

Ginger Oil AB (publ)
Corporate Identity Number 556545-4195

Annual report and consolidated accounts for the financial year 2006

The Board of Directors and Managing Director present the following annual report and consolidated accounts.

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Administration Report

Information regarding the operations

The company started operations in 1997. Operations consist of locating oil and gas deposits using three-dimensional seismic data, as well as engaging in the direct and indirect prospecting and production of oil, gas and other energy products through the wholly-owned subsidiary Ginger Oil Company Inc., located in Houston, Texas. The Board of Directors has its registered offices in Stockholm.

Ginger Oil's business concept is to use advanced computer and geological technology to locate oil and gas deposits and to use its expertise within the industry to sell this knowledge in exchange for oil and gas income.

Ownership structure

The two founders, Don Neville and Hans Blixt, own 17.0% and 15.3% of the capital respectively. As of 1 October 2006, the number of shareholders was 1,423. Ginger Oil AB is affiliated with VPC (Swedish Central Securities Depository & Clearing Organisation) and has been listed on Gothenburg's OTC list since 15 December 2003.

Group structure

The company is the Parent Company in a Group with the wholly-owned subsidiary Ginger Oil Company Inc., whose operations comprise prospecting for gas and oil assets.

Markets

Prices for gas and oil are historically strong and are expected to continue to be high.

Significant events during the financial year

Processing of 3-D seismic data

Ginger Oil has access to large quantities of 3-D seismic data, which is of critical importance for locating oil and gas deposits. Contracts regarding 3-D seismic data have been extended during the year.

An entirely new area has been tested with 3-D seismic and is currently being processed.

Drilling activities

Four drillings were performed during the year. Three of them were new finds and all are producing.

Investments

Group

The Group continuously invests in gas and oil assets. No significant investments have been made with regard to machinery and equipment.

Future development

During forthcoming years, the operations of the company will be affected by the business climate within the oil and gas industry and by the availability of capital for the continued development of the projects. The company has sole access to 3-D seismic data. Its partnerships with other oil companies provide great potential for realising ongoing projects. To attain cost-efficiency, Ginger Oil works with contracted specialists (consultants) on the various projects, instead of using permanent employees.

Comparative figures covering several years

Summary of the company's financial development

TSEK	2006	2005	2004
Profit/loss after financial items	-4,654	1,883	-1,760
Balance sheet total	80,877	40,279	21,117
Equity/assets ratio %	83	72	54
Return on total capital %	neg	6	neg
Return on equity %	neg	7	neg

Result and financial position

For information regarding the result of the Group's and Parent Company's operations, and financial position as per end of the financial year, refer to the income statements and balance sheets below, with accompanying notes.

Proposed appropriation of profits

The following profits are at the disposal of the Annual General Meeting:

Share premium reserve	44,924,362
Profit/loss brought forward	2,271,563
Net profit for the year	<u>1,575,325</u>
SEK	48,771,250

The Board of Directors proposes that available profits be appropriated as follows

to be carried forward	<u>48,771,250</u>
SEK	48,771,250

Consolidated Income Statement	Note	2006	2005
	1		
Operating income			
Net sales	2	7,627,934	7,488,799
Own work capitalised		<u>2,359,164</u>	<u>1,858,700</u>
Total income		9,987,098	9,347,499
Operating expenses			
Other external expenses	3	-3,089,393	-2,462,438
Personnel costs	4	-4,692,720	-2,799,380
Depreciation of tangible fixed assets		-6,264,827	-1,624,600
Other operating expenses		=	=
Total operating expenses		-14,046,940	-6,886,418
Operating profit		-4,059,842	2,461,081
Result from financial investments			
Other interest income and similar profit/loss items	5	355,322	33,772
Interest expenses and similar profit/loss items		<u>-949,290</u>	<u>-611,710</u>
Total result from financial investments		-593,968	-577,938
Profit/loss after financial items		-4,653,810	1 883,143
Deferred tax	6	<u>2,319,363</u>	<u>204,166</u>
Net profit for the year		<u>-2,334,447</u>	<u>2,087,309</u>

Consolidated Balance Sheet	Note	31 Dec 2006	31 Dec 2005
Assets			
Fixed assets			
<u>Tangible fixed assets</u>			
Oil and gas assets	7	34,782,384	19,287,182
Equipment, tools, fixtures and fittings	7	<u>98,038</u>	<u>127,083</u>
		34,880,422	19,414,265
<u>Financial fixed assets</u>			
Deferred tax assets	6	13,136,527	12,527,512
Other investments held as fixed assets	8	3,224	3,738
Other long-term receivables		<u>79,672</u>	<u>563,490</u>
		<u>13,219,423</u>	<u>13,094,740</u>
Total fixed assets		<u>48,099,845</u>	<u>32,509,005</u>
Current assets			
<u>Current receivables</u>			
Accounts receivable		1,999,866	1,653,023
Other current receivables		122,625	97,865
Prepaid expenses and accrued income		<u>904,464</u>	<u>-</u>
		3,026,955	1,750,888
Short-term investment		22,442,627	
<u>Cash and bank balances</u>		<u>7,307,973</u>	<u>6,019,217</u>
Total current assets		<u>32,777,555</u>	<u>7,770,105</u>
Total assets		<u>80,877,400</u>	<u>40,279,110</u>

Liabilities and equity

Equity	9, 10		
<u>Capital and reserves attributable to Parent Company's shareholders</u>			
Share capital		1,535,440	1,285,073
Other contributed capital		89,424,641	43,289,128
Reserves		-3,989,111	2,228,685
Profit/loss brought forward		<u>-20,240,259</u>	<u>-17,905,812</u>
Total equity		<u>66,730,711</u>	<u>28,897,074</u>
Long-term liabilities	11, 12	<u>8,232,720</u>	<u>9,543,000</u>
Total long-term liabilities		<u>8,232,720</u>	<u>9,543,000</u>
Current liabilities			
Accounts payable – trade		2,228,187	1,367,806
Other current liabilities		3,635,782	406 493
Accrued expenses and deferred income		<u>50,000</u>	<u>64,737</u>
Total current liabilities		<u>5,913,969</u>	<u>1 839 036</u>
Total liabilities and equity		<u>80,877,400</u>	<u>40 279 110</u>

Change in equity - Group

	Share capital	Other contributed capital	Reserves	Profit/loss brought forward	Total equity
Equity, 31 Dec 2004	1,070,894	32,195,147	0	-16,902,091	16,363,950
Opening balance 1 Jan 2005	1,070,894	32,195,147	0	-16,902,091	16,363,950
Effects of changed accounting principles				-3,091,030	-3,091,030
Adjusted Opening balance, 1 Jan 2005	1,070,894	32,195,147	0	-19,993,121	13,272,920
Exchange rate differences attributable to translation of foreign operations			2,228,685		2,228,685
New share issue	214,179	11,093,981			11,308,160
Net profit for the year				2,087,309	2,087,309
Equity, 31 Dec 2005	1,285,073	43,289,128	2,228,685	-17,905,812	28,897,074
Exchange rate differences attributable to translation of foreign operations			-6,217,796		-6,217,796
New share issue	250,367	46,135,513			46,385,880
Net profit for the year				-2,334,447	-2,334,447
Equity, 31 Dec 2006	1,535,440	89,424,641	-3,989,111	-20,240,259	66,730,711

Cash Flow Statement for the Group	2006	2005
Operating activities		
Payments from customers	6,521,315	6,187,156
Payments to suppliers and employees	<u>-2,137,216</u>	<u>-6,415,171</u>
Cash flow from operating activities before interest paid and income tax paid	4,384,099	-228,015
Interest received	330,503	36,486
Interest paid	-757,117	-756,260
Income tax paid	-30,173	
Cash flow from operating activities	3,927,312	-947,789
Investing activities		
Investments in tangible fixed assets	-26,073,773	-10,841,214
Sales of tangible fixed assets	129,528	4,095,538
Investments in other financial fixed assets	-	-314,052
Cash flow from investing activities	-25,944,245	-7,059,728
Financing activities		
New share issue	46,385,880	11,308,160
Cash flow from financing activities	46,385,880	11,308,160
Cash flow for the year	24,368,947	3,300,643
Cash and cash equivalents at beginning of the year	6 019 217	2,272,780
Exchange rate difference in cash and cash equivalents	-637,564	445,794
Cash and cash equivalents at end of the year	<u>29,750,600</u>	<u>6,019,217</u>

Parent Company Income Statement	Note	2006	2005
Operating income	1		
Net sales	2	250,000	231,000
Total operating income etc.		250,000	231,000
Operating expenses			
Other external expenses	3	-814,295	-606,667
Depreciation of tangible fixed assets			-2,146
Total operating expenses		-814,295	-608,813
Operating profit		-564,295	-377,813
Result from financial investments			
Other interest income and similar profit/loss items	5	1,801,945	963,731
Interest expenses and similar profit/loss items		<u>-10</u>	<u>-</u>
Total result from financial investments		1,801,935	963,731
Profit/loss after financial items		1 237,640	585,918
Deferred tax		337,685	569,260
Net profit for the year		<u>1 575,325</u>	<u>1,155,178</u>

Parent Company Balance Sheet	Note	31 Dec 2006	2005-12-31
Assets	1		
Fixed assets			
<u>Tangible fixed assets</u>			
Equipment, tools, fixtures and fittings	7	0	3,199
<u>Financial fixed assets</u>			
Participations in subsidiaries	14	29,950,928	29,950,928
Receivables from subsidiaries		68,019,211	24,962,503
Deferred tax assets	6	1,196,813	859,127
		<u>99,166,952</u>	<u>55,772,558</u>
Total fixed assets		<u>99,166,952</u>	<u>55,775,757</u>
Current assets			
<u>Current receivables</u>			
Trade receivables		38,420	
Other current receivables		75,788	51,271
Prepaid expenses and accrued income		887,038	
<u>Cash and bank balances</u>		5,716,430	1,375,728
Total current assets		<u>6,717,676</u>	<u>1,426,999</u>
Total assets		<u>105,884,628</u>	<u>57,202,756</u>

Equity and liabilities

Equity	9, 10		
<u>Restricted equity</u>			
Share capital (15,354,397 / 12,850,729 shares with quotient value SEK 0.10)		1,535,440	1,285,073
Statutory reserve		53,581,384	53,581,384
Share capital under registration		1,211,151	
		<u>56,327,975</u>	<u>54,866,457</u>
<u>Profit/loss brought forward</u>			
Share premium reserve		44,924,362	
Profit brought forward		2 271 563	1,116,384
Net profit for the year		<u>1,575,325</u>	<u>1,155,178</u>
		<u>48,771,250</u>	<u>2,271,562</u>
Total equity		<u>105,099,225</u>	<u>57,138,019</u>
Current liabilities			
Accounts payable – trade		735,403	
Accrued expenses and deferred income		<u>50,000</u>	<u>64,737</u>
Total current liabilities		<u>785,403</u>	<u>64,737</u>
Total equity and liabilities		<u>105,884,628</u>	<u>57,202,756</u>
Pledged assets		None	None
Contingent liabilities	13	535,600	535,600

Cash Flow Statement for Parent Company	2006	2005
Operating activities		
Payments from customers	211,580	201,687
Payments to suppliers and employees	<u>-1,001,985</u>	<u>-591,930</u>
Cash flow from operating activities before interest paid and income tax paid	-790,405	-390,243
Interest received	1,801,945	963,731
Interest paid	-10	-
Cash flow from operating activities	1,011,530	573,488
Investing activities		
Investments in other financial fixed assets	-43,056,708	-10,578,840
Cash flow from investing activities	-43,056,708	-10,578,840
Financing activities		
New share issue	46,385,880	11,308,160
Cash flow from financing activities	46,385,880	11,308,160
Cash flow for the year	4,340,702	1,302,808
Cash and cash equivalents at beginning of the year	1,375,728	72,920
Cash and cash equivalents at end of the year	<u>5,716,430</u>	<u>1,375,728</u>

Notes for Parent Company and Group

General information

The company started operations in 1997. Operations consists of locating oil and gas deposits using three-dimensional seismic data, as well as engaging in the direct and indirect prospecting and production of oil, gas and other energy products through the wholly owned subsidiary Ginger Oil Company Inc., located in Houston, Texas. The Board of Directors has its registered offices in Stockholm.

These consolidated accounts were approved for public release by the Board of Directors on 28 March 2007.

Note 1 Accounting principles

The most significant accounting principles applied for the consolidated accounts are stated below. The principles have been applied consistently for all years presented, unless otherwise stated.

Basis for establishing reports

The consolidated accounts for the Ginger Oil Group have been prepared in accordance with the Swedish Annual Accounts Act, Swedish Financial Accounting Standards Council recommendation RR 30 "Supplementary Accounting Regulations for Groups" and with the International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated accounts have been prepared in accordance with the cost method, with the exception of revaluations of buildings and land, available-for-sale financial assets, and financial assets and liabilities (including derivative instruments) valued at fair value via the income statement.

The Parent Company applies the same accounting principles as the Group, apart from in the areas presented below. Differences between the Parent Company's and the Group's accounting principles arise as a result of limitations on the manner in which IFRS can be applied with regard to the Parent Company because of the Swedish Annual Accounts Act, and, also, in some cases, tax reasons. In addition, the Swedish Financial Accounting Standards Council's recommendation RR 32 "Accounting for Legal Entities" has been applied.

Preparing reports in accordance with IFRS necessitates certain significant accounting estimates and assumptions. Furthermore, management is required to make certain assessments when applying the Group's accounting principles. The areas that entail a high degree of assessment, that are complex or in which assumptions and estimates are of material significance for the consolidated accounts, are listed in Note 1.

(a.) Amendments to published standards that take effect in 2006

- IAS 19 (Amendment) Employee Benefits is compulsory for groups with financial years beginning on or after 1 January 2006. The Group has no pension plans that are affected by the change.
- IFRS 1 (Amendment) First-time Adoption the International Financial Reporting Standards is applied and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources.

(b.) Standards the Group is applying in advance

IFRS 7, Financial Instruments: Disclosures and the Complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures, are being applied in advance for 2006. IFRS 7 introduces new disclosure requirements regarding financial instruments. The standard has no bearing on the classification or valuation of the Group's financial instruments.

(c.) Standards, amendments and interpretations which refer to 2006, but which are not relevant for the Group

The following standards, amendments and interpretations are compulsory for financial years beginning on or after 1 January 2006, but are not relevant for the group:

- IAS 21 (Amendment) Net Investment in a Foreign Operation.
- IAS 39 (Amendment) Cash Flow Hedges of Forecast Intragroup Transactions.
- IAS 39 (Amendment) The Fair Value Option.
- IAS 39 and IFRS 4 (Amendment) Financial Guarantee Contracts.
- IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

(d) Interpretations of existing standards that have not come into effect and have not been applied in advance by the Group

The following interpretations of existing standards have been published and are compulsory for the Group's accounting for financial years beginning on or after 1 May 2006, but have not been applied in advance by the group:

- IFRIC 8 *Scope of IFRS 2*
The interpretation statement comes into effect on 1 May 2006 and applies to financial years beginning on or after 1 May 2006. According to IFRIC 8, the rules of IFRS 2 encompass goods and services obtained in exchange for equity instruments, even if these goods or services cannot be expressly identified, either completely or partially. This statement is not applicable for the Group, as these types of transactions do not occur.
- IFRIC 10 *Interim Financial Reporting and Impairment (this standard/interpretation has not, to date, been adopted by the EU)*
The interpretation is effective from 1 March 2007 and applies to financial years beginning on or after this date. The interpretation clarifies the handling with regard to the classification of share-based remuneration in which the company purchases

treasury shares to settle its commitments, and the accounting of option programs in subsidiaries applying IFRS. The Group will apply IFRIC 11 from 1 January 2008. However, this is not expected to have an impact on the Group's accounts.

(e) Interpretations of existing standards which have not yet come into effect and which are not relevant for the Group

The following interpretations of existing standards have been published and are obligatory for the Group for financial years beginning on or after 1 March 2006, but are not relevant for the Group:

- *IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
This interpretation is effective from 1 March 2006 and applies to financial years beginning on or after this date. At present, the Group has no operations in any countries in which transition to reporting for hyperinflationary economies is in question.
- *IFRIC 9 Reassessment of Embedded Derivatives*
Reassessment of embedded derivatives (applicable for financial years beginning on or after 1 June 2006). IFRIC 9 requires that the company assess whether an embedded derivative shall be separated from the host contract and reported as a derivative when the company initially enters into the contract. Subsequent revaluations are not permitted, except in conjunction with a change in the contractual terms and conditions which significantly changes the cash flow which would otherwise be generated under the contract. Revaluation is required in such a case. As no Group company has changed contractual terms, IFRIC 9 is not relevant for the Group.
- *IFRIC 11 Group and Treasury Share Transactions (this standard/interpretation has not, to date, been adopted by the EU)*
The interpretation is effective from 1 March 2007 and is applicable for financial years beginning on or after this date. The interpretation provides guidance as regards the classification of share-based payments when the company purchases its own shares for the purpose of settling commitments, as well as the accounting of options programs in subsidiaries applying IFRS. The Group will apply IFRIC 11 from 1 January 2008, but this is not expected to have an impact on the Group's accounts.

Consolidated accounts

Subsidiaries

Subsidiaries are all companies (including special purpose companies) in which the Group has the right to shape financial and operational strategies in a manner usually associated with a share ownership totalling more than half of the voting rights. The presence and effect of potential voting rights that, at present, can be used or converted are taken into consideration when the assessment is made as to whether or not the Group exerts control over another company. Subsidiaries are included in the consolidated accounts as of the date the controlling influence is transferred to the Group. They are removed from the consolidated accounts as of the date the controlling influence ceases.

The purchase method is used for the reporting of the Group's acquisition of subsidiaries. Acquisition costs for an acquisition comprise the fair value of assets submitted as remuneration, issued equity instruments and the liabilities assumed as of the date of the transfer, as well as expenses directly related to the acquisition. Identifiable acquired assets and assumed liabilities and contingent liabilities in a company takeover are initially valued at fair value on the acquisition date, regardless of the extent of any minority shareholding. The surplus, comprising the difference between the acquisition cost and the fair value of the Group's share of identifiable acquired net assets is reported as goodwill. If the acquisition cost is less than the fair value for the acquired subsidiary's assets, liabilities and contingent liabilities, the difference is reported directly in the income statement.

Intra-Group transactions and balance sheet items, as well as unrealised profit on transactions between Group companies, are eliminated. Unrealised losses are also eliminated, but any loss is considered to be an indication of impairment of the transferred asset. The accounting principles for subsidiaries have, in this case, been changed to ensure consistent application of the Group's principles.

Segment reporting

A business segment is a group of assets and operations that provide products or services that are exposed to risks and possibilities that differ from those of other business segments. Geographical areas provide products or services within a financial environment that is exposed to risks and possibilities that are different from other financial environments. At present, the Group only conducts operations in the U.S. and, therefore, reports no segments.

Translation of foreign currency

(a) Functional currency and reporting currency

Items that are included in the financial reports for the different units in the Group are valued in the currency used in the respective financial environment in which the companies primarily operate (functional currency). In the consolidated accounts, SEK, which is the Parent Company's functional currency and reporting currency, is used.

(b) Transactions and balance sheet items

Transactions in foreign currency are translated to the functional currency according to the exchange rates on transaction date. Gains and losses on exchange arising from payment for such transactions and from the translation of monetary assets and liabilities in foreign currency at the exchange rate on the closing date are reported in the income statement, except when the transactions constitute hedging that satisfies the conditions for hedge accounting of cash flow or of net investments. In this case, profits/losses are reported in equity.

Changes in the fair value of securities in a foreign currency, which have been classified as available-for-sale financial assets, are allocated between translation differences due to changes in the accrued acquisition cost of the securities, and other changes in the reported value of the security.

Translation differences for non-monetary financial assets and liabilities are reported as a portion of fair value profits/losses. Translation differences for non-monetary financial assets and liabilities, such as shares valued at fair value via the income statement, are reported in the income statement as a portion of fair value profits/losses.

Translation differences for non-monetary financial assets, such as shares classified as available-for-sale financial assets, are transferred to the reserve for available-for-sale, which is a part of the Provisions item in equity.

(c) Group Companies

The results and financial position for all Group companies (of which none have a hyper-inflationary currency as a functional currency) which have a functional currency other than the reporting currency are translated into the Group's reporting currency according to the following:

- (i) assets and liabilities for each balance sheet are translated at the closing rate of exchange.
- (ii) income and expenses for each income statement are translated at the average exchange rate (unless the average rate is not a reasonable approximation of the accumulated effect of the rates applying on the transaction dates, in which case income and expenses are translated as at the transaction date), and
- (iii) all exchange rate differences that arise are reported as a separate component of equity.

Upon consolidation, exchange rate differences arising from the translation of net investments in foreign operations and of borrowings of other currency instruments that have been identified as the hedging of such investments are transferred to equity. Upon the sale of a foreign operation, exchange rate differences are reported in the income statement as a portion of the capital gain/loss.

Goodwill and adjustments of fair value arising from the acquisition of foreign operations are treated as assets and liabilities for this operation and are translated at the closing rate of exchange.

Tangible fixed assets

All tangible fixed assets are reported at acquisition cost less depreciation. The acquisition cost includes expenses directly attributable to the acquisition of the asset. The acquisition cost may also include the transfer from equity of any profits/losses from cash flow hedges which meet the requirements for hedge accounting and are attributable to tangible fixed asset purchases denominated in foreign currency.

Additional expenses increase the reported value of the asset or are reported as a separate asset, depending on which option is appropriate, only when it is likely that the future economic benefits associated with the asset will accrue to the Group and when the acquisition cost can be measured in a reliable manner. The book value of a replaced part is removed from the balance sheet. All other forms of repairs and maintenance are reported as costs in the income statement in the period in which they arise.

In order to allocate the depreciable amount over the assets' estimated useful life, assets are depreciated on a straight-line basis as follows:

<u>Group</u>	<u>Number of years</u>
Equipment, tools, fixtures and fittings	3-40
<u>Parent Company</u>	
Equipment, tools, fixtures and fittings	5

The residual values and estimated useful lives of assets are tested each balance sheet date and adjusted as necessary.

The residual value of an asset is immediately written down to its recoverable amount when the asset's book value is deemed to exceed its estimated recoverable amount.

Profits and losses upon the sale of an asset are established on the basis of a comparison between the proceeds of sale and the reported value of the asset, and are reported net in Other profits/losses in the income statement. When a revalued asset is sold, the amounts included in the revaluation reserve are transferred to Unappropriated profit brought forward.

Oil and gas assets

The oil and gas business is reported at historic cost less depreciation. All costs for the acquisition of concessions, licenses, or participations in production sharing agreements, and for the exploration, drilling and development of such, are capitalised in separate cost centres, one for each field.

Capitalised expenditures as at the reporting date, together with expected future capitalised expenditures for the development of proven and probable reserves established in accordance with the pricing level in effect on the balance sheet date, are amortised in line with annual production relative to the expected total proven and probable reserves of oil and gas in accordance with the production unit method. Amortisation per field is expensed in the income statement when production has commenced.

Proven reserves constitute those petroleum reserves which, on the basis of geological and engineering data, can be estimated with reasonable assurance to be commercially extractable as of a given date, from known reservoirs, and given prevailing economic conditions, existing production methods, and current government statutes. Proven reserves can be categorised as developed or undeveloped. If deterministic methods are applied, the term 'assurance' expresses a high degree of confidence that these quantities can be extracted. If probability theory is applied, it should be at least 90% likely that the quantities extracted are the same as or greater than estimates.

Probable reserves are non-proven reserves for which, on the basis of geological and engineering data, extraction is considered more probable than not. In this context, it is

considered at least 50% probable that extracted quantities are at least as great as the amount of proven or probable reserves.

Remuneration received upon the sale or farmout of oil and gas concessions reduce capitalised expenditures for each cost centre that is in the prospecting stage. Any remuneration exceeding capitalised expenditures is reported in the income statement. A gain or loss on the sale or farmout of producing assets is reported when the amortisation rate is changed by more than 20%.

Impairment testing is conducted at least once per year in order to ensure that the book values of assets correspond to the expected future cash flows. Assets are divided into two categories in impairment testing:

- **Prospecting assets**
Impairment testing for this category takes place for all projects based on the expected future cash flows of all assets in the category. When prospecting of a project is completed, an assessment is made to determine whether the project will be transferred to producing assets or will be abandoned. If a project is abandoned, all accrued costs are expensed at this point in time.
- **Producing assets**
Impairment testing for this category is calculated for each individual field based on the expected future cash flow from the field.

Provisions are made for each reduction in value when the book value according to the above exceeds the estimated net future cash flow, applying the prices and expenses used by the Group for internal forecasting or applying fair value less selling expenses.

Financial assets

The Group classifies its financial assets in the following categories: financial assets valued at fair value via the income statement, loans and accounts receivable, financial instruments held to maturity and available-for-sale financial assets. The classification is dependant on the purpose for which the instruments were acquired. Management designates the classification of the instruments upon initial recognition and reassesses this decision at each reporting occasion.

(a.) Financial assets valued at fair value via the income statement

Financial assets valued at fair value via the income statement are financial assets held for trading. A financial asset is classified in this category if it is acquired primarily with the purpose of being sold within a short period of time. Derivatives are classified as held for trading if they are not identified as hedges. Assets in this category are classified as current assets. During the financial year, the Group did not have any instruments belonging to this category.

(b.) Loans and accounts receivable

Loans and accounts receivable are financial assets which are not derivatives, have determined

or determinable payments, and are not listed on an active market. They are included in current assets, with the exception of items with a maturity date more than 12 months after balance sheet date, which are classified as fixed assets. Loans and accounts receivable are included in the items accounts receivable and other receivables in the balance sheet.

(c.) Financial instruments held to maturity

Financial instruments held to maturity are non-derivative financial assets with determined or determinable payments and established durations which Group management intends and has the ability to hold until maturity. During the financial year, the Group did not have any instruments belonging to this category.

(d.) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets which either have been assigned to this category or are not classified in any of other categories. They are included in fixed assets if management does not intend to sell the asset within 12 months after balance sheet date. During the financial year, the Group did not have any instruments belonging to this category.

Purchases and sales of financial instruments are reported on transaction date – the date on which the Group commits to buying or selling the asset. Financial instruments are initially valued at fair value plus transaction costs, which applies to all financial assets which are not valued at fair value via the income statement. Financial assets valued at fair value via the income statement are initially reported at fair value, while related transaction costs are reported in the income statement. Financial assets are removed from the balance sheet when the right to receive cash flows from the instrument have expired or been transferred and the Group has transferred substantially all risks and benefits associated with ownership. Available-for-sale financial assets and financial assets valued at fair value via the income statement are reported after the date of acquisition at fair value. Loans and accounts receivable are reported at accrued acquisition cost with application of the effective interest method.

Gains and losses resulting from changes in fair value attributable to the category financial assets valued at fair value via the income statement are included in the income statement in the period when they arise under the income statement item Other profits/losses – Net. Dividend income from securities designated as financial assets valued at fair value via the income statement is reported in the income statement as a part of Other income when the Group's right to receive payment has been established.

Changes in the fair value of securities denominated in foreign currencies and which are classified as available-for-sale financial assets are divided between translation differences which depend on changes of the securities' acquisition cost and other changes of the securities' reported value.

Translation differences on monetary securities are reported in the income statement, while translation differences on non-monetary securities are reported in equity. Changes in fair value for monetary and non-monetary securities are reported in equity. Changes in fair value

for monetary and non-monetary securities classified as available-for-sale financial assets are reported in equity.

When securities classified as available-for-sale financial assets are sold or written down, accumulated adjustments of fair value are transferred from equity and reported in the income statement as profit/loss from financial instruments.

Interest on available-for-sale securities that has been calculated using the effective interest method is reported in the income statement as part of Other income. Dividends from available-for-sale equity instruments are reported in the income statement as part of Other income when the Group's right to receive payment has been established.

The fair value for listed investments is based on current bid rate. If the market for a particular financial asset is not active (and for unlisted securities), the Group determines fair value by applying valuation techniques such as using information regarding recent transactions at arm's length, referring to the fair value of another instrument that is essentially equivalent, analysis of discounted cash flows and option valuation models. In conjunction with such a valuation, market information is used as extensively as possible and company specific information as little as possible.

The Group makes an assessment on each reporting day as to whether there is objective evidence of impairment of a financial asset or a group of financial assets. With regard to securities classified as available-for-sale, a significant or prolonged decline of fair value of a security below its acquisition cost is taken into consideration in impairment testing. If such evidence exists for available-for-sale financial assets, the accumulated loss – calculated as the difference between the acquisition cost and current fair value, with deductions for any previous impairment loss reported in the income statement – is transferred from equity and is reported in the income statement. Write-downs of equity instruments reported in the income statement are not reversed in the income statement.

Accounts receivables

Accounts receivable are initially reported at fair value and subsequently at accrued acquisition cost applying the effective interest method, less any provisions for decreases in value. Provisions for decreases in the value of receivables are established if there is objective evidence that the Group will not be able to recover all amounts due according to the original conditions of the receivables. Significant financial difficulties for the debtor, the likelihood that the debtor will declare bankruptcy or undergo financial reconstruction and/or defaulted or late payments (overdue by more than 30 days) are considered indications that the receivable may be impaired. The amount of the provision comprises the difference between the reported value of the asset and the present value of estimated future cash flows, less effective interest. The reported value of the asset is reduced by using a value reduction account, and the loss is reported in the income statement under the item Selling costs. When a receivable cannot be collected, it is written off against the value reduction account for accounts receivable. Recovery of amounts that were previously written off is credited to Selling costs in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash, bank balances and other short-term investments with terms to maturity of fewer than three months, as well as bank overdraft facilities. In the balance sheet, bank overdraft facilities are reported as borrowings among short-term liabilities.

Share capital

Ordinary shares are classified as equity. Obligatory redeemable preference shares are classified as liability.

Transaction costs which are directly attributable to the issue of new shares or options are reported under equity as a deduction from the proceeds of issue.

Supplier liability

Supplier liabilities are initially reported at fair value and subsequently at accrued acquisition cost applying the effective interest method.

Borrowings

Borrowings are initially reported at fair value, net after transaction costs. Borrowings are subsequently reported at accrued acquisition cost, and any difference between the amount received (net after transaction costs) and the amount due upon maturity is reported over the duration of the loan, applying the effective interest method.

Borrowings are classified as short-term liabilities unless the Group has an unconditional right to defer payment of debt for at least 12 months after the balance date.

Deferred income tax

Deferred tax on all temporary differences arising between the reported value and tax value of assets and liabilities is reported in its entirety in the consolidated accounts, according to the balance sheet method. However, if the deferred tax arises due to a transaction which constitutes the initial reporting of an asset or liability which is not a company acquisition and which, at the time of transaction, neither affects reported or fiscal results, it is not reported. Deferred tax is calculated by application of tax rates (and laws) which have been decided or have been announced as of the balance sheet date and are expected to apply when the affected deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax recoverables are reported to the extent which it is likely that future taxable surpluses will be available against which the temporary differences may be utilised.

Deferred tax is calculated based on temporary differences arising on participations in

subsidiaries and associated companies, except when the point in time at which the temporary differences are to be reversed is governed by the Group and when it is probable that the temporary difference will not be reversed within the foreseeable future.

Employee benefits

Pension commitments

The Group companies have differing pension plans. The pensions are normally financed by payment to insurance companies or nominee-administered funds where payments are determined on the basis of periodic actuarial calculations. The Group has only defined contribution pension plans. A defined contribution pension plan is a plan according to which the Group pays fixed contribution amounts to a separate legal entity. The Group does not have any legal or informal obligations to pay employees all remuneration relating to service performed during current or earlier periods.

For defined contribution pension plans, the Group pays contributions to publicly or privately administered pension insurance plans on an obligatory, contractual or voluntary basis. The Group does not have any further payment obligations once the contributions are paid. The contributions are reported as personnel expenses as they arise. Pre-paid contributions are reported as an asset to the extent which cash repayment or a decrease in future payments may accrue to the Group.

Provisions

Provisions for environmental rehabilitation measures, restructuring costs and legal claims are established when the Group has a legal or informal obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the commitment, and when the amount can be calculated in a reliable manner. Provisions for restructuring include costs for cancellation of leasing agreements and for severance remuneration. No provisions are made for future operational losses.

If a number of similar commitments exist, the probability of a required outflow of resources to settle the entire group of commitments is evaluated. A provision is established even if the probability of an outflow regarding a particular item in this group of commitments is negligible.

Provisions are valued at the present value of the amount expected to be required in order to settle the commitment. In this context, a pre-tax discount rate is used which reflects a current market assessment of the time value of money and the risks associated with the provision. Increases in the provision which result from the passage of time are reported as interest expenses.

Provision for restoration costs in conjunction with the extraction of oil and gas is reported amongst these assets. No other provisions exist as of XXXX.

Revenue recognition

Revenue includes the fair value of consideration that has been obtained or will be obtained for goods and services sold in the operating activities of the Group. Revenue is reported exclusive of value added tax, returns, and discounts, and after elimination of intra-Group sales.

The Group reports income when the amount can be reliably estimated, when it is probable that future economic benefits will accrue to the company and when special criteria have been met for each of the Group's individual operations, as described below. The income amount is not regarded to be measurable in a reliable manner until all commitments regarding sales have been met or expired. The Group bases its assessments on historical outcomes and, in this context, considers the type of customer, the type of transaction and special circumstances in each individual case.

(a) Oil and gas revenues

Sales of oil and gas are reported upon delivery of the assets to the purchaser. After delivery, the Group does not have any obligations to the buyer. In all cases, delivery takes place at the source.

(b) Interest income

Interest income is recognised as revenue allocated over the duration of the related item by application of the effective interest method. When the value of a receivable has decreased, the Group decreases the reported value to the recoverable amount, which is constituted by the estimated future cash flow discounted by the original effective interest of the instrument, and continues to account for the discounting effect as interest income. Interest income on impaired loans is reported at the original effective interest rate.

(c) Royalty income

Income from royalties is allocated in accordance with the financial significance of the agreement in question.

Leasing

Costs for fixed assets that are leased instead of owned are reported principally as leasing costs (operational leasing). If the lease contains conditions that result in the Group enjoying the financial benefits and bearing the financial risk associated with ownership of the object (financial leasing), it is reported as a fixed asset in the consolidated balance sheet and amortised over its useful life (the shorter of the economic life and the remaining leasing period).

However, investigations and allocations between operational and financial leasing with regard to cars and office machinery of lesser value are not conducted.

In the Parent Company, all leasing contracts are reported as operational, regardless of whether they are operational or financial. At present, the Group does not utilise any assets on the basis of financial leasing.

Dividends

Dividends to the Parent Company's shareholders are reported as a liability in the Group's financial statements in the period in which the dividends have been approved by the Parent Company's shareholders.

Financial risk

The Group is subject to a number of different financial risks through its operations: market risks (comprising currency risk, interest rate risk in fair values, interest rate risk in the cash flow, and price risk), credit risks and liquidity risks.

(a.) Market risk

(i) Currency risk

The Group is internationally active and is exposed to foreign currency risks which arise from different currency exposures, primarily attributable to the US dollar. Currency risk arises through future business transactions, reported assets and liabilities and net investments in foreign operations.

The Group has a holding in a foreign operation whose net assets are exposed to foreign currency risks. This risk is not hedged.

If the Swedish krona had been weakened/strengthened by 11% in relation to the US dollar, with all other variables remaining constant, net profit/loss for the year per 31 December 2006 would have been TSEK 430 lower/higher (2005: TSEK 105 higher/lower). The difference in currency effect is due to the fact that the subsidiary operated at a loss in 2006 and a profit in 2005.

(ii) Price risk

The Group is exposed to price risk attributable to the development of crude oil and gas prices. Crude oil and gas prices are currently not hedged.

(iii) Interest rate risk attributable to cash flows and fair values

As the Group has no significant interest-bearing assets, the Group's income and cash flow generated by operations is, in all material respects, independent of changes in market interest rates.

The Group's interest rate risk arises through long-term borrowing. Borrowings with variable interest rates expose the Group to interest rate risk attributable to cash flow. At year-end, 100% of borrowings was at variable interest rates. There is no hedging attributable to this.

(b.) Credit risk

The Group does not have any significant concentration of credit risk. Oil and gas production is handled by separate players and the Group uses the services of a number of players.

(c.) Liquidity risk

Caution in the management of liquidity risks entails the possession of sufficient cash and cash equivalents and saleable securities, accessible financing on the basis of adequate levels of committed credit facilities, and the possibility to close market positions.

Important accounting estimates and assumptions

The Group makes estimates and assumptions regarding the future. The accounting estimates which result from these estimates and assumptions will, per definition, seldom be equivalent to the actual result. The main features of estimates and assumptions which entail a significant risk for material adjustments in the reported values of assets and liabilities during the next financial year are stated below.

(a.) Extractable oil and gas assets

As described above, amortisation of capitalised expenditures regarding oil and gas assets is based on the calculated future extractable oil and gas quantities. As, for obvious reasons, these quantities are not exact, the calculations are based on the most reliable information available at the time of each calculation.

Note 2 Purchases and sales between Group companies

The Parent Company charges market-level interest on loans to the subsidiary and receives income in the form of management fees from the subsidiary. There are no other dealings within the Group.

Note 3 Remuneration to auditors

Audit assignment refers to the examination of the annual report and accounting records, as well as of the administration of the Board of Directors and Managing Director, other duties which are the responsibility of the company's auditors to execute and the provision of advisory services or other assistance resulting from observations made during such an examination or the implementation of such other duties. All other work is classified as other assignments.

	Group		Parent Company	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Audit	190,000	295,769	90,000	189,198
Other assignments than audit assignment	<u>157,022</u>	<u>81,690</u>	<u>157,022</u>	<u>81,690</u>
	<u>347,022</u>	<u>377,459</u>	<u>247,022</u>	<u>270,888</u>

Note 4 Average number of employees, salaries, other remuneration and social security contributions

	Group	
	<u>2006</u>	<u>2005</u>
Average number of employees		
Men	<u>4</u>	<u>3</u>
Total	<u>4</u>	<u>3</u>
Salaries and remuneration amount to		
The Board of Directors and Managing Director	1,622,676	1,449,025
Other employees	<u>1,198,568</u>	<u>664,034</u>
Total salaries and remuneration	<u>2,821,244</u>	<u>2,113,059</u>

As a large portion of the operations comprise the development of the concessions held by the company, portions of salaries and remunerations to the employees are capitalised as oil and gas assets.

As the majority of employees are employed in the USA and the handling of social security contributions and pension fees is significantly different from the Swedish system, it has not been deemed relevant to include information on this item.

Parent Company

The company has not had any employees during the year.

Note 5 Other interest income and similar profit/loss items

	Group		Parent Company	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Interest income	<u>355,322</u>	<u>33,772</u>	<u>1,801,945</u>	<u>963,731</u>
Total	<u>355,322</u>	<u>33,772</u>	<u>1,801,945</u>	<u>963,731</u>

Note 6 Deferred tax

Group

Deferred tax on future utilisation of loss carry-forwards has been calculated based on current tax rates. The American company, which has larger parts of the loss carry-forwards, is expected to provide a fiscal surplus in the upcoming years. Deferred tax is distributed within the Group as follows:

	Group		Parent Company	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Tax attributable to future loss carry forward	16,731,934	16 731 609	1,196,813	859 127
Tax attributable to temporary differences	-3,595,407	-4,204 097	-	-
	<u>13,136,527</u>	<u>12,527,512</u>	<u>1,196,813</u>	<u>859 127</u>
Gross change attributable to Deferred taxes is as follows:				
At beginning of year	12,527,512	10 314,602	859,128	289,867
Exchange rate differences	-1,710,348	2 008,744	-	-
Reporting in the income statement	2,319,363	204,166	337,685	569 260
At year-end	<u>13,136,527</u>	<u>12,527,512</u>	<u>1,196,813</u>	<u>859 127</u>

Note 7 Tangible fixed assets

Per 1 January 2005	Oil and gas assets (Group)	Equipment, tools, fixtures and fittings (Group)	Equipment, tools, fixtures and fittings (Group)
Acquisition cost or revaluated amount	14,089,267	744,539	21,786
Accumulated depreciation	-3,588,544	-670,868	-16,441
Book value	10,500,723	73,671	5,345
Financial year 2005			
Opening book value	10,500,723	73,671	5,345
Exchange rate differences	2 967,209	13,862	-
Purchases	10 671,603	113,848	-
Accumulated depreciation	-3,137,484	-15,300	0
Depreciation	-1,714,869	-58,998	-2,146
Closing book value	19,287,182	127,083	3,199
Per 31 December 2005			
Acquisition cost or revaluated amount	24,478,526	976,411	10,731
Accumulated depreciation	-5,191,344	-849,328	-7,532
Book value	19,287,182	127,083	3,199
Financial year 2006			
Opening book value	19,287,182	127,083	3,199
Exchange rate differences	-2,149,274	-17,010	-
Purchases	23,471,704	44,313	-
Sales and disposals	0	-3,199	-3,199
Depreciation	-5,827,288	-53,149	0
Closing book value	34,782,384	98,038	0
Per 31 December 2006			
Acquisition cost or revaluated amount	38 337,191	843,140	0
Accumulated depreciation	-3 554,807	-745,102	0
Book value	34,782,384	98,038	0

Of the book value for oil and gas assets, prospecting assets amount to 23,474,956 (7,039,402) and producing assets 11,307,428 (12,247,780).

Note 8 Other investments held as fixed assets

	Group	
	<u>2006</u>	<u>2005</u>
Opening acquisition cost	72,748	72,748
Changes for the year		
-Translation differences	-4,142	
Closing accumulated acquisition cost	68,606	72,748
Opening revaluation/write-downs	-69,010	-56,217
Changes for the year		
-Write-downs		-12,793
-Translation differences	<u>3,628</u>	
Closing accumulated revaluation/write-downs	<u>-65,382</u>	<u>-69,010</u>
Closing book value, total	<u>3,224</u>	<u>3,738</u>

The shares consist of holdings in Gulf Coast Seismic, LLC, USA. The Group owns 5% of the company.

Note 9 Change in equity

A specification of changes in equity is found under the section entitled *Changes in Equity - Group*, which is presented directly after the consolidated balance sheet.

	Number of shares
Per 1 January 2005	10,708,940
Issued shares	2,141,790
Per 31 December 2005	12,850,730
Issued shares	2 503,667
Per 31 December 2006	15,354,397

The total number of shares is 15,354,397 (2005: 12,850,730) with a quotient value of SEK 0.10 per share (2005: SEK 0.10 per share). All issued shares are fully paid. As per the balance sheet date, 216,277 shares were under registration; these shares were registered on 23 January 2007.

Share options

Share options are distributed to key employees, members of the Board and partners. The receiver pays a premium for each share, which is the reason no benefit arises. The Group does not have any legal or informal commitment to repurchase or settle the options in cash.

Changes in the number of outstanding share options and their weighted average redemption price is as follows:

2006	Average redemption Price in SEK per share	Options
Per 1 January	4.54	961,563
Allotted	25.00	750,000
Forfeited		
Utilised	6,03	954,034
Matured		7,529
Per 31 December	25.00	750,000

Of the 961,563 outstanding options, all options were available for utilisation. Utilised options during 2006 resulted in the issuance of 1,011,276 shares at SEK 6.03 per share. Outstanding share options at year-end have the following dates of maturity and redemption prices:

Date of maturity – 1 October to 31 December	Redemption price	Shares
2006		
2007		
2008	SEK 25	750,000
2009		
2010		
2011		

Parent Company	Share capital	Share- capital under registration	Share premium reserve	Statutory reserve	Non- restricted equity	Total equity
Opening balance 2005	1,070,894	0	42,487,403	0	1,116,385	44,674,682
Reclassifications due to the new Swedish Companies Act	-		-42,487,403	42,487,403	-	-
Net profit for the year	-		-	-	1,155,178	1,155,178
New share issue	<u>214,179</u>		-	<u>11,093,981</u>	-	<u>11,308,160</u>
Equity 31 Dec 2005	1,285,073	0	0	53,581,384	2,271,563	57,138,020

Reclassifications
due to the new
Swedish
Companies Act

Parent Company	Share capital	Share-capital under registration	Share premium reserve	Statutory reserve	Non-restricted equity	Total equity
Net profit for the year						
New share issue	<u>250,367</u>	<u>1,211,151</u>	<u>44,924,362</u>		<u>1,575,325</u>	<u>47,961,205</u>
Equity						
31 Dec 2006	1,535,440	1,211,151	44,924,362	53,581,384	3,846,888	105,099,225

The share capital consists of 1,500,000 class A shares and 13,854,397 class B shares. The class A shares entitle 1 vote per share and the class B shares entitle 1/10 vote per share. Of the share capital under registration, SEK 21,628 will be added to the share capital and the remaining amount to the share premium reserve.

Note 10 Earnings per share

	2006	2005
<i>Before dilution</i>		
Earnings per share before dilution are calculated through the profit/loss attributable to the Parent Company's shareholders being divided by a weighted average number of outstanding ordinary shares during the period, excluding repurchased shares held as treasury shares by the Parent Company.		
Income attributable to the Parent Company's shareholders	<u>-2,334,447</u>	<u>2,087,309</u>
Weighted average number of outstanding ordinary shares	<u>13,271,506</u>	<u>12,850,729</u>
Earnings per share before dilution	<u>-0.176</u>	<u>0.162</u>

Earnings per share after dilution

For calculation of earnings per share after dilution, the weighted average number of outstanding ordinary shares is adjusted for the dilution effect of all potential ordinary shares. For share options, the number of shares which could have been bought at fair value (calculated as annual average market price for Parent Company shares) is calculated for an amount equivalent to the monetary value of the subscription rights joined to the outstanding share options. The number of shares calculated in accordance with the statement above is compared to the number of shares which would have been issued had the share options been exercised.

Income attributable to the Parent Company's shareholders	<u>2,087,309</u>
Interest expenses for convertible debentures (after tax)	
Net profit used to decide earnings per share after dilution	<u>2,087,309</u>
Weighted average number of outstanding ordinary shares	12,850,729
Adjustment for	
- assumed conversion of convertible debentures	
- share options	<u>961,563</u>
Weighted average number of ordinary shares for calculation of	<u>13,812,292</u>

	2006	2005
earnings per share after dilution		
Earnings per share after dilution		<u>0.151</u>

No dilution has been calculated for 2006, as any dilution would result in a decrease in the negative value of earnings per share before dilution.

Note 11 Transactions with related parties

The subsidiary has borrowed \$200,000 each from Don Neville and Hans Blixt. A portion of the oil and gas assets have been pledged as collateral. The loan bears market-level interest adjusted. Furthermore, the lenders have received a royalty in a development project, which is consistent with market terms.

Principles

The Chairman of the Board and Board members receive fees in accordance with the resolution of the annual general meeting. No special fees are paid for committee work. Remuneration to senior management is made up of basic salary, other benefits and pensions. Other benefits comprise health insurance. The Managing Director engaged as a consultant and may be replaced according to contract.

Defined contribution pension plan

The Group has only defined contribution pension plans. Pension costs refer to those costs which had an impact on net profit/loss for the year.

Note 12 Borrowings

Long-term	Group	
	<u>2006</u>	<u>2005</u>
Bond loans and other loans	8,232,720	9,543,000
Total borrowings	<u>8,232,720</u>	<u>9,543,000</u>

Total borrowings include bank loans and other secured borrowings in the amount of SEK 8,232,720 (2005: SEK 9,543,000). Security for bank loans is comprised of portions of the Group's oil and gas assets.

Reported amounts, per currency, for the Group's borrowings are as follows:

	<u>2006</u>	<u>2005</u>
USD	1,200,000	1,200,000

The Group has a committed bank credit facility in the amount of USD 460,000 which has not been utilised during the financial year.

Note 13 Contingent liabilities

<u>Contingent liabilities</u>	Parent Company	
	<u>2006</u>	<u>2005</u>
Other contingent liabilities	535,600	535,600
Total contingent liabilities	<u>535,600</u>	<u>535,600</u>

The Parent Company has provided a guarantee for the subsidiary attributable to the rental contract regarding the office in Houston.

Note 14 Participations in subsidiaries

Ginger Oil Company Inc., (Texas Charter nr 637 606, with its registered offices in Houston, Texas) is wholly-owned by Ginger Oil AB (publ).

	<u>2006</u>	<u>2005</u>
Opening acquisition cost	29,950,928	29 950,928
Changes for the year		
-Purchases of participations	-	-
Closing accumulated acquisition cost	<u>29,950,928</u>	<u>29,950,928</u>

Note 15 Contingent liabilities

The Group has contingent liabilities attributable to legal claims which have arisen in the normal course of business.

No significant liabilities are expected to arise through these contingent liabilities

Note 16 Events after balance sheet date

No significant events have taken place after the balance sheet date.

Note 17 Change of principles for accounting of oil and gas assets

During 2006, the Group decided to change previously applied principles for impairment testing of oil and gas assets. Previously, impairment testing was performed collectively for all oil and gas assets based on the expected future cash flow from all assets. As from 2006, the assets are divided into two categories, prospecting assets and producing assets, where impairment testing is on a collective basis for the former group of assets and is performed separately for each field for the latter group of assets. Furthermore, the change entails that prospecting projects for which a decision is made to discontinue prospecting are expensed in their entirety, whereas these projects were previously included in impairment testing on a collective level.

In conjunction with the transition to the new accounting principle, all previous years have been recalculated. Comparative figures are reported for 2005, and accumulated effects up to 2004 are reported jointly as an adjustment of opening balances per 1 January 2005, with the net effect reported against equity. The effects before this date primarily arise in conjunction with write-downs of abandoned projects.

Effects of previously prepared consolidated accounts of 2005

Consolidated Income Statement		Previously adopted	Annual consolidated accounting	Difference
Operating income				
Net sales	1	5,893,953	7,488,799	1,594,846
Own work capitalised	2		<u>1,858,700</u>	<u>1,858,700</u>
Total income		5,893,953	9,347,499	3,453,546
Operating expenses				
Other external expenses		-2,462,438	-2,462,438	
Personnel costs	2	-940,680	-2,799,380	-1,858,700
Depreciation of tangible fixed assets	3	-707,951	-1,624,600	-916,649
Other operating expenses		=		
Total operating expenses		-4,111,069	-6,886,418	-2,775,349
Operating profit		1,782,884	2,461,081	678,197
Result from financial investments				
Other interest income and similar profit/loss items		33,772	33,772	
Interest expenses and similar profit/loss items		<u>-611,710</u>	<u>-611,710</u>	
Total result from financial investments		-577,938	-577,938	
Profit/loss after financial items		1,204,946	1,883,413	
Deferred tax	4	<u>434,752</u>	<u>204,166</u>	-230,586
Net profit for the year		<u>1,639,698</u>	<u>2,087,309</u>	<u>447,611</u>

1. The sale of Iberia Dome was previously reported as a reduction of the total prospecting cost for all projects. According to the changed principles, the net income from the sale is reported directly in the income statement
2. Gross accounting of own work capitalised refers to portions of salaries and remuneration to the employees arising as they work with development of the prospecting projects conducted by the Group. For more information, see Note 4. In the adopted annual report for 2005, personnel costs are reported net.
3. Depreciation is now calculated separately for each producing field based on accrued expenses. Previous principles entail that depreciation is calculated jointly for all producing fields based on accrued expenses in all projects, both prospecting and producing.
4. The effect on deferred tax is a consequence of the changes above attributable to oil and gas assets.

Other items in the consolidated balance sheet that are affected:

		Previously adopted	Annual consolidated accounting	Difference
Oil and gas assets	1	23,240,545	19,287,182	-3,953,363
Deferred tax assets	2	11,802,808	12,527,512	724,704

1. The item is affected by the net effect of write-downs of abandoned projects, sales of projects and changed depreciation/amortisation principles. The effect refers both to 2005 (see above) and to the accumulated effect in conjunction with transition to IFRS per 1 January 2005.
2. The effect on the deferred tax is a result of the changes above attributable to oil and gas assets.

Effects on the period before 1 January 2005:

As mentioned above, the effects on periods before 1 January 2005 are reported as an adjustment of the opening balances per 1 January 2005, with the net effect reported against equity. Since this date, the Group has reported in accordance with IFRS. The effects before this date primarily arise in conjunction with write-downs of abandoned projects. The total effect amounts to:

		Previously adopted	Annual consolidated accounting	Difference
Oil and gas assets		14,403,731	10,500,716	-3,903,015
Deferred tax assets		9,502,617	10,314,602	811,985
Accumulated deficit		-16,902,091	-19,993,121	-3,091,030

Effects on reporting in 2006:

If previous accounting principles were applied with regard to 2006's operations, it would have resulted in an improvement in income in the amount of SEK 5,300,000 before tax effects. The differences comprise:

Write-downs of projects abandoned during the year	5,196,000
Write-downs of producing projects	154,000
Total	5,350,000

The income statements and balance sheets will be presented for adoption at the general meeting of shareholders on 25 April 2007.

Stockholm 28 March 2007

Sven Erik Ahlstedt
Group CEO

Åke Andersson

Hans Blixt
Chairman of the Board

Arne Hall

Helge Ringdahl

William Don Neville

Stig Nordvall

My audit report was submitted on 28 March 2007.

Martin Johansson
Authorised Public Accountant