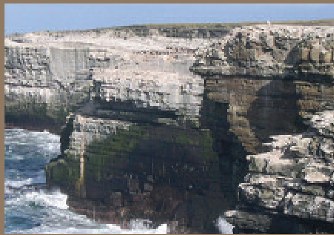

Desire Petroleum plc

Transition to International Financial Reporting Standards

www.desireplc.co.uk

Falkland Islands

PHOTOGRAPHY BY DR IAN DUNCAN

Transition to International Financial Reporting Standards

1. Introduction

Desire Petroleum plc today releases an update on how International Financial Reporting Standards (IFRS) are likely to affect the Group's earnings and net assets.
The purpose of this update is to provide information for the June half-year comparative, and to document the accounting policies to be used in the current year.

As an AIM-listed company, the Group is required to adopt International Financial Reporting Standards (IFRS) with effect from 1 January 2007.
The first financial information to be reported by the Group in accordance with IFRS will be for the six months to 30 June 2007, but the requirement to present comparative information means that a balance sheet prepared in accordance with IFRS at 1 January 2006 is required.

This announcement includes the consolidated results of the Group converted from a UK Generally Accepted Accounting Principles (UK GAAP) basis to an IFRS basis for the period to 30 June 2006, the year to 31 December 2006, and balance sheets as at 31 December 2005, as at 30 June 2006 and as at 31 December 2006.

This document explains the significant accounting policy changes from the accounting policies adopted under UK GAAP for the year ended 31 December 2006.

Attached are the Group Income Statements in IFRS format for the six months ended 30 June 2006 and for the year ended 31 December 2006 (section 5), and the Group Balance Sheets in IFRS format as at 31 December 2005, as at 30 June 2006, and as at 31 December 2006 (Section 6).

Appendices

1. Group Balance Sheet – reconciliation UK GAAP to IFRS as at 31 December 2006

2. Group Balance Sheet – reconciliation UK GAAP to IFRS as at 30 June 2006

3. Group Balance Sheet – reconciliation UK GAAP to IFRS as at 31 December 2005

2. Basis of preparation

IFRS 1 'First Time Adoption of International Financial Reporting Standards' (IFRS 1) sets out the rules for an entity preparing its first IFRS financial statements. The entity is required to determine the IFRS accounting policies in accordance with the IFRS that are in place at the date of transition (1 January 2006) and, in general, apply them retrospectively. There are a number of possible exemptions from the retrospective application to assist the entity in making the transition. The Group has taken the following exemptions:

a. Business combinations: the Group has elected not to restate business combinations prior to the transition date (1 January 2006).

b. Cumulative translation differences: the Group has elected to adopt the exemption that resets all cumulative translation gains and losses for all foreign operations to zero at the transition date.

c. Share-based payments: the Group has elected to exclude share-based arrangements that were granted prior to 8 November 2002 or that have vested prior to the transition date

The Group has continued to apply the full cost accounting policy, explained further in the intangible asset accounting policy note in section 7, as permitted by IFRS 6 'Exploration for and Evaluation of Mineral Resources' (IFRS 6).

Transition to International Financial Reporting Standards

3. Impact on Profit

There is no difference in Operating loss, Loss before tax, or Loss for the period between UK GAAP and IFRS for the period ended 30 June 2006 and for the year ended 31 December 2006.

Consequently, no reconciliation between UK GAAP and IFRS is included. The presentation of the Group Income Statement under IFRS is shown in section 5.

4. Impact on Net Assets

There is no difference in net assets between UK GAAP and IFRS as at 31 December 2005, as at 30 June 2006, and as at 31 December 2006. The presentation of the Group Balance Sheet under IFRS is shown in section 6.

There are some differences within the classification of non-current assets, and with the classification of other reserves. These are explained in Appendices 1 to 3.

5. Group Income Statement in IFRS format

	Year ended 31.12.06 £'000	6 months ended 30.6.06 £'000
Administrative expenses	(669)	(332)
Share-based payment expense	(263)	(124)
Foreign exchange loss	(2,686)	(1,626)
Operating loss	**(3,618)**	**(2,082)**
Finance income	1,135	566
Loss before tax	**(2,483)**	**(1,516)**
Income tax expense	(336)	(168)
Loss for the period	**(2,819)**	**(1,684)**

6. Group Balance Sheet in IFRS format

	As at 31.12.06 £'000	As at 30.6.06 £'000	As at 31.12.05 £'000
Non-current assets			
Intangible assets	6,867	6,544	6,352
Property, plant and equipment	1,474	6	2
	8,341	**6,550**	**6,354**
Current assets			
Trade and other receivables	654	112	178
Cash and cash equivalents	22,812	25,054	26,642
	23,466	25,166	26,820
Total assets	**31,807**	**31,716**	**33,174**
Current liabilities			
Trade and other payables	(903)	(241)	(139)
Income tax payable	(336)	(199)	(199)
Bank overdrafts and loans	(40)	-	(7)
Total liabilities	**(1,279)**	**(440)**	**(345)**
Net assets	**30,528**	**31,276**	**32,829**
EQUITY			
Share capital	2,225	2,215	2,214
Share premium	45,627	45,389	45,383
Retained earnings	(17,324)	(16,328)	(14,768)
Total equity	**30,528**	**31,276**	**32,829**

7. Accounting Policies

The accounting policies set out below are expected to be formally adopted by the Board when it prepares its first Annual Report under IFRS for the financial year ended 31 December 2007.

First time adoption of IFRS

The Group's date of transition to IFRS is 1 January 2006. IFRS 1 'First Time Adoption of International Financial Reporting Standards' generally requires companies to apply their accounting policies retrospectively. There are a number of possible exemptions from this general rule to assist companies in making the transition to reporting under IFRS. The Group has taken the following exemptions:

a. Business Combinations
The Group has elected not to restate business combinations prior to the transition date (1 January 2006).

b. Cumulative translation differences
The Group has elected to adopt the exemption that resets all cumulative translation gains and losses for foreign operations to zero at the transition date.

c. Share-based payments
The Group has elected to exclude share-based arrangements that were granted prior to 8 November 2002 or that have vested prior to the transition date.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historic cost convention

Basis of consolidation

The Group accounts consolidate the accounts of the Holding Company and all its subsidiary undertakings, all of which were made up to 31 December 2007.

Transition to International Financial Reporting Standards

Goodwill and intangible assets

a. Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and is capitalised. When the fair value of the consideration for an acquired undertaking is less than the fair value of its separable net assets, the difference is taken directly to the income statement. Goodwill is not amortised but is reviewed at least annually for impairment.

b. Acquired intangibles

Intangible assets, which are capable of being recognised separately and measured reliably on acquisition of a business, are capitalised at fair value on acquisition. Where these assets have a finite life, they are amortised over the period that they are expected to generate benefits, but generally not exceeding ten years.

c. Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a technological and commercial success. Other development expenditure is recognised as an expense as incurred.

d. Computer software

Computer software costs are amortised over their expected useful lives, as follows: Computer software 20% straight-line basis

e. Oil and gas expenditure

The Group applies the full-cost method of accounting, in accordance with IFRS 6 'Exploration for and Evaluation of Mineral Resources' (IFRS 6), under which expenditure relating to the acquisition, exploration, and evaluation of oil and gas interests, including an appropriate share of directly attributable overheads and relevant financing cost, is capitalised. If no discoveries are made, the accumulated capitalised costs will be written off through the income statement.

Where the facts and circumstances indicate that exploration and evaluation costs exceed their recoverable amount, the intangible costs are tested for impairment.

The cost of plant acquired to carry out exploration activities is treated as a tangible asset. The depreciation of such plant is capitalised as intangible assets.

Transition to International Financial Reporting Standards

Property, Plant and Equipment (PPE)

a. Oil and gas interests

The Group applies the full-cost method of accounting, in accordance with IFRS 6 'Exploration for and Evaluation of Mineral Resources' (IFRS 6), and the Statement of Recommended Practice ' Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities', under which expenditure relating to the development of oil and gas interests, including an appropriate share of directly attributable overheads and relevant financing cost, is capitalised in cost pools on the basis of income generating units.

Capitalised costs are amortised on a unit of production basis, over proven and probable reserves, taking account of estimates of future costs of development relating to those reserves.

Depreciation of plant acquired to carry out exploration activities is capitalised as intangible assets.

b. Other

Tangible fixed assets are stated at cost or valuation less depreciation.

Depreciation is provided at rates calculated to write off the cost or valuation, less estimated residual value of each asset, over its expected useful life, as follows: Equipment and fixtures 20% straight-line basis

Consortia and farm out agreements

In addition to holding licences on its own account, the Group is a member of consortia. The Group's proportionate share of the consortia costs are included in intangible assets or PPE, as appropriate. During the year, the Group continued with a farm out agreement with a third party in respect of certain licences. The Group's proportionate share of the costs is included in intangible assets.

Investments

Investments in subsidiary undertakings are shown at cost less provision for estimated impairments in value.

Foreign currencies

a. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Sterling, which is the company's functional and presentation currency.

b. Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates ruling at the year-end.

Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying investment hedges.

Exchange differences arising from the translation of the balance sheets and income statements of foreign operations into Sterling are recognised as a separate component of equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Taxation

a. Current income tax

Current tax, including UK corporation tax, is provided on amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

b. Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Transition to International Financial Reporting Standards

Financial instruments

The Group uses certain financial instruments in its operating and investing activities that are appropriate to its strategy and circumstances.

Financial instruments currently comprise cash and short-term debtors and creditors. The Group regularly reviews the funding opportunities available to it in order to finance its operations, including considering the use of borrowings, as well as equity, to fund short-term cash requirements.

The main risks arising from the Group's present use of financial instruments are currently exchange rate risk relating to the Group's non-Sterling cash resources. The addition of any borrowings to the Group's portfolio of financial instruments would introduce interest rate risk.

Share-based compensation

The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

Group Balance Sheet – reconciliation from UK GAAP to IFRS at 31 December 2006

Appendix 1

	Previously reported under UK GAAP £'000	IFRS 6 (Note 1) £'000	IAS 38 (Note 2) £'000	IFRS 1 (Note 3) £'000	Restated under IFRS £'000
Non-current assets					
Intangible assets	8,331	(1,466)	2		6,867
Property, plant and equipment	10	1,466	(2)		1,474
	8,341	-	-		8,341
Current assets					
Trade and other receivables	654				654
Cash and cash equivalents	22,812				22,812
	23,466				23,466
Total assets	**31,807**				**31,807**
Current liabilities					
Trade and other payables	(903)				(903)
Income tax payable	(336)				(336)
Bank overdrafts and loans	(40)				(40)
Total liabilities	**(1,279)**				**(1,279)**
Net assets	**30,528**				**30,528**
EQUITY					
Share capital	2,225				2,225
Share premium	45,627				45,627
Other reserves	13,343			(13,343)	-
Retained earnings	(30,667)			13,343	(17,324)
Total equity	**30,528**			-	**30,528**

Note 1: Under IFRS 6, the cost of plant acquired to carry out exploration activities is treated as Property, Plant and Equipment (PPE). UK GAAP included such costs in intangible assets. Accordingly, these assets have now been reclassified as PPE.

Note 2: IAS 38 requires that software costs are capitalised as intangible assets. UK GAAP included such costs as PPE. Accordingly, these assets have now been reclassified as intangible assets.

Note 3: Under IFRS 1, the Group has elected not to restate business combinations prior to the transition date of 1 January 2006. Accordingly, the merger reserve arising prior to the transition date has now been reclassified as retained earnings. Distributable reserves of the company are not affected.

These notes also apply to the balance sheet reconciliations from UK GAAP to IFRS as at 30 June 2006 (Appendix 2), and as at 31 December 2005 (Appendix 3).

Group Balance Sheet – reconciliation from UK GAAP to IFRS at 30 June 2006

Appendix 2

	Previously reported under UK GAAP £'000	IFRS 6 (Note 1) £'000	IAS 38 (Note 2) £'000	IFRS 1 (Note 3) £'000	Restated under IFRS £'000
Non-current assets					
Intangible assets	6,543	-	1		6,544
Property, plant and equipment	7	-	(1)		6
	6,550	-	-		6,550
Current assets					
Trade and other receivables	112				112
Cash and cash equivalents	25,054				25,054
	25,166				25,166
Total assets	**31,716**				**31,716**
Current liabilities					
Trade and other payables	(241)				(241)
Income tax payable	(199)				(199)
Bank overdrafts and loans	-				-
Total liabilities	**(440)**				**(440)**
Net assets	**31,276**				**31,276**
EQUITY					
Share capital	2,215				2,215
Share premium	45,389				45,389
Other reserves	13,343			(13,343)	-
Retained earnings	(29,671)			13,343	(16,328)
Total equity	**31,276**			-	**31,276**

Group Balance Sheet – reconciliation from UK GAAP to IFRS at 31 December 2005

Appendix 3

	Previously reported under UK GAAP £'000	IFRS 6 (Note 1) £'000	IAS 38 (Note 2) £'000	IFRS 1 (Note 3) £'000	Restated under IFRS £'000
Non-current assets					
Intangible assets	6,351	-	1		6,352
Property, plant and equipment	3	-	(1)		2
	6,354	-	-		6,354
Current assets					
Trade and other receivables	178				178
Cash and cash equivalents	26,642				26,642
	26,820				26,820
Total assets	**33,174**				**33,174**
Current liabilities					
Trade and other payables	(139)				(139)
Income tax payable	(199)				(199)
Bank overdrafts and loans	(7)				(7)
Total liabilities	**(345)**				**(345)**
Net assets	**32,829**				**32,829**
EQUITY					
Share capital	2,214				2,214
Share premium	45,383				45,383
Other reserves	13,343			(13,343)	-
Retained earnings	(28,111)			13,343	(14,768)
Total equity	**32,829**			-	**32,829**

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