent, bearing in mind the circumstances set forth in the Code;

(e) recommending to the Board as to whether the director is to be considered independent, based on the returns submitted by the directors upon appointment and subsequently on an annual basis in the form set out in the its terms of reference;

(f) reviewing the change in circumstances upon notification of an independent director to the Board that he no longer meets the criteria for independence as a result of a change in circumstances and make its recommendation to the Board;

(g) deciding whether a director is able to and has adequately carried out his duties as a director of the Company in particular where the director concerned has multiple board representations;

(h) developing and maintaining a formal assessment process for the evaluation of the effectiveness of the Board as a whole and the contributions of each individual director to the Board's effectiveness;

(i) deciding on how the Board's performance may be evaluated and proposing objective performance criteria for the Board's approval;

(j) retaining such professional consultancy firm as it may deem necessary to enable it to discharge its duties hereunder satisfactorily;

(k) considering the various disclosure requirements for the appointment of directors, particularly those required by regulatory bodies such as the SGX-ST; and

(l) undertaking such other duties as may be agreed to between itself and the Board.

During the year, there was no change in the independent status of three (3) independent directors, Mr Allan Charles Buckler, Mr Lim Hock San and Mr Ng Soon Kai. The NC reviewed the composition of the Board, the RC and the AC and also nominated Mr Ng Soon Kai to join the NC as a new member.

No new directors were appointed during the year. When considering a new Board member, the NC reviewed the curriculum vitae of the potential candidate and considered his/her experience and likely contribution to the Board. Interviews were subsequently conducted before the NC made its recommendation to the Board. The Board made the final determination for the appointment.

The NC has fulfilled its duty of making the requisite recommendations to the Board on all Board appointments and has also carried out its duty of re-nomination and re-election. The directors regularly submit themselves for re-election within the three (3) year recommendation of the Code.

Each meeting of the NC was properly minuted and upon confirmation of such minutes by the Chairman, a copy of the confirmed minutes was duly circulated to all members and the Board.

Principle 5 – Board Performance

The Board has yet to establish a formal written process for assessing and documenting the effectiveness of the Board as a whole and the contribution of each individual director to the effectiveness of the Board. The NC has a draft of the assessment procedures drawn up but has not yet formally adopted them.

Principle 6 – Access to Information

The management regularly keeps the Board updated on the operational activities, future prospects, progress and development of the Company. Comprehensive quarterly financial reports are submitted to the Board for approval and release to the public. Other information given to the Board comprises background or explanatory information, copies of disclosure documents, budgets, forecasts and monthly financial statements.

The Board communicates directly with the Company Secretary. This is done via Board meetings where the directors have direct access to communicate with the Company Secretary. The responsibilities of the Company Secretary include:

(a) attending all Board meetings;

(b) preparing minutes of these meetings;

(c) ensuring compliance with applicable laws and regulations;

(d) ensuring compliance with internal procedures and guidelines of the Group;

(e) the maintenance and updating of all statutory books and records;

(f) ensuring that good information flows within the Board and its Committees and between senior management and non-executive directors; and

(g) facilitating orientation and assisting with professional development as required.

The appointment and removal of the Company Secretary is a matter for the Board to decide as a whole.

The directors, in the furtherance of their duties, are allowed to take independent professional advice, if necessary, at the Company's expense.

REMUNERATION MATTERS

Principle 7 – Procedures for Developing Remuneration Policies

Principle 8 – Level and Mix of Remuneration

Principle 9 – Disclosure on Remuneration

The existing RC comprises:

(a) Mr Lim Hock San (Chairman);

(b) Mr Allan Charles Buckler; and

(c) Mr Sandiaga Salahuddin Uno.

The RC comprises three (3) non-executive directors, the majority of whom are independent, including the Chairman.

The RC has written terms of reference that describe the responsibilities of its members.

The role of the RC includes:

(a) developing and maintaining a formal and transparent policy for the determination of directors' remuneration including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits-in-kind;

(b) recommending to the Board a framework of remuneration for directors and specific remuneration packages for each executive director and the chief executive officer, if the chief executive officer is not an executive director;

(c) reviewing the remuneration of senior management;

(d) considering what compensation commitments the directors' contracts of service, if any, would entail in the event of early termination;

(e) ensuring that the level of remuneration offered is appropriate to the level of contribution, taking into account factors such as effort and time spent, pay and employment conditions within the industry and in comparable companies and responsibilities undertaken;

(f) reviewing whether directors should be eligible for benefits under long-term incentive schemes and to evaluate the costs and benefits of long-term incentive schemes;

(g) making recommendations in consultation with the chief executive officer and submitting its recommendations for endorsement by the entire Board;

(h) retaining such professional consultancy firm as it may deem necessary to enable it to discharge its duties hereunder satisfactorily;

(i) considering the various disclosure requirements for directors' remuneration, particularly those required by regulatory bodies such as the SGX-ST, and ensuring that there is adequate disclosure in the financial statements to ensure and enhance transparency between the Company and relevant interested parties; and

(j) undertaking such other duties as may be agreed to by itself and the Board.

During the year, the RC made recommendations regarding the remuneration packages and submitted them for endorsement by the entire Board. The RC's recommendations covered all aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits-in-kind. The RC also reviewed the remuneration of senior management during the course of the year. No expert advice inside or outside the Company was sought on the remuneration packages of all directors. No director was involved in deciding his own remuneration other than in respect of the framework of remuneration for the Board as a whole.

The RC also discussed the adoption of a share option plan (the "Plan") for key executives and other selected employees of the Group. The purpose of the Plan would be to attract, retain, motivate and reward key employees who make a positive contribution to the Group's performance. A discussion paper setting out the key features and details of the Plan and its impact on the Company's profit and loss position was prepared before a decision was taken on this matter. The Plan will be put to shareholders for approval at an extraordinary general meeting to be convened immediately after the annual general meeting in April 2007.

The RC has taken into consideration the various disclosure requirements for directors' remuneration, particularly those required by regulatory bodies such as the SGX-ST, and ensures that there is adequate disclosure in the financial statements to ensure and enhance transparency between the Company and relevant interested parties.

The remuneration of directors for the financial year ended 31 December 2006 is tabularised below.

Name	Base / Fixed Salary	Variable Component or Bonuses	Directors' Fees	Benefits-in-kind Allowances and Other Incentives
S$250,000 – S$500,000				
Luke Christopher Targett	57%	9%	-	34%
Below S$250,000				
Edwin Soeryadjaya	-	-	100%	-
Sandiaga Salahuddin Uno	-	-	100%	-
Subianto Arpan Sumodikoro	-	-	100%	-
Allan Charles Buckler	-	-	100%	-
Lim Hock San	-	-	100%	-
Ng Soon Kai	-	-	100%	-
Crescento Hermawan	-	-	-	-

The total directors' fees for the year amounted to S$203,333 (FY2005: S$182,833).

The remuneration of key executives for the financial year ended 31 December 2006 is tabularised below:

Name	Base / Fixed Salary	Variable Component or Bonuses	Benefits-in-kind Allowances and Other Incentives
Below S$250,000			
Frank Overall Hollinger	77%	14%	9%
Steven Lwi Tong Boon	80%	20%	-
Joseph Taruno Poedjohardjo	86%	14%	-

There were no employees who are immediate family members of a director or CEO, and whose remuneration exceeds S$150,000 during the year.

Each meeting of the RC was properly minuted and upon confirmation of such minutes by the Chairman, a copy of the confirmed minutes was duly circulated to all members and the Board.

ACCOUNTIBILITY AND AUDIT

Principle 10 – Accountability

The Board undertakes the responsibility of overseeing the corporate performance of the Company and is accountable to shareholders for the processes and structure of directing and managing the Company's business and affairs. The management's role is to report to the Board the operational and financial performance of the Group by keeping the Board informed and updated with the provision of comprehensive financial reports, as well keeping the Board informed and updated with the provision of comprehensive management reports on a monthly basis.

Aside from adopting corporate governance practices in line with the spirit of the Code, the Company also observes obligations of continuing disclosure under the SGX-ST Listing Manual. The Company undertakes to circulate timely, adequate and non-selective disclosure of information. The Board has also issued quarterly financial statements as reviewed by the AC to provide shareholders with comprehensive information and a balanced view on the Group's performance, position and prospects.

Principle 11 – Audit Committee

The existing AC comprises:

(a) Mr Lim Hock San (Chairman);

(b) Mr Allan Charles Buckler; and

(c) Mr Sandiaga Salahuddin Uno.

The AC comprises three (3) directors, all of whom, including the Chairman, are non-executive and the majority of whom are independent.

The AC has written terms of reference that describe the responsibilities of its members.

The role of the AC includes:

(a) appraising the effectiveness of the audit efforts of the external auditors and reviewing the independence of the external auditors annually and making recommendations to the Board on the appointment and re-appointment of the external auditors and matters relating to resignation or dismissal of the auditors, including but not limited to approving remuneration and terms of engagement of the external auditors;

(b) ensuring (at least annually) that the internal audit function is adequately resourced, independent of the activities it audits and has appropriate standing within the Company;

(c) ensuring that a review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls, and risk management policies and systems, is conducted annually;

(d) reviewing the audit plans of the external auditors and the internal auditors, including the results of their review and evaluation of the adequacy and effectiveness of the system of internal audit controls;

(e) reviewing the annual consolidated financial statements and the external auditors' report on those financial statements, and discussing any significant adjustments, major risks areas, changes in accounting policies, compliance with Singapore Financial Reporting Standards, concerns and issues arising from their audits including any matters which the auditors may wish to discuss in the absence of management, where necessary, before submission to the Board for approval;

(f) reviewing the periodic consolidated financial statements comprising the profit and loss statements and the balance sheets and such other information required by the SGX-ST Listing Manual, before submission to the Board for approval;

(g) reviewing and discussing with the external auditors and the internal auditors any suspected fraud, irregularity or infringement of any relevant laws, rules and regulations, which has or is likely to have a material impact on the Group's operating results or financial position and the management's response;

(h) meeting with the external auditors and the internal auditors without the presence of the management at least once a year and to review the co-operation given by the management to them;

(i) reviewing arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;

(j) reviewing, approving and ratifying any interested person transactions failing within the scope of Chapter 9 of the SGX-ST Listing Manual as may be amended from time to time and such other rules and regulations under the listing rules of the SGX-ST that may be applicable in relation to such matters from time to time;

(k) reviewing any potential conflicts of interest;

(l) undertaking such other reviews and projects as may be requested by the Board, and reporting to the Board its findings from time to time on matters arising and requiring the attention of the AC;

(m) undertaking generally such other functions and duties as may be required by law, the SGX-ST Listing Manual or the Securities and Futures Act, Chapter 289 and by such amendments made thereto from time to time;

(n) retaining such professional consultancy firm as it may deem necessary to enable it to discharge its duties hereunder satisfactorily; and

(o) considering the various disclosure requirements for the financial reporting, particularly those required by regulatory bodies such as the SGX-ST and to ensure that there is adequate disclosure in the financial statements.

The Board is of the view that the present members of the AC have sufficient accounting or related financial management expertise and experience to discharge their responsibilities as set out in its terms of reference.

The AC has explicit authority to investigate any matter within its terms of reference, full access to and co-operation of the management and full discretion to invite any director or executive officer to any of its meetings, and it is in possession of reasonable resources to enable it to discharge its functions properly.

During the year, the AC met with the management and the external auditors on four (4) occasions. These meetings included, amongst other things, a review of the Group's financial statements, the internal control procedures, prospects of the Group and independence of the external auditors. The external auditors also met with the AC members without the presence of the management. There were no non-audit services provided to the Group by the external auditors.

The AC also convened a meeting to discuss a possible interested person transaction which subsequently did not materialise. The meeting was conducted without the presence of directors who were interested in the transaction.

Each meeting of the AC was properly minuted and upon confirmation of such minutes by the Chairman, a copy of the confirmed minutes was duly circulated to all members and the Board.

Principle 12 – Internal Controls

Principle 13 – Internal Audit

The Company does not have a dedicated internal audit unit in view of the size and nature of its operations. Where necessary, the Company outsources the internal audit function to external professionals. Nevertheless, the Board is of the opinion that the management maintains a sound system of internal controls to safeguard the shareholders' investments and the Company's assets.

The AC reviews the adequacy of the Company's internal financial controls, operational and compliance controls, and risk management policies and systems established by the management. The external auditors review the internal controls of the Group and report these findings to the AC during its meetings. This gives the AC the opportunity to comment on the adequacy of internal controls and to reassure the Board that sufficient checks are in place. The AC is satisfied that the independence of the external auditors is not compromised by any other material relationship with the Company. An efficient framework of internal controls is in place and is being refined constantly, with reviews conducted at least annually.

COMMUNICATIONS WITH SHAREHOLDERS

Principle 14 – Regular, Effective and Fair Communication with Shareholders

Principle 15 – Greater Shareholder Participation

The Company has in place a communication framework that disseminates timely and complete financial data, price-sensitive information and material developments to shareholders. Quarterly releases of financial results and all other information are first announced on the website of the SGX-ST via SGXNET and then posted on the Company's website. The Company also issues press releases on significant developments.

The Company also encourages active shareholder participation at its general meetings. Notices of meetings are published in the major newspapers. Reports or circulars of the general meetings are despatched to all shareholders by post. Shareholders who are unable to attend the general meetings may appoint up to two proxies each to attend and vote on their behalf as long as proxy forms are sent in advance.

Separate resolutions are passed at every general meeting on each distinct issue.

So far, in the previous general meetings, at least one chairperson of the AC, NC and RC has been present and was available to address questions. The Company will continue to endeavour to arrange for all Committee chairpersons to attend future general meetings.

The external auditors are present at every general meeting to assist the directors in addressing any relevant queries by any shareholder.

INTERESTED PERSON TRANSACTIONS

There were no interested person transactions entered into during the financial year ended 31 December 2006.

DEALING IN SECURITIES

The Company has adopted the Best Practices Guide issued by the SGX-ST in relation to dealings in securities of the Company. Directors and employees of the Company are expected to adhere to the following rules at all times:

(a) to observe insider trading laws and avoid potential conflict of interests at all times when dealing in securities;

(b) not to deal in the Company's shares while in possession of unpublished material price sensitive information;

(c) not to deal in the Company's shares for short-term considerations; and

(d) not to deal in the Company's shares during the period commencing two (2) weeks before the announcement of the Company's financial statements for each of the first three quarters (3/4) of its financial year, or one (1) month before the announcement of the Company's full year financial statements, and ending on the date of announcement of the relevant results.

The directors present their report to the members together with the audited balance sheet and statement of changes in equity of the Company and consolidated financial statements of the Group for the financial year ended 31 December 2006.

DIRECTORATE

The directors of the Company at the date of this report are:

Edwin Soeryadjaya	(Chairman)
Sandiaga Salahuddin Uno	(Deputy Chairman)
Luke Christopher Targett	
Subianto Arpan Sumodikoro	
Allan Charles Buckler	
Lim Hock San	
Ng Soon Kai	
Crescento Hermawan	(Alternate to Subianto Arpan Sumodikoro)

ARRANGEMENTS FOR DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Chapter 50 (the "Act"), the particulars of interests of directors who held office at the end of the financial year in shares or debentures of the Company and of related corporations other than wholly-owned subsidiary companies were as follows:

	Number of ordinary shares in the name of the director or nominee		Number of ordinary shares in which the director is deemed to have an interest	
	At beginning of the year	**At end of the year**	**At beginning of the year**	**At end of the year**
The Company				
Edwin Soeryadjaya	-	-	17,031,000	39,960,000
Sandiaga Salahuddin Uno	-	-	1,560,000	39,960,000
Luke Christopher Targett	40,000	40,000	-	-
Subianto Arpan Sumodikoro	-	-	25,000,000	25,000,000
Allan Charles Buckler	3,945,600	3,945,600	-	-

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares or debentures of the Company or related corporations either at the beginning of the financial year or at the end of the financial year.

Except as disclosed above, there was no change in any of the above-mentioned interests in the Company or related corporations between the end of the financial year and 21 January 2007.

DIRECTORS' CONTRACTUAL BENEFITS

Except as disclosed in the financial statements, since the end of last financial year, no director of the Company has received or become entitled to receive a benefit (other than as disclosed as directors' remuneration and fees in the accompanying financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

SHARE OPTIONS

During the financial year, there were:

(i) no options granted by the Company or its subsidiary companies to any person to take up unissued shares in the Company or its subsidiary companies; and

(ii) no shares issued by virtue of the exercise of any option to take up unissued shares in the Company or its subsidiary companies.

WARRANTS

On 19 June 2006, the Company received an exercise notice from the warrantholder to exercise all outstanding warrants and to subscribe to 64,393,214 ordinary shares ("New Shares") in the capital of the Company. The warrants had an aggregate nominal value of US$11,000,000 and an exercise price of S$0.28 per share. The New Shares were issued and allotted on 20 June 2006. In accordance with the terms and conditions of the warrants, the warrantholder elected to surrender all US$11,000,000 secured bonds 7% due 2010 in lieu of a cash payment for the aggregate subscription price of US$11,000,000 payable upon the exercise of the warrants.

As a result of the full exercise of the warrants, the total number of issued shares in the capital of the Company increased from 192,527,024 shares to 256,920,238 shares.

As at 31 December 2006, there were no warrants on issue.

AUDIT COMMITTEE

The members of the Audit Committee during the financial year and at the date of this report are:

Lim Hock San (Chairman)
Allan Charles Buckler
Sandiaga Salahuddin Uno

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Act, the Singapore Exchange Securities Trading Limited Listing Manual and the Code of Corporate Governance 2005. The nature and extent of the functions performed by the Audit Committee are further described in the Corporate Governance Report.

The Audit Committee has recommended to the Board of Directors the re-appointment of Nexia Tan & Sitoh as auditors of the Company at the forthcoming Annual General Meeting.

AUDITORS

The auditors, Nexia Tan & Sitoh, have indicated their willingness to accept the re-appointment.

On behalf of the Board of Directors

Edwin Soeryadjaya
Director

Luke Christopher Targett
Director

Singapore
26 March 2007

Statement by Directors

for the financial year ended 31 December 2006

We, **Edwin Soeryadjaya** and **Luke Christopher Targett**, being directors of Interra Resources Limited, do hereby state that in our opinion,

(a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 40 to 89 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and the results of the business, changes in equity and cash flows of the Group for the year then ended; and

(b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors

Edwin Soeryadjaya
Director

Luke Christopher Targett
Director

Singapore
26 March 2007

REPORT OF AUDITORS TO THE MEMBERS OF INTERRA RESOURCES LIMITED AND ITS SUBSIDIARY COMPANIES

We have audited the financial statements of Interra Resources Limited (the "Company") as set out on pages 40 to 89 for the financial year ended 31 December 2006, comprising the balance sheet and the statement of changes in equity of the Company and the consolidated financial statements of the Group.

Directors' Responsibility for the Financial Statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion,

(a) the accompanying balance sheet and statement of changes in equity of the Company and the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and changes in equity of the Company and the results, changes in equity and cash flows of the Group for the financial year then ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Company and by those subsidiary companies incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Nexia Tan Sitoh

Nexia Tan & Sitoh
Certified Public Accountants

Singapore
26 March 2007

Balance Sheets
as at 31 December 2006

	Note	Company 2006 US$	Company 2005 Restated US$	Group 2006 US$	Group 2005 Restated US$
Non-current assets					
Property, plant and equipment	5	**24,115**	8,381	**741,852**	1,010,749
Exploration, evaluation and development costs	6	**-**	-	**6,154,685**	14,261,790
Intangible assets	7	**7,945**	6,003	**3,281,614**	8,487,056
Interest in subsidiary companies	8	**10,615,734**	24,258,100	**-**	-
Interest in associates	9	**-**	11,248,137	**-**	12,958,722
Investments	10	**4,570**	4,318	**1,041,149**	4,318
		10,652,364	35,524,939	**11,219,300**	36,722,635
Current assets					
Inventories	11	**-**	-	**1,541,646**	940,619
Work in progress	12	**-**	-	**61,234**	93,740
Trade receivables	13	**-**	-	**2,609,544**	3,087,675
Other receivables, deposits and prepayments	14	**86,852**	199,613	**675,980**	445,950
Cash and cash equivalents	15	**20,735,949**	3,659,244	**24,229,426**	4,829,454
		20,822,801	3,858,857	**29,117,830**	9,397,438
Total Assets		**31,475,165**	39,383,796	**40,337,130**	46,120,073
Current liabilities					
Trade payables		**-**	-	**516,268**	538,506
Amounts due to related parties (trade)		**-**	-	**-**	63,591
Other payables and accruals	16	**402,839**	881,960	**2,073,840**	2,066,771
Loan from a related party (interest bearing)	17	**-**	-	**-**	750,000
Bond coupon payable	18	**-**	166,742	**-**	166,742
Interest payable	43(c)	**-**	-	**-**	7,750
Provision for taxation	19	**3,910**	3,400	**2,706,223**	1,799,337
		406,749	1,052,102	**5,296,331**	5,392,697
Non-current liabilities					
Loan from a director	21	**-**	-	**1,293,109**	1,217,504
Loan from a substantial shareholder	22	**-**	-	**1,373,929**	1,293,597
Loan from a related party	23	**-**	-	**-**	1,293,597
Loan from a third party	24	**-**	-	**1,373,929**	-
Secured bond 7% due 2010	18	**-**	10,726,993	**-**	10,726,993
Deferred income	25	**-**	-	**-**	4,792,898
Provision for environmental and restoration costs	26	**-**	-	**79,388**	-
Retirement benefit obligations	27	**-**	-	**-**	56,000
		-	10,726,993	**4,120,355**	19,380,589
Total liabilities		**406,749**	11,779,095	**9,416,686**	24,773,286
NET ASSETS		**31,068,416**	27,604,701	**30,920,444**	21,346,787
Representing:					
Share capital	28	**40,108,575**	29,391,644	**40,108,575**	29,391,644
Reserves	29	**(9,040,159)**	(1,786,943)	**(9,188,131)**	(8,044,857)
TOTAL EQUITY		**31,068,416**	27,604,701	**30,920,444**	21,346,787

The accompanying notes are an integral part of the financial statements

Consolidated Profit and Loss Accounts
for the financial ended 31 December 2006

Group	Note	2006 US$	2005 Restated US$
Revenue	30	**13,082,341**	10,847,180
Cost of production	31	**(8,606,288)**	(6,844,221)
Gross profit		**4,476,053**	4,002,959
Other income	32	**1,115,924**	1,255,297
Administrative expenses	33	**(2,772,156)**	(2,082,535)
Impairment and allowances	3(c)	**(10,012,706)**	(354,029)
Other operating expenses	34	**(538,015)**	(651,560)
Finance costs	35	**(908,370)**	(1,127,920)
Share of profit after tax of associates	9	**2,042,390**	1,710,585
Loss from bond redemption	18	**(80,458)**	-
Gain on disposal of associates	9	**5,855,398**	-
(Loss) / Profit before tax		**(821,940)**	2,752,797
Income tax expense	20	**(920,751)**	(718,735)
(Loss) / Profit after tax		**(1,742,691)**	2,034,062
Attributable to:			
Equity holders of the Company		**(1,742,691)**	2,034,062
(Loss) / Earnings per share (cents)			
- Basic	36	**(0.768)**	1.057
- Fully diluted	36	**(0.735)**	1.057

The accompanying notes are an integral part of the financial statements

Company	Note	Share Capital US$	Share Premium US$	Warrants Premium Reserves US$	Foreign Currency Translation Reserve US$	Retained Earnings / (Losses) US$	Total Equity US$
		Attributable to equity holders of the Company					
At 31 December 2004 (as restated)		29,391,644	106,359,826	-	-	(107,022,197)	28,729,273
Net loss for the year		-	-	-	-	(1,442,546)	(1,442,546)
Effect of change in functional currency	4	-	-	-	(227,835)	-	(227,835)
Total recognised (loss)		-	-	-	(227,835)	(1,442,546)	(1,670,381)
Issue of warrants	18	-	-	545,809	-	-	545,809
At 31 December 2005 (as restated)		**29,391,644**	**106,359,826**	**545,809**	**(227,835)**	**(108,464,743)**	**27,604,701**
Net loss for the year		**-**	**-**	**-**	**-**	**(9,040,159)**	**(9,040,159)**
Effect of change in functional currency	4	**5,676,914**	**-**	**-**	**227,835**	**(4,417,440)**	**1,487,309**
Total recognised gain / (loss)		**5,676,914**	**-**	**-**	**227,835**	**(13,457,599)**	**(7,552,850)**
Transfer to share capital upon implementation of the Companies (Amendment) Act 2005	28	**106,359,826**	**(106,359,826)**	**-**	**-**	**-**	**-**
Issue of new shares	28	**11,562,374**	**-**	**(545,809)**	**-**	**-**	**11,016,565**
Share capital reduction	28	**(112,882,183)**	**-**	**-**	**-**	**112,882,183**	**-**
At 31 December 2006		**40,108,575**	**-**	**-**	**-**	**(9,040,159)**	**31,068,416**

The accompanying notes are an integral part of the financial statements

Consolidated Statement of Changes in Equity

for the financial year ended 31 December 2006

Group	Note	Share Capital US$	Share Premium US$	Warrants Premium Reserves US$	Foreign Currency Translation Reserve US$	Special Reserves US$	Fair value Reserves US$	Retained Earnings / (Losses) US$	Total Equity US$
		Attributable to equity holders of the Company							
At 31 December 2004									
(as previously reported)		29,391,644	66,729,746	-	(252,116)	(82,713,517)	-	5,399,760	18,555,517
Adoption of FRS 39	32	-	-	-	-	-	-	187,303	187,303
As restated		29,391,644	66,729,746	-	(252,116)	(82,713,517)	-	5,587,063	18,742,820
Net profit for the year		-	-	-	-	-	-	2,034,062	2,034,062
Effect of change in functional currency	4	-	-	-	24,096	-	-	-	24,096
Total recognised gain		-	-	-	24,096	-	-	2,034,062	2,058,158
Issue of warrants	18	-	-	545,809	-	-	-	-	545,809
At 31 December 2005 (as restated)		**29,391,644**	**66,729,746**	**545,809**	**(228,020)**	**(82,713,517)**	**-**	**7,621,125**	**21,346,787**
Fair value gain on available-for-sale financial assets	10	**-**	**-**	**-**	**-**	**-**	**36,579**	**-**	**36,579**
Effect of change in functional currency	4	**5,676,914**	**-**	**-**	**(996,270)**	**-**	**-**	**(4,417,440)**	**263,204**
Net gain / (loss) recognised directly in equity		**5,676,914**	**-**	**-**	**(996,270)**	**-**	**36,579**	**(4,417,440)**	**299,783**
Net loss for the year		**-**	**-**	**-**	**-**	**-**	**-**	**(1,742,691)**	**(1,742,691)**
Total recognised gain / (loss)		**5,676,914**	**-**	**-**	**(996,270)**	**-**	**36,579**	**(6,160,131)**	**(1,442,908)**
Transfer to share capital upon implementation of the Companies (Amendment) Act 2005	28	**106,359,826**	**(66,729,746)**	**-**	**-**	**(39,630,080)**	**-**	**-**	**-**
Issue of new shares	28	**11,562,374**	**-**	**(545,809)**	**-**	**-**	**-**	**-**	**11,016,565**
Share capital reduction	28	**(112,882,183)**	**-**	**-**	**-**	**105,799,457**	**-**	**7,082,726**	**-**
At 31 December 2006		**40,108,575**	**-**	**-**	**(1,224,290)**	**(16,544,140)**	**36,579**	**8,543,720**	**30,920,444**

The accompanying notes are an integral part of the financial statements

Consolidated Statement of Cash Flows

for the financial year ended 31 December 2006

Group	Note	2006 US$	2005 Restated US$
Cash flows from operating activities			
(Loss) / Profit before tax		**(821,940)**	2,752,797
Adjustments for non-cash items			
Foreign currency translation		**(40,101)**	33,621
Share of profit after tax of associates	9	**(2,042,390)**	(1,710,585)
Depreciation of property, plant and equipment	5	**435,153**	475,704
Amortisation of:			
Exploration, evaluation and development costs	6	**1,097,905**	1,017,270
Concession rights	7	**24,034**	29,316
Intangible benefits	7	**319,527**	426,036
Computer software	7	**7,656**	479
Participating rights	7	**169,200**	169,200
Impairment of exploration, evaluation and development costs	6	**7,228,209**	-
Impairment of concession rights	7	**221,772**	-
Impairment of intangible benefits	7	**4,473,371**	-
Reversal of deferred income	25	**(4,473,371)**	-
Allowance for doubtful debts	13	**2,562,725**	354,029
Gain from adjustment in fair value of financial liabilities	32	**-**	(601,162)
Interest income	32	**(650,649)**	(213,224)
Interest expense	35	**908,370**	1,127,920
Deferred income	25	**(319,527)**	(426,036)
Exchange difference		**(664)**	(6,421)
Loss from bond redemption	18	**80,458**	-
Gain on disposal of property, plant and equipment		**(2,205)**	-
Gain on disposal of associates	9	**(5,855,398)**	-
Other income		**-**	(1,842)
Operating profit before working capital changes		**3,322,135**	3,427,102
Changes in working capital:			
Inventories		**(601,027)**	207,949
Trade and other receivables		**(2,297,445)**	(2,177,747)
Trade and other payables		**229,678**	(488,674)
Accrued operating expenses		**116,114**	873,480
Amounts due to related parties (trade)		**(63,591)**	(1,007,043)
Work in progress		**32,506**	(93,740)
Provision for environmental and restoration costs		**79,388**	-
Retirement benefit obligations		**(56,000)**	56,000
Tax paid		**(14,048)**	-
Net cash inflows from operating activities		**747,710**	797,327

The accompanying notes are an integral part of the financial statements

Consolidated Statement of Cash Flows
for the financial year ended 31 December 2006

Group	Note	2006 US$	2005 Restated US$
Cash flows from investing activities			
Interest income received		**622,792**	212,020
Net proceeds from disposal of associates		**20,284,478**	-
Net proceeds from disposal of property, plant and equipment		**2,205**	4,032
Investment in associates		**(453,731)**	(11,375,880)
Repayment of loan from associates		**-**	250,000
Investment in club membership		**-**	(4,318)
Capital expenditure			
Purchase of property, plant and equipment	5	**(165,765)**	(160,728)
Purchase of computer software	7	**(10,118)**	(28,998)
Well drillings and improvements	6	**(219,009)**	(732,496)
Geological and geophysical studies	6	**-**	(161,850)
Net cash inflows / (outflows) from investing activities		**20,060,852**	(11,998,218)
Cash flows from financing activities			
Interest paid		**(658,590)**	(467,441)
Repayment of loan from a related party		**(750,000)**	-
Proceeds from loan from a related party		**-**	750,000
Proceeds from issue of bonds		**-**	11,000,000
Net cash (outflows) / inflows from financing activities		**(1,408,590)**	11,282,559
Net increase in cash and cash equivalents		**19,399,972**	81,668
Cash and cash equivalents at beginning of the year		**4,829,454**	4,747,786
Cash and cash equivalents at end of the year	15	**24,229,426**	4,829,454

The accompanying notes are an integral part of the financial statements

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL

Interra Resources Limited (the "Company") is a company incorporated in the Republic of Singapore and is publicly traded on the Singapore Exchange Securities Trading Limited ("SGX-ST"). The address of its registered office is at 391A Orchard Road #13-06, Ngee Ann City Tower A, Singapore 238873. The Company registration number is 197300166Z.

The principal activity of the Company is that of investment holding.

The principal activities, country of incorporation and place of operation of the subsidiary companies and associates are set out in Notes 8 and 9 to the financial statements respectively. There have been no significant changes in such activities during the financial year.

During the year, the Group divested its 50% equity interest in Orchard Energy Holding Java & Sumatra B.V. ("OEH").

The consolidated financial statements relate to the Company and its subsidiary companies (the "Group") and the Group's interests in joint ventures and associates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been consistently applied in the preparation of the financial information of the Group and of the Company are as follows:

(a) Basis of Preparation

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards ("FRS"). The financial statements are prepared in accordance with the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires the use of estimates and assumptions that affect the reported amounts of the financial statements and disclosure of contingent assets and liabilities during the financial year. Although these estimates are based on the management's best knowledge of current events and actions, actual results may ultimately differ from these estimates as disclosed in Note 3.

The Group has applied the same accounting policies and methods of computation in the financial statements for the current reporting year compared with the financial statements as at 31 December 2005, except for the changes discussed below.

Interpretations and Amendments to Published Standards Effective in 2006

On 1 January 2006, the Group adopted the new or revised FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective FRS and INT FRS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(a) Basis of Preparation (Cont'd)

The following are the FRS and INT FRS that are relevant to the Group:

FRS 19 (Amendment)	Employee Benefits
FRS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates
FRS 32 (Amendment)	Financial Instruments: Disclosures and Presentation
FRS 39 (Amendment)	Financial Guarantee Contracts
FRS 106	Exploration for and Evaluation of Mineral Resources
INT FRS 104	Determining whether an Arrangement contains a Lease
INT FRS 105	Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The adoption of the above FRS or INT FRS did not result in any substantial changes to the Group's accounting policies.

(b) Principles of Consolidation

(i) Subsidiary Companies

Subsidiary companies are those companies controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Investments in subsidiary companies are stated in the Company's balance sheet at cost less impairment losses. Subsidiary companies are consolidated with the Company in the Group's financial statements. The financial statements of subsidiary companies are included in the consolidated financial statements from the date that control commences until the date that control ceases.

On 10 July 2003, the Company became the legal parent of Goldwater Company Limited ("Goldwater") as part of its restructuring process. The shareholders of Goldwater became the majority shareholders of the Company with 76.18% of the enlarged share capital before the placement exercise. Further, the Company's continuing operations and executive management were those of Goldwater. Accordingly, the substance of the business combination was that Goldwater acquired the Company in a reverse acquisition. As a result of applying the reverse acquisition accounting, the Group's consolidated financial statements reflect the continuation of the financial statements of its legal subsidiary, Goldwater.

(ii) Joint Ventures

Joint ventures are entities over which the Group has contractual arrangements to jointly share the control with one or more parties. The Group's interests in joint ventures are accounted for in the consolidated financial statements by proportionate consolidation.

Proportionate consolidation involves combining the Group's share of joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture to the extent that it is attributable to the other venturers. The Group does not recognise its share of results from the joint venture that arises from its purchase of assets from the joint venture until the Group resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of the current assets or an impairment loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(b) Principles of Consolidation (Cont'd)

(iii) Associates

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between and including 20% and 50% of the voting rights.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting whereby the Group's share of results of associates is included in the consolidated profit and loss accounts and the Group's share of net assets is included in the consolidated balance sheet. Investments in associates in the consolidated balance sheet include goodwill.

Equity accounting involves investments in associates initially at cost, and recognising the Group's share of its associates' post-acquisition results and its share of post-acquisition movements in reserves against the carrying amount of the investments. When the Group's share of losses in an associate equals or exceeds its investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates.

In applying the equity method, unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Where the accounting policies of associates do not conform with those of the Group, adjustments are made where the amounts involved are considered significant to the Group.

(c) Intangible Assets

(i) Goodwill on Reverse Acquisition

Goodwill arising from reverse acquisition represents the excess of the deemed cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is stated at cost less impairment losses. Goodwill is tested for its impairment annually or more frequently if events or changes in circumstances indicate that the goodwill might be impaired.

(ii) Participating Rights

Participating rights represent the excess of the fair value of the identifiable assets acquired and the liabilities assumed over the cost of acquisition of the 70% interest in the Technical Assistance Contract for Tanjung Miring Timur ("TAC TMT"). Participating rights are amortised on a straight line basis from the date of initial recognition over the remaining period of TAC TMT.

(iii) Intangible Benefits

Intangible benefits are capitalised and amortised on a straight line basis over their remaining useful life.

(iv) Concession Rights

Concession rights are capitalised and amortised on a straight line basis over their remaining useful life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(c) Intangible Assets (Cont'd)

(v) Computer Software

Computer software is capitalised and amortised on a straight line basis over its useful life of 3 to 4 years.

(d) Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. When assets are sold or retired, their costs and accumulated depreciation are removed from the financial statements and any gain or loss resulting from their disposal is included in the profit and loss account.

Depreciation

Depreciation is provided for all property, plant and equipment on a straight-line basis so as to write off the cost of these assets over the following continual useful life:

Pumping tools	4 years
Drilling and field equipment	4 years
Computers	3 years
Office equipment	3 years
Renovations, furniture and fittings	2 to 3 years

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision of the residual values and useful lives are included in the profit and loss account in the financial year in which the changes arise.

Fully depreciated property, plant and equipment is retained in the financial statements until they are no longer in use.

(e) Exploration, Evaluation and Development Costs

(i) Exploration and Evaluation Phase

Exploration and evaluation costs are accumulated in respect of each area of interest. Exploration and evaluation costs include the cost of acquisition, drilling, seismic, technical evaluation and feasibility studies and include manpower and associated overhead charges incurred during the initial joint study period.

Exploration, evaluation and development costs are carried forward to where the right to tenure of the area of interest is current and they are expected to be recouped through successful development and exploitation of the area of interest, or where activities in the area of interest have not yet reached a stage that allows reasonable assessment of the existence of economically recoverable reserves.

Costs of evaluation and unsuccessful exploration in areas of interest where economically recoverable reserves do not currently exist (or is held under Retention Lease or equivalent) are expensed as incurred even if facilities in this area of interest are continuing. When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(e) Exploration, Evaluation and Development Costs (Cont'd)

(i) Exploration and Evaluation Phase (Cont'd)

Each area of interest is also reviewed at the end of a financial period and accumulated costs written off to the extent that they will not be recoverable. Each potential or recognised area of interest is evaluated as and when the management deem there are indications of significant change in the oil reserves.

(ii) Development and Production Phase

Development costs are only incurred within an area of interest as a component of a commercial development phase only upon commitment to a commercial development.

Recoverable costs included in the production phase represent costs recoverable under the production sharing type of petroleum contracts. Under these contracts, cost is recoverable monthly to the extent and out of a maximum allowable depending on the production output. Any excess expenses not recovered for the period are carried forward to the extent where they may be recouped in the following periods. The carrying amount of the recoverable cost is reviewed to determine whether there is any indication of impairment. Capitalisation of recoverable cost will cease if there is such indication and impairment will be recognised to the extent where it is not recoverable. In periods where cost recovery revenue exceeds expenses for the period, capitalised recoverable costs are written off as expenses.

(iii) Amortisation

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward exploration, evaluation and development costs will be amortised on a units of production basis over the life of the economically recoverable reserves.

Capitalised recoverable costs are amortised on a units of production basis over the life of the reserves.

(f) Impairment of Non-Financial Assets

(i) Goodwill

Goodwill is reviewed for impairment whenever there is an indication that the assets may be impaired or at least once a year.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating units ("CGU") which are expected to benefit from synergies of the business combination. An impairment loss is recognised in the profit and loss account when the carrying amount of the CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of the CGU is the higher of the CGU's fair value less cost to sell and value in use. The total impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

Impairment loss on goodwill is not reversed in a subsequent period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Impairment of Non-Financial Assets (Cont'd)

(ii) Non-Financial Assets other than Goodwill

Intangible assets, exploration, evaluation and development costs, property, plant and equipment and investment in subsidiaries, associates and joint ventures are reviewed for impairment whenever there is an indication that the assets may be impaired or at least once a year. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and value in use) of the asset is estimated when determining the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset or its CGU by discounting the expected net cash flows to their present value using a risk free rate until the end of its useful life. When estimating these future cash flows, the Company makes reasonable and supportable assumptions based on a range of economic conditions that will exist over the remaining useful life of the asset. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates.

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset or its CGU exceeds its recoverable amount.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the profit and loss account.

(g) Payables

Trade and other payables, and interest-bearing liabilities are initially measured at fair value, and subsequently measured at amortised cost.

(h) Provisions

A provision is recognised in the balance sheet when the Company or the Group has a legal constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for onerous contracts is recognised when the expected benefits from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

(i) Income Taxes

<u>Current Taxation</u>

Current income tax liabilities (and assets) for current and prior periods are recognised at the amounts expected to be paid to (or recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Income Taxes (Cont'd)

Deferred Taxation

Deferred income tax assets or liabilities are recognised for all deductible taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax assets or liabilities arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred income tax assets and liabilities are measured at:

(1) the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date; and

(2) the tax consequence that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income tax are recognised as income or expenses in the profit and loss account for the period, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity.

(j) Borrowings and Finance Costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss account when the liabilities are de-recognised as well as through the amortisation process.

Interest expense and similar charges are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are being capitalised as part of cost that is directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. All borrowing costs are recognised in the profit and loss account using the effective interest method.

(k) Deferred Income

Deferred income is recognised in the profit and loss account on a straight line basis over the remaining period of the Myanmar Improved Petroleum Recovery ("IPR") contracts (see Note 25).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(l) Environmental and Restoration Expenditure

Liabilities for environmental remediation resulting from past operations or events are recognised in the period in which an obligation to a third party arises and the amount can be reasonably estimated.

The environmental and restoration expenditure are accumulated using the units of production basis. Subsequent revisions to the environmental and restoration expenditure are considered as a change in estimates and will be accounted for on a prospective basis.

(m) Employee Benefits

(i) Post Employment Benefits

The Group and its joint ventures operate both defined benefit and defined contribution post-employment benefit plans.

Defined Contribution Plans

Defined contribution plans are post-employment benefit plans under which the Group and its joint ventures pay fixed contributions to entities such as the Central Provident Fund ("CPF") Board on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions are paid. The Group's contributions are recognised as employee compensation expense when they are due.

Defined Benefit Plans

Defined benefit plans are post-employment benefit pension plans other than defined contribution plans. Defined benefit plans typically define the amount of benefit that an employee will receive upon or after retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefits plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is estimated using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of high quality corporate bonds that are denominated in the currency and the country in which the benefits will be paid, and have tenures approximating to that of the post-employment benefit obligations.

Past service costs are recognised immediately in the profit and loss account. If there is a change to the plan which is conditional on the employee remaining in service for a specified period of time (the vesting period), the past service costs are amortised on a straight-line basis over the vesting period.

(ii) Employee Leave Entitlements

Employee entitlements to annual leave are recognised when accrued to employees. An accrual is made for the estimated liabilities for annual leave as a result of services rendered up to the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(n) Financial Assets

The Group's and Company's financial assets which are within the scope of FRS 39 are classified as either loans and receivables, or available-for-sale financial assets, as appropriate. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provision of the financial instrument. The Group and the Company determine the classification of the financial assets after initial recognition and, where allowed and appropriate, re-evaluate this designation at each financial year end.

(i) Loans and Receivables

Loans and receivables, including trade and other receivables, are initially recognised at fair value and subsequently at fair value less allowances for impairment.

An allowance for impairment of loans and receivables, including trade and other receivables, is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

(ii) Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories within the scope of FRS 39. They are included in non-current assets unless management intends to dispose of the assets within 12 months after the balance sheet date.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Unrealised gains and losses arising from the changes in the fair value of the available-for-sale financial assets are recognised in the fair value reserves within equity. When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in the fair value reserves within equity are reversed to the profit and loss account.

In the case of an equity security classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the security is impaired. The impairment amount charged to the profit and loss account shall be the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account. This impairment loss shall not be reversed through the profit and loss account.

(o) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and bank deposits. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts (if any) which are repayable on demand and which form an integral part of the Group's cash management.

(p) Inventories

Inventories comprise mainly consumable stocks which are stated at the lower of cost and net realisable value. Cost is determined by applying the first-in-first-out basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(q) Income Recognition

Income is recognised when it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably. Income is recognised in the profit and loss account as follows:

(i) Sales Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and it can be reliably measured.

(ii) Interest Income

Interest income from bank deposits and advances made to subsidiary companies and associates are accrued on a time basis, by reference to the principal outstanding and the interest applicable.

(iii) Dividend Income

Dividend income from subsidiary companies and associates is recognised when the dividends are formally declared payable.

(iv) Management and Petroleum Services Fees

Management and petroleum services fees are recognised upon the rendering of management and consultation services to and the acceptance by subsidiary companies, associates and joint ventures.

(r) Foreign Currency Translation

(i) Functional and Presentation Currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity. The consolidated financial statements and balance sheets and statement of changes in equity of the Group and the Company are presented in United States Dollars, which is the functional and presentation currency of the Group. The Group and the Company changed their functional and presentation currency from Singapore Dollars with effect from 1 September 2006 (see Note 4).

(ii) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of transactions. Foreign currency monetary assets and liabilities are translated into the functional currency at the exchange rate prevailing at the balance sheet date or at contracted rates where they are covered by forward exchange contracts. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are taken to the profit and loss account.

Currency translation differences on non-monetary items which arise when the fair value gain or loss is recognised directly in equity, such as equity investments classified as available-for-sale financial assets, are included in the fair value reserves within equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(r) Foreign Currency Translation (Cont'd)

(iii) Translation of Group Entities' Financial Statements for Consolidated Financial Statements

The results and financial position of Group entities (none of which has the currency of a hyperinflationary economy) that are in functional currencies other than United States Dollars are translated into United States Dollars on the following basis:

(1) Assets and liabilities for each balance sheet presented are translated at the rate of exchange approximating those ruling at the balance sheet date;

(2) Income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(3) All resulting foreign currency translation differences are taken into the shareholders' equity as foreign currency translation reserve; and

(4) On consolidation, currency translation differences arising from the net investment in foreign operations, borrowings in foreign currencies, and other currency instruments designated as hedges of such investments, are taken into the currency translation reserve. When a foreign operation is sold, such currency translation differences recorded in the currency translation reserve are recognised in the profit and loss account as part of the gain or loss on sale.

(s) Operating Leases

Leases of property, plant and equipment where a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the profit and loss account on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in the profit and loss account in the financial year in which they are incurred.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

(t) Segment Reporting

For management purposes, the Group operates primarily in two geographical areas, namely Indonesia and Myanmar. The Group operates in one business segment, namely exploration for and operation of oil fields for crude petroleum production, and derives its revenue solely from the sales of petroleum. Segment revenues, expenses, assets and liabilities are those directly attributable to or allocated to a segment on a reasonable basis. Segment assets do not include income tax assets and segment liabilities do not include income tax liabilities.

(u) Fair Value Estimation

The carrying amounts of current assets and liabilities, carried at amortised cost, are assumed to approximate their fair values.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions concerning the future and judgements are made in preparation of the financial statements. They affect the application of the Group's accounting policies and the reported amounts of the financial statements and disclosures made. They are assessed on an on-going basis and are based on experience, relevant factors and conditions including current and expectation of future events that are believed to be reasonable under the circumstances.

Key Sources of Estimating Uncertainty

(a) Petroleum Reserves

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows including many factors beyond the Group's control. Evaluation of reserves and cash flows include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future petroleum prices, future operating cost and other government levies that may be imposed over the producing life of the reserves. Many of these assumptions are subject to change and are beyond the Group's control. The determination of petroleum reserves has a significant impact on the future cash flows which will affect the production level and hence future sales. Petroleum reserves also affect the future amortisation rates of certain capitalised costs, such as exploration, evaluation and development costs. It also affects the future provision rates for provision for environmental and restoration costs.

(b) Amortisation of Exploration, Evaluation and Development Costs

The amounts recorded for amortisation as well as the recovery of the carrying value of petroleum properties depend on the estimates of petroleum reserves and the useful lives of the related assets. The Group currently amortises exploration, evaluation and development costs using the units of production method against management's estimates of petroleum reserves. Changes in the petroleum reserves could impact future amortisation charges.

(c) Estimated Impairment of Exploration, Evaluation and Development Costs, Intangible Assets and Allowances for Doubtful Debts

The Group performs assessment of the carrying value of its assets on a regular basis. The recoverable amounts of CGU have been determined based on value-in-use calculations. These calculations require the use of estimates and key assumptions, *inter alia*, petroleum reserves, future crude oil prices, operating cost, capital expenditure and number of payments of invoices received by the Group in a year. Management has used the 2007 budgets which have been approved by the relevant joint ventures' Owner Committees and also past experience as a guide. The period beyond 2007 until the contracts expire assumes an "as is where is" basis whereby no major drilling activities are undertaken to further develop the existing fields. The future cash flows are discounted using 4.87% per annum, a rate which approximates the risk free rate for United States Dollars.

Actual results may ultimately differ from the estimates and key assumptions utilised in the calculations. Accordingly, there may be material adjustments to the carrying amount of the respective assets.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (Cont'd)

(c) Estimated Impairment of Exploration, Evaluation and Development Costs, Intangible Assets and Allowances for Doubtful Debts (Cont'd)

Myanmar Assets in Goldwater

The payment of the trade receivables in Myanmar was irregular in 2006 and the amount outstanding in terms of unpaid invoices increased during the year. In 2006, the Group's joint venture, Goldpetrol, received payment of seven monthly invoices. In view of the prevailing circumstances in Myanmar and applying the basis described above, management assessed a net impairment of US$10,012,706 in 2006 in the following consolidated balance sheet items:

Consolidated balance sheet items	Note	US$
Exploration, evaluation and development costs	6	7,228,209
Intangible assets	7	4,695,143
Trade receivables	13	2,562,725
Reversal of deferred income	25	(4,473,371)
Net impairment loss		**10,012,706**

In addition to this, the Company made a provision for diminution in investment on its investment in Goldwater amounting to US$17,615,160 (see Note 8) in 2006. However, this provision does not have any impact on Group's consolidated profit and loss accounts as it is eliminated on consolidation.

(d) Provision for Environmental and Restoration Costs

Environmental and restoration costs are a normal consequence of oil extraction and the majority of this expenditure is incurred at the end of a well's life or area of interest. In determining an appropriate level of provision, consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of the wells), and the expected useful life of area of interests and wells. The ultimate cost of environmental and restoration is uncertain and costs can also vary in response to many factors including changes to the relevant legal requirements and the emergence of new restoration techniques or experience at other wells. The Group currently makes provisions for environmental and restoration costs using units of production method. Changes in the petroleum reserves could impact future provision charges (see Note 39(c)).

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (Cont'd)

(e) Income Taxes

The Group is subjected to income tax mainly in Indonesia, Myanmar and Singapore. Significant judgement is required in determining the Group-wide provision for income taxes including capital allowances and deductibility of certain expenses. The Group has made the necessary tax provisions under the respective petroleum contracts. However, no payments have been made or taxes have been finalised as there are unrecovered cost pools. If the final tax outcome allows the deduction of unrecovered cost pools against profit oil, the actual tax expenses may be lower than the current tax provision. If such over provision occurs, it will be reversed when it is determined. Please also see Note 39(b) for contingent liabilities for possible capital gain tax in Myanmar.

4. CHANGE IN FUNCTIONAL AND PRESENTATION CURRENCY

The Group and the Company changed their functional currency from Singapore Dollars ("S$") to United States Dollars ("US$") on 1 September 2006.

The Company is of the opinion that US$ is the currency of the primary economic environment in which the Company operates. Due to the US$ sales proceeds received from the disposal of investment in associates, much of the Company's future income will be in the form of interest income in US$. Future dividend income is also expected to be in US$. Furthermore, the future source of funds for the Company's business acquisitions and funding of subsidiaries or activities will be predominantly from the US$ proceeds of the disposal of investment in associates.

Following the change in the Company's functional currency, the Group's reporting currency also changed to US$. The Group primarily invests in the upstream oil and gas sector. Globally, the pricing of and sources of funds for transactions in this sector are in US$. This is also consistent with the operations and activities of the Company's subsidiary companies and joint ventures which are already denominated in US$.

In accordance with FRS 21, the Company applied the new functional currency prospectively from 1 September 2006 and accordingly, the Group's financial statements are now being presented in US$. The comparative figures for the financial year ended 31 December 2005 have been translated into US$ for comparison purposes. Assets and liabilities are translated at the foreign exchange rate ruling at the balance sheet date. Income and expenses are translated at rates approximating the foreign exchange rates ruling at the date of the transactions. All equity items, other than the results for the year, are translated at the historical foreign exchange rates or foreign exchange rates as at when FRS 21 (Revised) came into effect on 1 January 2005, whichever later. The resultant exchange differences are recognised directly in equity.

5. PROPERTY, PLANT AND EQUIPMENT

Company	Computers US$	Office Equipment US$	Renovations, Furniture and Fittings US$	Total US$
Cost				
Opening balance	**15,983**	**4,182**	**19,852**	**40,017**
Additions	5,055	-	22,621	27,676
Effect of change in functional currency	934	244	1,160	2,338
Closing balance	**21,972**	**4,426**	**43,633**	**70,031**
Accumulated depreciation				
Opening balance	**11,184**	**2,630**	**17,822**	**31,636**
Charge	5,318	1,100	6,015	12,433
Effect of change in functional currency	654	152	1,041	1,847
Closing balance	**17,156**	**3,882**	**24,878**	**45,916**
Depreciation charge for 2005	5,287	1,086	6,270	12,643
Net book value as at				
31 December 2006	**4,816**	**544**	**18,755**	**24,115**
31 December 2005	4,799	1,552	2,030	8,381

5. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Group	Computers US$	Office Equipment US$	Renovations, Furniture and Fittings US$	Pumping Tools US$	Drilling and Field Equipment US$	Total US$
Cost						
Opening balance	**34,552**	**27,637**	**62,095**	**762,402**	**1,206,160**	**2,092,846**
Additions	10,168	960	22,621	132,016	-	165,765
Disposals	-	(5,133)	(35,314)	-	-	(40,447)
Effect of change in functional currency	934	244	1,160	-	-	2,338
Closing balance	**45,654**	**23,708**	**50,562**	**894,418**	**1,206,160**	**2,220,502**
Accumulated depreciation						
Opening balance	**18,744**	**19,276**	**46,352**	**543,445**	**454,280**	**1,082,097**
Charge	11,576	4,350	15,444	155,488	248,295	435,153
Disposals	-	(5,133)	(35,314)	-	-	(40,447)
Effect of change in functional currency	654	152	1,041	-	-	1,847
Closing balance	**30,974**	**18,645**	**27,523**	**698,933**	**702,575**	**1,478,650**
Depreciation charge for 2005	10,443	5,078	20,757	213,627	225,799	475,704
Net book value as at 31 December 2006	**14,680**	**5,063**	**23,039**	**195,485**	**503,585**	**741,852**
31 December 2005	15,808	8,361	15,743	218,957	751,880	1,010,749

6. EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

Group	Exploration and Evaluation			Development and Production			
	Initial Joint Study Cost US$	Contractual Bonus US$	Exploration, Geological and Geophysical Costs US$	Asset under Construction US$	Completed Assets US$	Cost Recovery US$	Total US$
Cost							
Opening balance	**1,890,616**	**540,000**	**240,525**	**-**	**10,023,782**	**4,249,173**	**16,944,096**
Additions	-	-	-	219,009	-	-	219,009
Closing balance	**1,890,616**	**540,000**	**240,525**	**219,009**	**10,023,782**	**4,249,173**	**17,163,105**
Accumulated amortisation and impairment loss							
Opening balance	**261,252**	**74,348**	**-**	**-**	**1,935,613**	**411,093**	**2,682,306**
Charge	92,672	25,232	12,737	-	777,577	189,687	1,097,905
Impairment loss	596,937	286,587	116,873	-	3,310,255	2,917,557	7,228,209
Closing balance	**950,861**	**386,167**	**129,610**	**-**	**6,023,445**	**3,518,337**	**11,008,420**
Amortisation charge for 2005	75,016	21,392	-	-	749,984	170,878	1,017,270
Net book value as at 31 December 2006	**939,755**	**153,833**	**110,915**	**219,009**	**4,000,337**	**730,836**	**6,154,685**
31 December 2005	1,629,364	465,652	240,525	-	8,088,169	3,838,080	14,261,790

7. INTANGIBLE ASSETS

Group	Goodwill on Reverse Acquisition US$	Participating Rights US$	Concession Rights US$	Intangible Benefits US$	Computer Software US$	Total US$
Cost						
Opening balance	**1,488,902**	**2,141,537**	**600,000**	**6,000,000**	**28,998**	**10,259,437**
Additions	-	-	-	-	9,767	9,767
Effect of change in functional currency	-	-	-	-	351	351
Closing balance	**1,488,902**	**2,141,537**	**600,000**	**6,000,000**	**39,116**	**10,269,555**
Accumulated amortisation and impairment loss						
Opening balance	**-**	**294,525**	**270,275**	**1,207,102**	**479**	**1,772,381**
Charge	-	169,200	24,034	319,527	7,656	520,417
Impairment loss	-	-	221,772	4,473,371	-	4,695,143
Closing balance	**-**	**463,725**	**516,081**	**6,000,000**	**8,135**	**6,987,941**
Amortisation charge for 2005	-	169,200	29,316	426,036	479	625,031
Net book value						
31 December 2006	**1,488,902**	**1,677,812**	**83,919**	**-**	**30,981**	**3,281,614**
31 December 2005	1,488,902	1,847,012	329,725	4,792,898	28,519	8,487,056

Goodwill on Reverse Acquisition

Goodwill on reverse acquisition represents the goodwill arising from the business combination in which Goldwater acquired the Company through a reverse acquisition on 10 July 2003. Goodwill on reverse acquisition is the difference between the Goldwater's deemed cost of acquisition over the fair value of the assets acquired and liabilities of the Company on the reverse acquisition date (see Note 2(b)(i)).

The deemed cost of acquisition is derived from the total percentage of shareholdings held by the shareholders of the former Van der Horst Limited (now known as "Interra Resources Limited") as at the reverse acquisition date and Shantex Holdings Pte Ltd multiplied by the net assets of Goldwater as at the reverse acquisition date. As a result of applying the above, goodwill on reverse acquisition amounting to US$1,488,902 is recognised in the consolidated financial statements. The Group has amortised this cost over the remaining period of the IPR contracts of approximately 14 years from 10 July 2003 to 31 March 2017.

FRS 103, FRS 36 and FRS 38 which deal with the treatment of goodwill arising from business combinations were adopted prospectively from 1 April 2004 and hence no amortisation charges were made for the financial years ended 31 December 2005 and 2006.

The management is of the view that no impairment is required as at 31 December 2006 (2005: Nil) as the Company's net assets have increased since the reverse acquisition took place on 10 July 2003. As at 31 December 2006, the Company's net assets amounted to US$31,068,416 (2005: US$27,604,701) whereas as at 10 July 2003 (reverse acquisition date), the Company did not possess any assets of substance.

7. INTANGIBLE ASSETS (Cont'd)

Participating Rights

Participating rights recognised in the Group's balance sheet arose from the acquisition of the 70% interest in TAC TMT. The amount recognised as participating rights is the excess of the net fair value of the identifiable assets acquired and liabilities assumed over the cost of acquisition. This participating rights cost is amortised on a straight line basis over the remaining life of TAC TMT of 12.75 years from 1 April 2004 to 31 December 2016.

Concession Rights

Concession rights refer to the amount paid to acquire the interest in IPR contracts which is amortised over the remaining period of the IPR contracts of approximately 14 years on a straight line basis from 1 March 2003 to 31 March 2017. In 2006, the Group has written down the carrying amount of the concession rights relating to the Myanmar projects due to an impairment loss.

Intangible Benefits

Intangible benefits were initially recognised at US$6,000,000 of technical services that Goldwater would benefit from due to the farm out to Geopetrol Singu Inc. ("Geopetrol") in 2003. Intangible benefits are amortised over the remaining period of the IPR contracts of approximately 14 years from 1 March 2003 to 31 March 2017. In 2006, the Group has written down the carrying amount of the assets relating to the Myanmar projects which includes intangible benefits. The corresponding outstanding deferred income has also been reversed (see Note 25).

Computer Software

Computer software is amortised on a straight line basis so as to write off the cost of these assets over their useful life of 3 to 4 years.

8. INTEREST IN SUBSIDIARY COMPANIES

		Company	
		2006	2005 Restated
	Note	US$	US$
Unquoted equity shares at cost			
Goldwater Company Limited		**19,062,000**	18,319,492
Goldwater TMT Pte. Ltd.		**1**	1
Goldwater Eagle Limited		**1**	1
Goldwater Indonesia Inc.		**1**	-
Goldwater Energy Limited		**1**	-
		19,062,004	18,319,494
Advances made to subsidiaries			
Goldwater Company Limited		**2,589,687**	756,177
Goldwater TMT Pte. Ltd.		**5,579,203**	5,182,429
Goldwater Eagle Limited		**1,000,000**	-
		9,168,890	5,938,606
Net investment in subsidiary companies		**28,230,894**	24,258,100
Less:			
Provision for diminution in investment			
Goldwater Company Limited	3(c)	**(17,615,160)**	-
Interest in subsidiary companies		**10,615,734**	24,258,100

8. INTEREST IN SUBSIDIARY COMPANIES (Cont'd)

Advances made to Subsidiary Companies

The advances made to subsidiary companies form part of the Company's net investment in the subsidiary companies. Advances made to subsidiary companies are interest free advances for the purpose of operating and development activities in their respective fields. These advances are not expected to be repaid within the next 12 months.

The Company will assess annually whether there is evidence showing that the character of the advance is changed. When evidence of change exists, the Company would consider the effects of the change in determining the fair value of the advance.

The principal activities, country of incorporation and place of business of the subsidiary companies and joint ventures as at 31 December 2006 are as follows:

Name of Company/ Entity	Principal Activities	Country of Incorporation/ Operation	Group's Effective Interest 2006 %	Group's Effective Interest 2005 %
Goldwater Company Limited [a]	Exploration and operation of oil fields for crude petroleum production	British Virgin Islands/ Myanmar	100	100
Goldwater TMT Pte. Ltd. [b]	Exploration and operation of oil fields for crude petroleum production	Singapore/ Indonesia	100	100
Goldwater Eagle Limited [c]	Investment holding	British Virgin Islands	100	100
Goldwater Indonesia Inc [c]	Dormant	British Virgin Islands	100	100
Goldwater Energy Limited (formerly known as Goldwater (Myanmar) Company Limited) [c]	Dormant	British Virgin Islands	100	100
Joint Venture of Goldwater Company Limited				
Goldpetrol Joint Operating Company Inc. [a]	Exploration and operation of oil fields for crude petroleum production	Republic of Panama/ Myanmar	60	60
Joint Venture of Goldwater TMT Pte. Ltd.				
TAC Tanjung Miring Timur [d]	Exploration and operation of oil fields for crude petroleum production	Indonesia/ Indonesia	70	70

[a] Audited by Nexia Tan & Sitoh, a member firm of Nexia International for consolidation purposes
[b] Audited by Nexia Tan & Sitoh, a member firm of Nexia International
[c] Not required to be audited under the laws of the country of incorporation
[d] Audited by Johan Malonda Astika & Rekan, a member firm of Nexia International

9. INTEREST IN ASSOCIATES

	Company		Group	
	2006	2005 Restated	2006	2005 Restated
	US$	US$	US$	US$
Unquoted equity shares at cost				
Orchard Energy Holding Java & Sumatra B.V. ("OEH")	-	7,073,137	-	7,073,137
Loans made to associates	-			
Orchard Energy Holding Java & Sumatra B.V.	-	4,175,000	-	4,175,000
Share of post acquisition reserves	-	-	-	1,710,585
	-	11,248,137	-	12,958,722
Movement in share of post-acquisition reserves				
Opening balance	-	-	**1,710,585**	-
Share of results before tax	-	-	**4,717,210**	3,985,809
Share of tax	-	-	**(2,674,820)**	(2,275,224)
Disposal of interest in associates	-	-	**(3,752,975)**	-
Closing balance	-	-	-	1,710,585

Interest in associates relates to the Group's 50% interest in OEH, a company incorporated in the Netherlands. OEH in turn owns 100% of the paid up share capital of Orchard Energy Sumatra B.V. ("OES") and Orchard Energy Java B.V. ("OEJ"). OES and OEJ own a 5% working interest each in the production sharing contracts of South East Sumatra ("SES") and Offshore Northwest Java ("ONWJ") respectively. OES and OEJ were acquired by OEH on 27 April 2005.

Loans made to OEH are denominated in US$, unsecured and bear interest at LIBOR + 0.5% per annum.

The Company disposed of its 50% interest in OEH's equity and loans made to OEH on 22 August 2006 for consideration of US$21,511,000. The consideration comprises US$20,511,000 cash and US$1,000,000 worth of shares in the initial public offering of the acquirer, Salamander Energy plc ("Salamander"). The shares in Salamander were allotted to the Group on 1 December 2006 and are classified as available-for-sale financial assets (see Note 10). The Group's share of net operating profit is recognised up until 21 August 2006.

As a result of this disposal, the Company and the Group realised a net gain on disposal of associates of US$9,608,373 and US$5,855,398 respectively.

Reconciliation between gain realised by the Company and the Group	**US$**
Net gain realised from disposal of associates by the Company	9,608,373
Less: Share of net profit after tax recognised from the date of acquisition to date of disposal	(3,752,975)
Net gain realised from disposal of associates by the Group	**5,855,398**

9. INTEREST IN ASSOCIATES (Cont'd)

The following is a summary of the major items of the consolidated financial statements of OEH for the financial year ended 31 December 2005 prepared in accordance with the International Financial Reporting Standards. As OEH was disposed of during the year, no disclosures are available for the financial year ended 31 December 2006 for the balance sheet but the profit and loss account to the date of disposal is disclosed.

Balance sheet	**2005** **US$**
Non-current assets	47,508,341
Current assets	11,609,516
Current liabilities	(1,300,517)
Loan from shareholders	(8,350,000)
Term loan	(38,022,770)
Net assets	11,444,570
Share capital	(1,000,000)
Reserves	(10,444,570)
	(11,444,570)

Profit and loss account	**1 January 2006 to 21 August 2006** **US$**	**27 April 2005 to 31 December 2005** **US$**
Revenue	**31,807,262**	28,268,926
Other income	**257,453**	250,999
Expenses	**(19,065,826)**	(16,677,833)
Finance cost	**(3,564,469)**	(3,864,103)
Profit before tax	**9,434,420**	7,977,989
Taxation	**(5,349,640)**	(4,556,819)
Profit after tax	**4,084,780**	3,421,170
Group's 50% share of profit after tax	**2,042,390**	1,710,585

9. INTEREST IN ASSOCIATES (Cont'd)

Name of Company	Principal Activities	Country of Incorporation/ Operation	Group's Effective Interest 2006 %	Group's Effective Interest 2005 %
Orchard Energy Holding Java and Sumatra B.V. [(a)]	Investment holding	Netherlands	-	50
Orchard Energy Sumatra B.V. [(a)]	Exploration and operation of oil fields for crude petroleum production	Netherlands/ Indonesia	-	50
Orchard Energy Java B.V. [(a)]	Exploration and operation of oil fields for crude petroleum production	Netherlands/ Indonesia	-	50

(a) Audited by Deloitte, Netherlands

10. INVESTMENTS

	Company		Group	
	2006	2005 Restated	2006	2005 Restated
	US$	US$	US$	US$
Available-for-sale financial assets				
Quoted equity investment at cost	-	-	**1,000,000**	-
Fair value gain recognised in equity	-	-	**36,579**	-
	-	-	**1,036,579**	-
Other investment				
Club membership	**4,570**	4,318	**4,570**	4,318
	4,570	4,318	**4,570**	4,318
	4,570	4,318	**1,041,149**	4,318

11. INVENTORIES

Inventories comprise consumables including tubings, casings, well heads, chemicals, tools and spare parts required for drilling, oil wells and field maintenance.

12. WORK IN PROGRESS

Work in progress are expenses which have been incurred for improvement of existing oil wells that have not been completed at the end of the financial year.

13. TRADE RECEIVABLES

Trade receivables are receivables from the Myanma Oil and Gas Enterprise ("MOGE") and Pertamina in respect of sales of the Group's share of petroleum entitlement. Allowances for doubtful debts are in respect of the Group's crude oil sales in its Myanmar operations. In conjunction with the impairment on Myanmar assets (see Note 3(c)), the Group has provided an additional allowance for doubtful debts of US$2,562,725 in 2006 (2005: US$354,029).

	Group	
	2006	2005 Restated
	US$	US$
Trade receivables	**5,526,298**	3,441,704
Less: Allowances for doubtful debts	**(2,916,754)**	(354,029)
	2,609,544	3,087,675

14. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Company		Group	
	2006	2005 Restated	2006	2005 Restated
	US$	US$	US$	US$
Deposits	**38,946**	38,647	**75,953**	57,243
Other receivables	**30,846**	107,702	**58,732**	124,401
Prepayments	**17,060**	48,264	**117,148**	158,828
Amounts due from associates	**-**	5,000	**-**	5,000
Advance payments to suppliers	**-**	-	**424,147**	100,478
	86,852	199,613	**675,980**	445,950

15. CASH AND CASH EQUIVALENTS

	Company		Group	
	2006	2005 Restated	2006	2005 Restated
	US$	US$	US$	US$
Cash at bank	**214,667**	570,561	**1,710,712**	1,437,096
Cash on hand	**971**	814	**14,722**	24,404
Fixed deposits	**20,520,311**	1,149,255	**22,503,992**	1,429,340
Restricted cash	**-**	1,938,614	**-**	1,938,614
	20,735,949	3,659,244	**24,229,426**	4,829,454

15. CASH AND CASH EQUIVALENTS (Cont'd)

Cash and cash equivalents are denominated in the following currencies:

	Company		Group	
	2006	2005 Restated	2006	2005 Restated
	US$	US$	US$	US$
United States Dollars	**20,651,345**	3,511,718	**24,124,244**	4,622,892
Myanmar Kyat	**-**	-	**2,952**	7,749
Indonesia Rupiah	**10,523**	-	**21,573**	45,389
Singapore Dollars	**74,081**	147,526	**80,657**	153,424
	20,735,949	3,659,244	**24,229,426**	4,829,454

Restricted Cash

Restricted cash deposits (Secured Debt Service Reserve Account) of US$1,938,614 as at 31 December 2005 relates to the cash that had been put aside to service the five coupon payments of the secured bond 7% due 2010 (see Note 18) which are due on and before 25 April 2008. As the secured bond 7% due 2010 was fully redeemed on 20 June 2006, this cash has been released by the bondholder.

Fixed Deposits and Bank Balances

Fixed deposits earned interest at effective interest rates ranging from 3.72% to 4.94% per annum (2005: 1.28% to 3.90% per annum). Short term deposits are made for varying periods between seven days to one month depending on the cash requirements of the Group, and earn interest at the relevant short term deposit rates (see Note 40(e)).

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate their fair value.

16. OTHER PAYABLES AND ACCRUALS

	Company		Group	
	2006	2005 Restated	2006	2005 Restated
	US$	US$	US$	US$
Accrued expenses	**275,320**	236,265	**1,275,566**	1,168,851
Other creditors	**127,519**	645,695	**787,032**	874,275
Amounts due to joint venture partners	**-**	-	**11,242**	23,645
	402,839	881,960	**2,073,840**	2,066,771

17. LOAN FROM A RELATED PARTY (INTEREST BEARING)

In August 2006, the outstanding loan from a related party, Persada Capital Limited, which charged interest at 12% per annum was fully repaid. The loan interest paid during the year amounted to US$67,000 (2005: US$14,500).

18. SECURED BOND 7% DUE 2010

	Company		Group	
	2006	2005 Restated	2006	2005 Restated
	US$	US$	US$	US$
Principal outstanding	-	11,000,000	-	11,000,000
Bond accretion account	-	(273,007)	-	(273,007)
	-	10,726,993	-	10,726,993

On 19 June 2006, the warrantholder elected to surrender all US$11,000,000 secured bond 7% due 2010 ("Secured Bonds") in lieu of a cash payment for the aggregate subscription price of US$11,000,000 payable upon the exercise of the warrants. On 20 June 2006, upon the issue and allotment of new shares to the warrantholder, the Secured Bonds were redeemed.

As a result of this redemption, the difference between the carrying value of the Secured Bonds as at the date of redemption and the deemed proceeds arising from the warrant exercise amounting to US$80,458 was written off as loss from bond redemption.

The coupon rate of Secured Bonds was 7% per annum (2005: 7% per annum) and coupon was payable semi-annually. The coupon payable, redemption premium and warrants premium reserves are amortised as interest expense at an effective interest rate of approximately 11.12% per annum (2005: 11.12% per annum).

Subsequent to the redemption of the Secured Bonds, the following security was released:

(i) a charge over the shares held by the Company in Goldwater Company Limited;

(ii) a charge over the shares held by the Company in Goldwater TMT Pte. Ltd.; and

(iii) an assignment of all rights in respect of the Secured Debt Service Reserve Account.

19. PROVISION FOR TAXATION

	Company		Group	
	2006	2005 Restated	2006	2005 Restated
	US$	US$	US$	US$
Provision for taxation	**3,910**	3,400	**2,706,223**	1,799,337

The Company is liable to income tax in Singapore on its chargeable income arising from the management and petroleum services fees that the Company charges its subsidiary companies. The fees charged are based on a cost plus 5% mark up basis.

The subsidiary companies are liable to pay income taxes in the countries where the petroleum contracts domicile in. The subsidiary companies and joint ventures of the Company have made the necessary tax provisions under their respective petroleum contracts. However, no payments have been made as they have unrecovered cost pools.

20. INCOME TAX EXPENSE

	Group	
	2006	**2005**
		Restated
	US$	**US$**
Prior year income tax	**-**	209
Current year income tax	**920,751**	718,526
	920,751	718,735

The tax expense on profit differs from the amount that would arise using the Singapore standard rates of income tax and is explained as below:

(Loss) / Profit before tax	**(821,940)**	2,752,797
Income tax (benefits) / expenses using Singapore tax rate	**(164,388)**	550,559
Effect of different tax rates in other countries	**365,759**	317,129
Tax effects of income not subject to tax	**(2,066,301)**	(1,024,010)
Tax effects of expenses not deductible for tax purposes	**2,785,681**	875,057
	920,751	718,735

The following temporary differences have not been recognised as deferred tax assets:

	Group	
	2006	**2005**
		Restated
	US$	**US$**
Opening balance	**176,962**	176,962
Expenses not deductible for tax purposes	**(176,962)**	-
Closing balance	**-**	176,962

21. LOAN FROM A DIRECTOR

The outstanding loan refers to an unsecured and interest free loan from a director, Mr Edwin Soeryadjaya to Goldwater. Mr Soeryadjaya has given an undertaking to Goldwater that the loan will not be recalled before 30 April 2008. The carrying amount is stated at amortised cost. The interest expense amortised during the year was reflected under finance costs (see Note 35).

	Group	
	2006	**2005**
		Restated
	US$	**US$**
Loan	**1,401,843**	1,401,843
Less: Unamortised deemed interest	**(108,734)**	(184,339)
	1,293,109	1,217,504

22. LOAN FROM A SUBSTANTIAL SHAREHOLDER

The outstanding loan refers to an unsecured and interest free loan from a substantial shareholder, Canyon Gate Investments Ltd to Goldwater. Canyon Gate Investments Ltd has given an undertaking to Goldwater that the loan will not be recalled before 30 April 2008. The carrying amount is stated at amortised cost. The interest expense amortised during the year was reflected under finance costs (see Note 35).

	Group	
	2006	**2005**
		Restated
	US$	**US$**
Loan	**1,489,458**	1,489,458
Less: Unamortised deemed interest	**(115,529)**	(195,861)
	1,373,929	1,293,597

23. LOAN FROM A RELATED PARTY

The outstanding loan as at 31 December 2005 refers to an unsecured and interest free loan from a related party, Prairie Heritage Ltd. to Goldwater. Prairie Heritage Ltd. has given an undertaking that the loan will not be recalled before 30 April 2008. This loan was reclassified to loan from a third party in 2006 (see Note 24). The carrying amount is stated at amortised cost. The interest expense amortised during the year was reflected under finance costs (see Note 35).

	Group	
	2006	**2005**
		Restated
	US$	**US$**
Loan	**-**	1,489,458
Less: Unamortised deemed interest	**-**	(195,861)
	-	1,293,597

24. LOAN FROM A THIRD PARTY

The outstanding loan from Prairie Heritage Ltd. mentioned in Note 23 was reclassified from loan from a related party as the directors and shareholders of Prairie Heritage Ltd. were no longer directors of the Company for the entire financial year 2006. The interest expense amortised during the year was reflected under finance costs (see Note 35).

	Group	
	2006	**2005 Restated**
	US$	**US$**
Loan	**1,489,458**	-
Less: Unamortised deemed interest	**(115,529)**	-
	1,373,929	-

25. DEFERRED INCOME

	Group	
	2006	**2005 Restated**
	US$	**US$**
Cost		
Opening balance	**4,792,898**	**5,218,934**
Income recognised for the year	**(319,527)**	(426,036)
Reversal of deferred income	**(4,473,371)**	-
Closing balance	**-**	4,792,898
Income recognised for the year	**(319,527)**	(426,036)

Deferred income arose from Goldwater's 40% farm out to Geopetrol for a total consideration of US$10,000,000 of which US$4,000,000 was received in cash and US$6,000,000 is the value of technical services to be provided by Geopetrol. The cash consideration was recognised in the profit and loss account in 2003, whereas US$6,000,000 was recognised as deferred income on the balance sheet. The initial amount recognised was US$6,000,000. The deferred income is recognised in the profit and loss account on a straight line basis over the remaining period of the IPR contracts, which is approximately 14 years from 1 March 2003 to 31 March 2017.

In conjunction with the impairment on Myanmar assets (see Notes 3(c) and 7), the Group fully reversed the remaining deferred income relating to the intangible benefits of the Myanmar projects.

26. PROVISION FOR ENVIRONMENTAL AND RESTORATION COSTS

In 2006, the Group commenced making provision for environmental and restoration costs for its TAC TMT operations. Provisions are made based on a unit of production basis. The Group has not made any provision for environmental and restoration costs for its Myanmar operations as the Group believes that there are no significant costs involved in meeting the legal and regulatory requirements laid down at the current time (see Note 39(a)).

	Group	
	2006	**2005 Restated**
	US$	**US$**
Opening balance	**-**	-
Allowance for the year	**79,388**	-
Closing balance	**79,388**	-

27. RETIREMENT BENEFIT OBLIGATIONS

The Group's joint venture, TAC TMT, has a funded defined benefit plan relating to its employees. This plan is a final salary retirement and severance benefit. The assets of the plan are held independently of the Group's assets in an insurance fund managed by Paninlife Financial Services in Indonesia. In 2006, a new scheme replaced the original plan which was started by the operator in 2003.

The amounts recognised in the balance sheet are as follows:

	Group	
	2006	**2005 Restated**
	US$	**US$**
Net present value of funded obligations	**47,029**	211,088
Fair value of plan assets	**(64,718)**	(99,425)
Unrecognised past service costs	**-**	(55,663)
Assets not recognised on balance sheet	**17,689**	-
Net liabilities recognised on balance sheet	**-**	56,000

The amounts recognised in the profit and loss account are as follows:

	Group	
	2006	**2005 Restated**
	US$	**US$**
Interest cost	**6,584**	3,544
Current service costs	**96,273**	105,195
Past service costs	**163,300**	-
Total, included in staff costs (see Note 37)	**266,157**	108,739

27. RETIREMENT BENEFIT OBLIGATIONS (cont'd)

The movements in the defined benefit obligation are as follows:

	Group	
	2006	**2005**
		Restated
	US$	**US$**
Opening balance	**211,088**	109,101
Interest cost	**6,584**	3,544
Current service costs	**96,273**	105,195
Past service costs	**163,300**	-
Benefits paid	**(348,669)**	-
Actuarial (losses)	**(95,951)**	-
Exchange difference	**14,404**	(6,752)
Closing balance	**47,029**	211,088

The movements in the fair value of plan assets are as follows:

	Group	
	2006	**2005**
		Restated
	US$	**US$**
Opening balance	**99,425**	52,509
Employer contributions	**235,642**	51,580
Net return / (loss) on plan assets	**5,266**	(1,406)
Withdrawn for settlement	**(289,375)**	-
Exchange difference	**13,760**	(3,258)
Closing balance	**64,718**	99,425

The principal actuarial assumptions used are as follows:

	Group	
	2006	**2005**
		Restated
	%	%
Discount rate	**7.0**	7.0
Expected return on plan assets	**7.0**	7.0
Future salary increases	**10.0**	10.0

28. SHARE CAPITAL

	Company		Company	
	2006	**2005**	**2006**	**2005**
				Restated
	Number of ordinary shares		**US$**	**US$**
Authorised				
Opening balance	**400,000,000**	400,000,000	**61,065,000**	61,065,000
Effect of Companies (Amendment) Act 2005	**(400,000,000)**	-	**(61,065,000)**	-
Closing balance	**-**	400,000,000	**-**	61,065,000
Issued and fully paid				
Opening balance	**192,527,024**	192,527,024	**29,391,644**	29,391,644
Effect of Companies (Amendment) Act 2005	**-**	-	**106,359,826**	-
Issue of new shares arising from exercise of warrants	**64,393,214**	-	**11,562,374**	-
Share capital reduction	**-**	-	**(112,882,183)**	-
Effect of change in functional currency	**-**	-	**5,676,914**	-
Closing balance	**256,920,238**	192,527,024	**40,108,575**	29,391,644

Companies (Amendment) Act 2005

Under the Companies (Amendment) Act 2005 that came into effect on 30 January 2006, the concepts of par value and authorised share capital were abolished and the amount in the share premium account of S$174,174,852 (US$106,359,826) as at 30 January 2006 became part of the Company's share capital.

Issue of New Shares Arising from Exercise of Warrants

On 19 June 2006, the Company received an exercise notice from the warrantholder to exercise all outstanding warrants and to subscribe to 64,393,214 ordinary shares ("New Shares") in the capital of the Company. The warrants had an aggregrate nominal value of US$11,000,000 and an exercise price of S$0.28 per share. The New Shares were issued and allotted on 20 June 2006. In accordance with the terms and conditions of the warrants, the warrantholder elected to surrender all US$11,000,000 secured bond 7% due 2010 in lieu of a cash payment for the aggregate subscription price of US$11,000,000 payable upon exercise of the warrants.

As a result of the full exercise of the warrants, the total number of issued shares in the capital of the Company increased from 192,527,024 shares to 256,920,238 shares.

Share Capital Reduction

At an extraordinary general meeting held on 18 August 2006, the shareholders of the Company approved the proposed reduction in share capital. On 11 October 2006, the Company completed the capital reduction exercise. As a result of the capital reduction, the issued share capital of the Company decreased from S$240,778,656 to S$63,123,347 (equivalent to US$152,990,758 to US$40,108,575). There was no change in the total number of issued shares in the capital of the Company arising from share capital reduction.

29. RESERVES

Share Premium

Under the Companies (Amendment) Act 2005 that came into effect on 30 January 2006, the concepts of par value and authorised share capital were abolished and the amount in the share premium account of S$174,174,852 (US$106,359,826) as at 30 January 2006 became part of the Company's share capital. Similarly, the Group's share premium of S$109,276,633 (US$66,729,746) was transferred to the Group's share capital.

Warrants Premium Reserves

See Note 18.

Special Reserves

As a result of applying the reverse acquisition accounting as set out in Note 2b(i), the Group's consolidated financial statements reflect the continuation of the financial statements of its legal subsidiary, Goldwater. As such, the cost of investment to acquire Goldwater and the reserves of the Company immediately prior to the reverse acquisition were transferred to special reserves when consolidating the financial statements. These reserves include share premium immediately before the debt restructuring on 10 July 2003 and accumulated losses immediately before the reverse acquisition on 10 July 2003.

Group	**2006 US$**
Cost of investment	**(18,319,492)**
Share capital of Goldwater	**200,000**
Pre-reverse acquisition accumulated losses of the Company	**(105,799,457)**
Share premium amount prior to debt conversion	**39,630,080**
Goodwill on reverse acquisition	**1,575,352**
Opening balance	**(82,713,517)**
Arising from Companies (Amendment) Act 2005	
- Share premium amount prior to debt conversion transferred to share capital (see note below)	**(39,630,080)**
Arising from share capital reduction	
- Pre-reverse acquisition accumulated losses of the Company credited against share capital (see note below)	**105,799,457**
Closing balance	**(16,544,140)**

Companies (Amendment) Act 2005

As a result of the abolition of the concept of par value that came into effect on 30 January 2006, the share premium of S$64,898,219 (US$39,630,080) was transferred to the Group's share capital.

Share Capital Reduction

As the result of the capital reduction, pre-reverse acquisition accumulated losses of the Company of S$173,257,191 (US$105,799,457) were credited against its share capital.

30. REVENUE

	Group 2006 US$	Group 2005 Restated US$
Sales of crude oil	**13,082,341**	10,847,180

31. COST OF PRODUCTION

	Group 2006 US$	Group 2005 Restated US$
Royalty	**695,592**	583,070
Depreciation of property, plant and equipment	**409,235**	442,275
Amortisation of exploration, evaluation and development costs	**1,097,905**	1,017,270
Amortisation of computer software	**7,656**	479
Production expenses	**6,395,900**	4,801,127
	8,606,288	6,844,221

32. OTHER INCOME

	Group 2006 US$	Group 2005 Restated US$
Bank interest income	**515,544**	89,188
Interest income from associates	**135,105**	124,036
Gain from adjustment in fair value of financial liabilities	**-**	601,162
Petroleum services fees	**126,896**	-
Deferred income	**319,527**	426,036
Gain on disposal of property, plant and equipment	**2,205**	-
Other income	**16,647**	14,875
	1,115,924	1,255,297

32. OTHER INCOME (cont'd)

Gain from Adjustment in Fair Value of Financial Liabilities

The amount relates to the interest free loans from a director, a substantial shareholder and a third party for which repayment was deferred to 30 April 2008 in April 2005. In accordance with FRS 39, the Group has restated the carrying amount of these loans at fair value when the repayment of these loans was deferred to 30 April 2008. As these loans are interest free, the present value of the loans is lower than the carrying amount and hence a notional gain was recognised in the profit and loss account in 2005. The present value of the loans is discounted at the interest rates which were originally due to be charged on the loans of approximately 6.21%. This notional gain is amortised as deemed interest expense over the next 16 months.

33. ADMINISTRATIVE EXPENSES

Administrative expenses comprise principally staff costs, rental of premises, traveling expenses, accommodation, auditors' remuneration, tax and accounting fees and other professional fees.

34. OTHER OPERATING EXPENSES

	Group	
	2006	**2005 Restated**
	US$	**US$**
Depreciation of property, plant and equipment	**25,918**	33,429
Amortisation of concession rights	**24,034**	29,316
Amortisation of intangible benefits	**319,527**	426,036
Amortisation participation rights	**169,200**	169,200
Foreign exchange (gain), net	**(664)**	(6,421)
	538,015	651,560

35. FINANCE COSTS

	Group	
	2006	**2005 Restated**
	US$	**US$**
Interest expense amortisation for bonds issued	**612,851**	893,264
Interest expense from loan from a related party	**59,250**	22,250
Amortisation of deemed interest expense	**236,269**	212,406
	908,370	1,127,920

35. FINANCE COSTS (Cont'd)

Interest Expense Amortisation for Bonds Issued

See Note 18.

Interest on Loan from a Related Party

Loan interest due to a related party was incurred from an unsecured loan from the related party which charged interest at 12% per annum (see Note 17).

Amortisation of Deemed Interest Expense

This amount relates to the interest free loans from a director, a substantial shareholder and a third party for which repayment was deferred to 30 April 2008 in April 2005. In accordance with FRS 39, the difference between the present value of the loans and the carrying amount is amortised as interest expense over the life of these loans. The present value of the loans is discounted at the interest rates which were originally due to be charged on the loans of approximately 6.21% (2005: 6.21%) (see Notes 21, 22, 23, 24).

36. (LOSS) / EARNINGS PER SHARE

(Loss) / Earnings per share is calculated by dividing the Group's results for the financial year by the weighted average number of ordinary shares on issue during the year as follows:

	Group	
	2006	**2005 Restated**
Net (loss) / profit (US$)	**(1,742,691)**	2,034,062
Weighted average number of ordinary shares on issue	**226,928,878**	192,527,024
Basic (loss) / earnings per share (US cents)	**(0.768)**	1.057
Fully diluted (loss) / earnings per share (US cents)	**(0.735)**	1.057

In accordance with FRS 33 – Earnings per share, potential shares arising from the conversion of warrant instruments whose subscription price is higher than the average share price of the Company for the relevant period are considered to be anti-dilutive and should be disregarded from the computation of fully diluted earnings per share. As the warrants were exercised on 19 June 2006, the relevant period for the purpose of computing fully diluted earnings per share for the financial year ended 31 December 2006 is from 1 January 2006 to 18 June 2006. During this period, the average share price of the Company was S$0.332 and hence considered to be dilutive.

As the warrants were issued on 25 April 2005, the relevant period for the purpose of computing fully diluted earnings per share for the financial year ended 31 December 2005 was from 26 April 2005 to 31 December 2005. The average share price of the Company for this period was S$0.258. The lowest warrant subscription price during this period was S$0.280. As the average share price of the Company during the period was lower than the subscription price, potential shares arising from the exercise of warrants were deemed to be anti-dilutive and were disregarded from the computation of fully diluted earnings per share for the financial year ended 31 December 2005. Therefore, there was no difference between basic earnings per share and fully diluted earnings per share for the financial year ended 31 December 2005.

37. STAFF COSTS

	Group	
	2006	2005
		Restated
	US$	US$
Analysis of staff costs		
Wages and salary	**1,243,024**	925,634
Defined contribution plan	**25,344**	21,681
Defined benefit plan	**266,157**	108,739
Other benefits	**88,043**	74,710
Total staff costs	**1,622,568**	1,130,764

38. COMMITMENTS

Operating Lease Commitments

The Group has operating lease commitments in respect of rental of office premises, vehicles and equipment in Singapore, Myanmar and Indonesia.

	Company		Group	
	2006	2005	2006	2005
		Restated		Restated
	US$	US$	US$	US$
Not later than 1 year	**100,325**	36,539	**439,226**	582,911
After 1 year	**17,580**	62,955	**53,168**	116,337
	117,905	99,494	**492,394**	699,248

39. CONTINGENT LIABILITIES

(a) The operations and earnings of the Group have been, and in the future may be, affected from time to time in varying degrees by political developments in Myanmar, and laws and regulations both in Myanmar and in countries in response to developments in Myanmar. These may include sanctions by other countries on trade with Myanmar, forced divestment of assets, expropriation of property, cancellation of contracts, restrictions on production, changes in tax rules and environmental regulations. The likelihood of such occurrences and their overall effect upon the Group are not predictable.

The Myanmar Investment Commission ("MIC") resolved at its meeting in August 1994 that all projects established with the permission of the Commission shall be responsible for the preservation of the environment at and around the area of the project sites. The enterprises are entirely responsible for controlling pollution of air, water and land, and other environmental aspects and keeping the project site environmentally friendly. To meet the requirements of the MIC, the Group may be exposed to the cost of restoring the project sites. The potential costs are not estimated as the Group does not foresee any circumstances to arise which may require it to make such provisions to comply with the MIC.

39. CONTINGENT LIABILITIES (cont'd)

(b) In late 2005, the Ministry of Finance and Revenue of Myanmar issued a notification stating that all capital gains arising from any transaction in foreign currencies relating to the sale, exchange or transfer of company shares, capital assets, ownership of, or any interest in a company doing business in the oil and gas sector in Myanmar are subject to tax. This change is to be applied retrospectively from 15 June 2000. In late 2002, the Group's subsidiary, Goldwater, farmed out a 40% interest in the IPR contracts to Geopetrol. At that time, Goldwater informed MOGE that Goldwater's net cumulative investment was higher than the cash proceeds received from Geopetrol and as such, Goldwater did not derive any capital gain. At this point in time, the Group is of the view that no tax provision is required to be included in the accounts. Furthermore, it is not possible to estimate the quantum of any amount which may eventually become payable in respect of this matter.

(c) As stated in the TAC TMT, Article II 3.4 on Abandonment and Site Restoration, "Operating costs shall include all expenditures incurred in the abandonment of all wells and the restoration of their drill sites, together with all estimates of monies required for the funding of any abandonment and site restoration program established in conjunction with any approved plan of development for a commercial discovery".

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group is exposed to credit, crude oil prices and other market risks arising in the normal course of business. The Group does not hold or issue any derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in oil prices, interest and foreign exchange rates.

(a) Credit Risk

The Group's main credit risk is from its trade receivables and the financial institutions where the Group invests its surplus funds.

As the Group currently sells all its crude oil produced to MOGE and Pertamina, the Group has a significant credit risk concentration. The Group does not foresee its exposure to Pertamina to be significant as payments have been regular. However, payments from MOGE have been irregular due to amongst other things, the spiralling oil prices. Accordingly, the Group has allowances for doubtful debts in respect of the trade receivables from MOGE. The maximum exposure to financial assets risk in the event of a full default by MOGE as at 31 December 2006 is US$1,391,567.

Surplus funds are placed with reputable financial institutions.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset on the balance sheet.

(b) Crude Oil Price Risk

The Group derives its revenue from the sales of crude oil. Its operations are subject to fluctuations in oil prices which are dependent on market demand and supply. The Group does not hedge this risk.

(c) Foreign Currency Risk

The Group's foreign exchange risk arises from transactions, assets and liabilities which are denominated in currencies other than US$. The Group's foreign currency risks are predominantly in S$ and Indonesian Rupiah. The Group currently does not seek to hedge these exposures. As at the balance sheet date, the Group does not have any forward foreign currency contracts.

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

(d) Liquidity Risk

The Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Group's operations. The Group's surplus funds are also managed centrally by placing them with reputable financial institutions on varying maturities.

(e) Interest Rate Risk

The Group's interest rate risk is primarily from interest income from fixed deposits. As fixed deposits are placed on the short term money market with tenures mostly within the range of one week to one month, the Group's interest income is subject to the fluctuation in interest rates.

The Group does not have any significant financial liabilities which are subject to variable interest rates as at 31 December 2006 and 31 December 2005. All interest bearing borrowings were obtained at fixed rates.

41. INVESTMENT IN JOINT VENTURES

The following amounts represent the Group's share of results and assets and liabilities of the joint ventures. These items are included in the consolidated balance sheets and profit and loss accounts using the line-by-line method of proportionate consolidation and after making the necessary adjustments to comply with the Singapore Financial Reporting Standards.

	2006 US$	2005 Restated US$
Balance sheet		
Non-current assets	**7,107,137**	7,782,290
Current assets	**9,155,416**	4,963,095
Current liabilities	**(2,564,916)**	(1,737,568)
Net assets	**13,697,637**	11,007,817
Profit and loss account		
Revenue	**13,082,341**	10,847,181
Expenses	**(8,184,510)**	(6,580,965)
Profit before tax	**4,897,831**	4,266,216
Taxation	**(906,375)**	(715,150)
Profit after tax	**3,991,456**	3,551,066
Group's share of operating lease commitment of joint ventures	**374,490**	502,810

42. SEGMENT REPORTING

Group	Indonesia 2006 US$	Myanmar 2006 US$	Eliminations 2006 US$	Consolidated 2006 US$
Profit and loss account				
Revenue				
Sales to external customers	8,078,429	5,003,912	-	13,082,341
Total revenue	8,078,429	5,003,912	-	13,082,341
Results				
Segment results	2,288,786	(8,972,702)	-	(6,683,916)
Finance costs				(908,370)
Share of profit after tax of associates				2,042,390
Gain on disposal of associates				5,855,398
Unallocated corporate net operating results				(1,127,442)
(Loss) before income tax				(821,940)
Income tax expense				(920,751)
Net (loss) after income tax				(1,742,691)
Statement of net assets				
Assets				
Segment assets	10,757,552	6,204,063	-	16,961,615
Unallocated corporate assets				23,375,515
Total assets				40,337,130
Liabilities				
Segment liabilities	6,116,706	7,887,425	(7,687,108)	6,317,023
Unallocated corporate liabilities				3,099,663
Total liabilities				9,416,686
Net assets as per consolidated balance sheet				30,920,444
Other information				
Capital expenditure (tangible and intangible assets)	219,009	146,010	-	365,019
Depreciation and amortisation	865,279	1,175,506	-	2,040,785

42. SEGMENT REPORTING (Cont'd)

Group	Indonesia 2005 US$	Myanmar 2005 US$	Eliminations 2005 US$	Consolidated 2005 US$
Profit and loss account				
Revenue				
Sales to external customers	6,652,722	4,194,458	-	10,847,180
Total revenue	6,652,722	4,194,458	-	10,847,180
Results				
Segment results	2,258,082	353,202	-	2,611,284
Finance costs				(1,127,920)
Share of profit after tax of associates				1,710,585
Unallocated corporate net operating results				(441,152)
Profit before income tax				2,752,797
Income tax expense				(718,735)
Net profit after income tax				2,034,062
Statement of net assets				
Assets				
Segment assets	8,463,491	19,332,282	-	27,795,773
Unallocated corporate assets				18,325,183
Total assets				46,120,956
Liabilities				
Segment liabilities	5,909,253	11,228,306	(5,938,421)	11,199,138
Unallocated corporate liabilities				13,575,031
Total liabilities				24,774,169
Net assets as per consolidated balance sheet				21,346,787
Other information				
Capital expenditure (tangible and intangible assets)	754,549	323,501	-	1,078,050
Depreciation and amortisation	884,632	1,214,931	-	2,099,563

43. RELATED PARTIES AND SIGNIFICANT RELATED PARTIES TRANSACTIONS

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties are entities with common directors, indirect shareholders and / or directors.

In addition to the related party information disclosed elsewhere in the financial statements, the Group had the following significant transactions with related parties during the year on terms agreed between the parties:

Significant related party transaction	**2006** **US$**	**2005** **Restated** **US$**
Loan from Persada Capital Limited	**-**	750,000
Repayment of loan from Persada Capital Limited	**750,000**	-
Interest paid to Persada Capital Limited	**67,000**	14,500

(a) Loan from a Director (Unsecured) – Mr Edwin Soeryadjaya

The amount outstanding as at 31 December 2006 is in relation to a loan to Goldwater in 1997 from a director of the Company, Mr Edwin Soeryadjaya. Mr Soeryadjaya gave a deed of undertaking on 8 March 2004 in favour of Goldwater whereby he undertook not to require repayment of the loan by Goldwater until 21 January 2006. On 4 April 2005, Mr Soeryadjaya gave another deed of undertaking not to require repayment of the loan by Goldwater until 30 April 2008. The loan is interest free from 17 December 2002 onwards and is unsecured. The amount outstanding as at 31 December 2006 is US$1,401,843.

(b) Loan from a Substantial Shareholder (Unsecured) – Canyon Gate Investments Ltd ("Canyon Gate")

The amount outstanding as at 31 December 2006 is in relation to a loan to Goldwater from Canyon Gate in 1997. Canyon Gate gave a deed of undertaking on 8 March 2004 in favour of Goldwater whereby Canyon Gate undertook not to require repayment of the loan by Goldwater until 21 January 2006. On 4 April 2005, Canyon Gate gave another deed of undertaking not to require repayment of the loan by Goldwater until 30 April 2008. The loan is interest free from 17 December 2002 onwards and is unsecured. The amount outstanding as at 31 December 2006 is US$1,489,458. Mr Subianto Arpan Sumodikoro, who is director of the Company, is a director and shareholder of Canyon Gate.

43. RELATED PARTIES AND SIGNIFICANT RELATED PARTIES TRANSACTIONS (cont'd)

(c) Loan from a Related Party (Unsecured) – Persada Capital Limited ("Persada")

The amount outstanding as at 31 December 2005 is in relation to a loan to Goldwater from Persada on 4 October 2005. This loan is unsecured and is extended to Goldwater for the tenure of 12 months. The interest rate is charged at 12% per annum. Goldwater has fully repaid the loan and paid all interest on the loan in August 2006. The amount outstanding as at 31 December 2006 is nil.

(d) Key Management's Remuneration

The key management's remuneration includes fees, salary, bonus, commission and other emoluments (including benefits-in-kind) computed based on the costs incurred by the Group and the Company, and where the Group or the Company did not incur any costs, the value of the benefits. The key management's remuneration is as follows:

	Group	
	2006	**2005**
		Restated
	US$	**US$**
Directors' fees	**129,432**	109,570
Short term employee benefits	**585,759**	423,024
Post employment benefits including CPF	**6,295**	7,174
Total costs incurred by the Group	**721,486**	539,768

Cost incurred for the following categories of key management are:

- Directors of the Company	**431,383**	340,903
- Other key management personnel	**290,103**	198,865
Total costs incurred by the Group	**721,486**	539,768

44. NEW FRS AND INTERPRETATIONS

Certain new FRS, amendments and new interpretations to existing FRS have been published, but they are only mandatory for the Group's accounting period beginning on and after 1 January 2007 or such later periods that the Group decides to adopt. The Group has not adopted the following FRS:

FRS 40	Investment Property
FRS 107	Financial Instruments: Disclosures, and a Complementary Amendment to FRS 1 Presentation of Financial Statements – Capital Disclosures
INT FRS 107	Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economics
INT FRS 108	Scope of FRS 102 Share Based Payment
INT FRS 109	Reassessment of Embedded Derivatives
INT FRS 110	Interim Financial Reporting and Impairment

45. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the board of directors of the Company on 26 March 2007.

46. COMPARATIVE FIGURES

Certain prior period's comparative figures in the consolidated financial statements have been restated.

(a) Due to the change of functional currency from S$ to US$, the Group's reporting currency was also changed to US$. Hence, the comparative figures have been restated in US$ for comparison purposes (see Note 4).

(b) Retirement benefit obligations of US$56,000 as at 31 December 2005 were reclassified to non-current liabilities from other payables and accurals. The reclassification was made to better reflect the non-current nature of the liabilities.

47. SUPPLEMENTARY INFORMATION ON PETROLEUM RESERVES

Gross Petroleum Reserves

Gross petroleum reserves refer to the estimated oil and gas reserves prior to the application of the contractual arrangements with the relevant host government.

The following information on gross petroleum reserves are estimates only and do not purport to reflect the realisable values or fair market value of the Group's share of gross petroleum reserves. Whenever possible, the Group relies on external reports which are considered to be reliable and credible. In estimating the gross petroleum reserves, the management has used certain assumptions and variables in its calculation of estimated recoverable reserves. The estimated recoverable reserves are reviewed at each balance sheet date when additional data on new wells and / or further production history become available.

As at 31 December 2006, the Group's estimated share of gross petroleum reserves is as follows:

Gross petroleum reserves	**Thousand Barrels of Oil**
Proved	4,736
Probable	10,336
Possible	49,725
Proven + Probable + Possible (3P)	**64,797**

The above gross petroleum reserves are based on the following sources of information:

Area of Interest	**Report**
Yenangyaung and Chauk, Myanmar	Certificate of Oil Reserves as of April 2002* By Lemigas, dated September 2002
Tanjung Miring Timur, Indonesia	Reserves Certification of Tanjung Miring Timur as of 1 August 2005* By Gaffney, Cline & Associates, dated March 2006

* Actual production since the cut-off date has been deducted from the quantum of proved reserves

Shareholding Statistics
As at 15 March 2007

SHARE CAPITAL

Issued Share Capital	:	S$63,123,347
Number of Shares Issued	:	256,920,238
Class of Shares	:	Ordinary shares
Voting Rights	:	One vote per share

DISTRIBUTION OF SHAREHOLDINGS

Range of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	5,980	48.17	1,968,665	0.77
1,000 - 10,000	4,394	35.40	18,626,633	7.25
10,001 - 1,000,000	2,023	16.30	82,978,457	32.30
1,000,001 and above	16	0.13	153,346,483	59.68
Total	12,413	100.00	256,920,238	100.00

TWENTY LARGEST REGISTERED SHAREHOLDERS

Name of Shareholder	No. of Shares	%
Raffles Nominees Pte Ltd	39,961,464	15.55
HSBC (Singapore) Nominees Pte Ltd	38,575,642	15.01
Citibank Nominees Singapore Pte Ltd	28,380,666	11.05
UOB Kay Hian Pte Ltd	16,263,643	6.33
Amex Nominees (S) Pte Ltd	7,501,200	2.92
Kim Eng Securities Pte Ltd	3,899,280	1.52
United Overseas Bank Nominees Pte Ltd	3,242,266	1.26
DBS Nominees Pte Ltd	2,676,166	1.04
Yos Sidy Teo	2,508,000	0.98
OCBC Securities Private Ltd	2,072,278	0.81
Sugiharto Soeleman	1,750,000	0.68
Lam Tin Yie	1,500,000	0.58
Angky Minarti Hamdani	1,349,000	0.53
DBS Vickers Securities (S) Pte Ltd	1,322,518	0.51
Phillip Securities Pte Ltd	1,252,388	0.49
OCBC Nominees Singapore Pte Ltd	1,091,972	0.43
Poh Seng Kui	800,000	0.31
Tan Chung King	750,000	0.29
Citibank Consumer Nominees Pte Ltd	639,880	0.25
Andreas Tjahjadi	585,000	0.23
Total	156,121,363	60.77

SUBSTANTIAL SHAREHOLDERS

Substantial Shareholder	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Edwin Soeryadjaya [1]	-	-	39,960,000	15.55
Sandiaga Salahuddin Uno [2]	-	-	39,960,000	15.55
ADRC Limited	38,426,214	14.96	-	-
Attica Finance Ltd.	-	-	38,400,000	14.95
Fleur Enterprises Limited	38,400,000	14.95	-	-
Subianto Arpan Sumodikoro [3]	-	-	25,000,000	9.73
Canyon Gate Investments Ltd	25,000,000	9.73	-	-

1 Edwin Soeryadjaya is deemed to be interested in the 38,400,000 shares held by Fleur Enterprises Limited and the 1,560,000 shares held by Saratoga Equity Partners I Limited (which is not a substantial shareholder) by virtue of Section 7 of the Companies Act, Chapter 50.

2 Sandiaga Salahuddin Uno is deemed to have an interest in the 38,400,000 shares held by Fleur Enterprises Limited through Attica Finance Ltd. and the 1,560,000 shares held by Saratoga Equity Partners I Limited (which is not a substantial shareholder) by virtue of Section 7 of the Companies Act, Chapter 50.

3 Subianto Arpan Sumodikoro is deemed to have an interest in the 25,000,000 shares held by Canyon Gate Investments Ltd by virtue of Section 7 of the Companies Act, Chapter 50.

PUBLIC SHAREHOLDINGS

Based on the information available to the Company as at 15 March 2007, approximately 59.76% of the ordinary shares of the Company are held in the hands of the public. This is in compliance with Rule 723 of the SGX-ST Listing Manual.

INTERRA RESOURCES LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 197300166Z)

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("AGM") of Interra Resources Limited (the "Company") will be held on 30 April 2007 at 11:00 am at Meritus Mandarin Hotel, 333 Orchard Road, Level 6 South Tower, Mandarin Ballroom, Singapore 238867 to transact the following business:

ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Accounts for the financial year ended 31 December 2006 together with the Auditors' Report thereon. **Resolution 1**

2. To approve the sum of S$203,333 as Directors' fees for the financial year ended 31 December 2006 (FY 2005: S$182,833). **Resolution 2**

3. To re-elect the following Directors, each of whom will retire by rotation pursuant to Article 89 of the Articles of Association of the Company and who, being eligible, will offer themselves for re-election:

   (a) Mr Sandiaga Salahuddin Uno **Resolution 3(a)**

   (b) Mr Lim Hock San **Resolution 3(b)**

4. To re-appoint Nexia Tan & Sitoh as Auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 4**

SPECIAL BUSINESS

5. To consider and if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution:

   That pursuant to Section 161 of the Companies Act, Chapter 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be and is hereby given to the Directors of the Company to allot and issue shares and convertible securities in the capital of the Company (whether by way of rights, bonus or otherwise or in pursuance of any offer, agreement or option made or granted by the Directors during the continuance of this authority which would or might require shares or convertible securities to be issued during the continuance of this authority or thereafter) at any time and from time to time to such persons and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit (notwithstanding that such issue of shares pursuant to the offer, agreement or option or the conversion of the convertible securities may occur after the expiration of the authority contained in this Resolution), provided that the aggregate number of shares and convertible securities to be issued pursuant to this Resolution shall not exceed fifty (50) per centum of the issued shares of the Company, and provided further that where members of the Company with registered addresses in Singapore are not given an opportunity to participate in the same on a pro rata basis, then the number of shares and convertible securities to be issued under such circumstances shall not exceed twenty (20) per centum of the issued shares of the Company, and for the purpose of this Resolution, the percentage of issued shares shall be based on the Company's issued share capital at the time this Resolution is passed (after adjusting for (i) new shares arising from the conversion or exercise of convertible securities, and (ii) any subsequent consolidation or subdivision of shares), and unless revoked or varied by the Company in general meeting, such authority shall continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is the earlier. **Resolution 5**

6. To transact any other business that may properly be transacted at an AGM of the Company.

BY ORDER OF THE BOARD

Adrian Chan Pengee
Company Secretary

Singapore
5 April 2007

Explanatory Notes:

Resolution 3(a) - If re-elected, Mr Sandiaga Salahuddin Uno will remain as the Non-Executive Deputy Chairman of the Company, a Member of the Audit Committee, a Member of the Nominating Committee and a Member of the Remuneration Committee.

Resolution 3(b) - If re-elected, Mr Lim Hock San will remain as an Independent Director of the Company, the Chairman of the Audit Committee, the Chairman of the Remuneration Committee and a Member of the Nominating Committee.

Resolution 5 - If passed, will empower the Directors, from the date of the above AGM until the next AGM, to allot and issue shares and convertible securities in the Company, without seeking any further approval from shareholders in general meeting but within the limitation imposed by the Resolution, for such purposes as the Directors may consider would be in the best interests of the Company. The number of shares and convertible securities that the Directors may allot and issue under this Resolution would not exceed fifty (50) per centum of the issued share capital of the Company at the time of the passing of this Resolution. For issues of shares and convertible securities other than on a pro rata basis to all shareholders, the aggregate number of shares and convertible securities to be issued shall not exceed twenty (20) per centum of the issued share capital of the Company at the time of the passing of this Resolution.

NOTES

1. A member entitled to attend and vote at the AGM is entitled to appoint not more than two (2) proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. The instrument of proxy must be lodged at the registered office of the Company at 391A Orchard Road, #13-06 Ngee Ann City Tower A, Singapore 228873, not less than forty-eight (48) hours before the time appointed for the AGM.

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Proxy Form
Annual General Meeting

INTERRA RESOURCES LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 197300166Z)

IMPORTANT:

1. *For investors who have used their CPF monies to buy ordinary shares in the capital of Interra Resources Limited, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.*
2. *This Proxy Form is not valid for use by such CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.*

I/We, ______________________________(Name) ____________________________________(NRIC/Passport No.)

of ____(Address)

being shareholder/shareholders of Interra Resources Limited (the "Company"), hereby appoint:

Name	Address	NRIC / Passport No.	Proportion of Shareholding (%) to be Represented by Proxy

and/or *(delete as appropriate)*

Name	Address	NRIC / Passport No.	Proportion of Shareholding (%) to be Represented by Proxy

as my/our proxy/proxies to attend and to vote on my/our behalf and, if necessary, to demand a poll, at the Annual General Meeting ("AGM") of the Company to be held on 30 April 2007 at 11:00 am at Meritus Mandarin Hotel, 333 Orchard Road, Level 6 South Tower, Mandarin Ballroom, Singapore 238867, and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific direction as to voting is given, my/our proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the AGM and at any adjournment thereof.

	ORDINARY RESOLUTIONS	**For**	**Against**
	Ordinary Business		
1	Adoption of Directors' Report and Audited Accounts		
2	Approval of Directors' fees		
3(a)	Re-election of Mr Sandiaga Salahuddin Uno as Director		
3(b)	Re-election of Mr Lim Hock San as Director		
4	Re-appointment of Auditors		
	Special Business		
5	Authority to allot and issue shares pursuant to Section 161 of the Companies Act, Chapter 50		

(Please indicate your vote 'For' or 'Against' with 'X' in the box provided.)

TOTAL NUMBER OF SHARES HELD

Dated this __________ day of ______________ 2007

____
Signature(s) of Shareholder(s) or Common Seal

IMPORTANT: Please read notes overleaf

Notes:

1. A shareholder of the Company ("Shareholder") entitled to attend and vote at the AGM is entitled to appoint not more than two (2) proxies to attend and vote in his stead. Where a Shareholder appoints two (2) proxies, the appointments shall be invalid unless he specifies the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy.

2. A Shareholder should insert the total number of shares held by him. If he has shares entered against his name in the Depository Register (as defined In Section 130A of the Companies Act, Chapter 50), he should insert that number of shares. If he has shares registered in his name in the Register of Members, he should insert that number of shares. If he has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members, he should insert the aggregate number of shares entered against his name in the Depository Register and registered in his name in the Register of Members. If no number is inserted, the instrument of proxy shall be deemed to relate to all the shares held by him.

3. The instrument of proxy must be under the hand of the Shareholder or of his attorney duly authorised in writing. Where the Shareholder is a corporation, the instrument of proxy must be executed under its common seal or under the hand of its attorney duly authorised in writing.

4. The instrument of proxy (together with the power of attorney, if any, under which it is signed or a duly certified copy thereof) must be deposited at the registered office of the Company at 391A Orchard Road, #13-06 Ngee Ann City Tower A, Singapore 238873 not less than forty-eight (48) hours before the time appointed for the AGM.

5. A corporation which is a Shareholder may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

6. The Company shall be entitled to reject the instrument of proxy if it is incomplete, improperly completed or illegible or where the true intentions of the Shareholder are not ascertainable from the instructions specified in the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument of proxy lodged if the Shareholder, being the appointor, is not shown to have shares entered against his name in the Depository Register forty-eight (48) hours before the time appointed for the AGM, as certified by The Central Depository (Pte) Limited to the Company.

BOARD OF DIRECTORS

Edwin Soeryadjaya
Chairman (Non-Executive)

Sandiaga Salahuddin Uno
Deputy Chairman (Non-Executive)

Luke Christopher Targett
Chief Executive Officer & Executive Director

Subianto Arpan Sumodikoro
Non-Executive Director

Allan Charles Buckler
Independent Director

Lim Hock San
Independent Director

Ng Soon Kai
Independent Director

Crescento Hermawan
Alternate Director to Subianto Arpan Sumodikoro

AUDIT COMMITTEE

Lim Hock San
(Chairman)

Allan Charles Buckler

Sandiaga Salahuddin Uno

NOMINATING COMMITTEE

Allan Charles Buckler
(Chairman)

Lim Hock San

Ng Soon Kai

Sandiaga Salahuddin Uno

REMUNERATION COMMITTEE

Lim Hock San
(Chairman)

Allan Charles Buckler

Sandiaga Salahuddin Uno

COMPANY SECRETARY

Adrian Chan Pengee

Lun Chee Leong

REGISTERED OFFICE

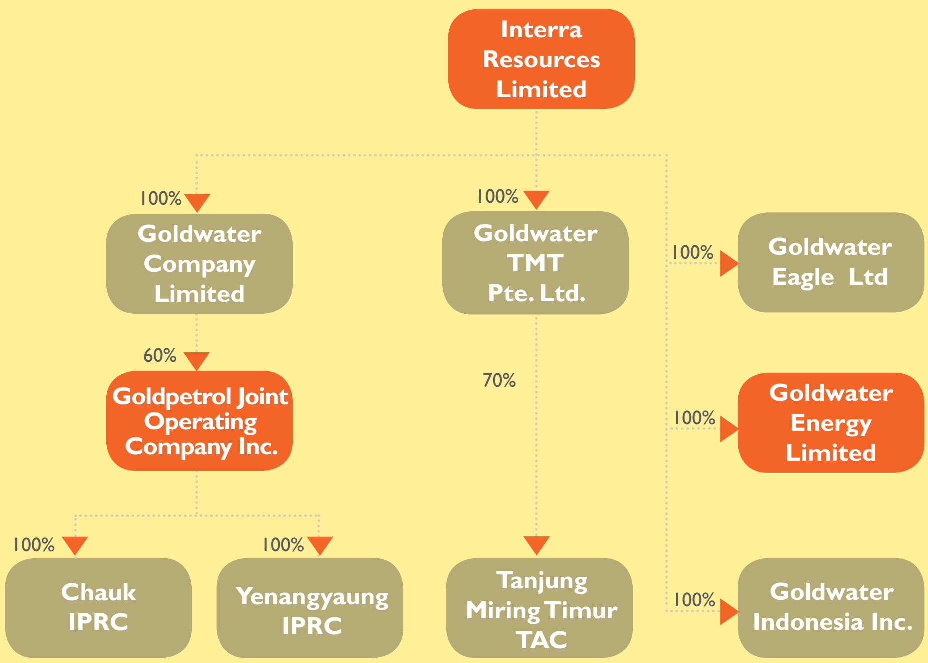
391A Orchard Road #13-06
Ngee Ann City Tower A
Singapore 238873
Tel (65) 6732 1711
Fax (65) 6738 1170
Email interra@interraresources.com
Website www.interraresources.com

SHARE REGISTRAR

M & C Services Private Limited
138 Robinson Road #17-00
The Corporate Office
Singapore 068906

AUDITORS

Nexia Tan & Sitoh
Certified Public Accountants
Member Firm of Nexia International
5 Shenton Way #23-03
UIC Building
Singapore 068808
Partner-in-Charge: Kristin Kim Yoon Sook
(Appointed since 26 April 2006)



INTERRA RESOURCES LIMITED
Company Registration No. 197300166Z
391A Orchard Road #13-06
Ngee Ann City Tower A
Singapore 238873

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