ASIA ENERGY PLC ANNUAL REPORT 2006

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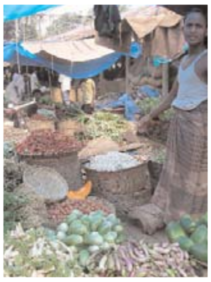


ASIA ENERGY PLC

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Asia Energy plc is a London-based London Stock Exchange Alternative Investment Market (AIM) quoted company whose primary activity is the development of the coal basin at Phulbari in Northwest Bangladesh into a world-class open pit coal mine.

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The Phulbari Coal Project will adhere to the highest national and international environmental and social standards. The mine will have a life of more than 30 years and at full capacity it will produce 15 million tonnes a year of mostly export quality metallurgical and thermal coal.

Phulbari will feed coal to Bangladesh's domestic markets to spur the country's industrial growth and provide it with a new long-term energy source as well as supply coal to other international markets.

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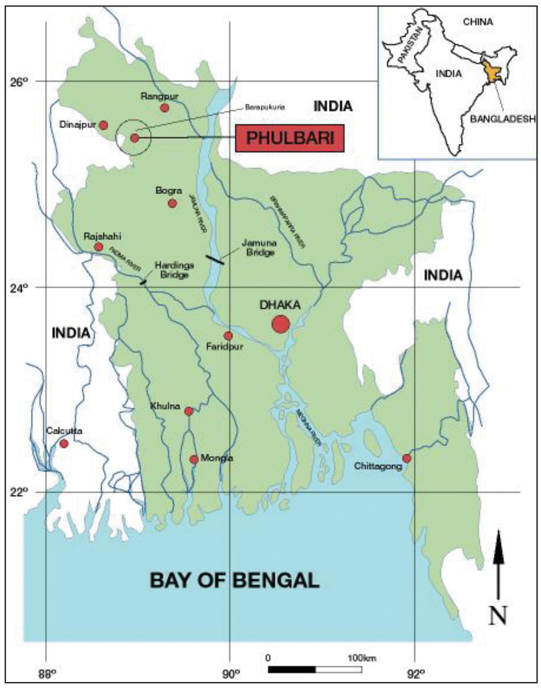
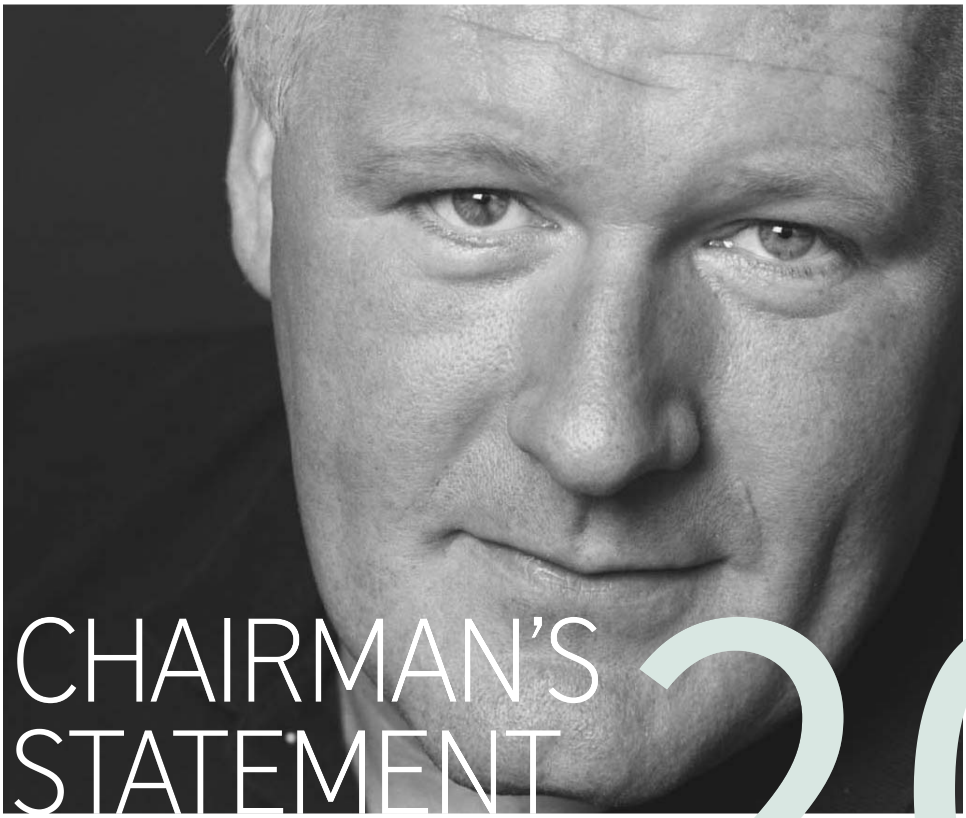


CHINA
PAKISTAN
INDIA
BANGLADESH
26°
Rangpur
Barapukuria
INDIA
Dinajpur
PHULBARI
Bogra
Rajshahi
Jamuna Bridge
Hardinge Bridge
INDIA
24°
DHAKA
INDIA
Faridpur
Khulna
Calcutta
Mongla
Chittagong
22°
BAY OF BENGAL
N
0
100km
88°
90°
92°

KEY EVENTS

- 572 million tonne high quality Coal Resource defined to JORC code with 93% Measured and Indicated
- Environmental Clearance for open pit mine approved by Government of Bangladesh in September 2005 (application for renewal lodged September 2006)
- Feasibility Study and Scheme of Development lodged with the Government of Bangladesh in October 2005
- Power station proposal lodged with the Government of Bangladesh in October 2005
- US$52 million raised in November 2005 for initial development activities
- Definitive Feasibility Study completed May 2006
- Shareholders approved issue of up to 100 million new shares at the Extraordinary General Meeting in July 2006
- The Preliminary Banking Project Information Memorandum completed October 2006
- Protests organised by groups external to Phulbari against open pit mining and resettlement occurred on 26 August 2006 in Phulbari
- Shares suspended from trading 31 August 2006 – 6 October 2006
- BNP Government handed over to caretaker government on 28 October 2006, with the elections due in January 2007
- Scheme of Development approval remains outstanding



CHAIRMAN'S STATEMENT

I was appointed Chairman of Asia Energy plc (the Company, Asia Energy) in May 2006 after a long association with the Company as Head of Mining & Metals at Barclays Capital, the Investment Banking division of Barclays Bank PLC who are Asia Energy's funding advisor. I have watched the Phulbari Coal Project in Northwest Bangladesh develop into a world-class resource and I am confident that we can move to the next phase with the support of the Government of Bangladesh (GoB).

The year was undoubtedly marred by the tragic events of 26 August 2006 and the development of the Project being delayed by the Government's failure to approve its proposed new Coal Policy and the Scheme of Development. But despite these setbacks, there were solid achievements.

The Feasibility Study and Scheme of Development were lodged with the GoB in October 2005. The Definitive Feasibility Study (DFS) was completed during May 2006 and this formed the basis of the Preliminary Banking Information Memorandum. The DFS was separately reviewed by two independent international consultants.

The Preliminary Banking Information Memorandum will be released to the international financial community once timing of the Project approval is clarified. This is unlikely to occur until a new Government is formed following parliamentary elections scheduled for January 2007.

A successful share placing in November 2005 raised US$52million (before costs) to put funds in place to move the Project into pre-production.

The year also saw the appointment of a new Chief Executive, Mr Steve Bywater, and Finance Director, Mr Graham Taggart. Both bring with them impressive records of achievements in the coal industry. Steve was formerly Chief Operating Officer for Rio Tinto Coal Australia where he was responsible for seven mining operations producing 60 million tonnes of saleable coal a year. Graham also comes from Rio Tinto where he spent 24 years, most recently as Chief Financial Officer and Company Secretary for Rio Tinto Coal Australia.

Mr Gary Lye was appointed to the Board in November as an Executive Director. Gary has a wealth of mining experience most recently at the Kalgoorlie Super Pit Operations in Western Australia, for Kalgoorlie Consolidated Gold Mines.

Messrs Chris Eager, Michael Frayne, and Jonathon Malins left the Board during the year and I would like to thank them all for their service to the Company.

Events since August have given rise to uncertainty as to the future of the Phulbari Coal Project and that uncertainty will not be resolved until after Bangladesh elections scheduled for January 2007, however the Directors believe they have a legally binding agreement and the Company will be able to progress with this development.

Statements by a Junior Minister in the Government of Bangladesh created uncertainty and rumours that led to the suspension of trading of the Company's shares on AIM for five weeks. The Company resumed trading on 6 October 2006 on the basis that media reports that the Government had cancelled Asia Energy's Contract to explore and mine coal at Phulbari were not substantiated. Asia Energy has received no notification from the Government of Bangladesh of any changes to the terms of the Company's Contract and the Directors do not believe that there are any grounds for the Contract to be cancelled.

We will continue to work closely with the Government of Bangladesh, local communities and other organisations to find an acceptable and harmonious way of implementing this exciting Project for the benefit of all stakeholders.

During this period of continued uncertainty on the timing of the Project's approval, the Company is limiting expenditure in Bangladesh and is actively exploring other investment opportunities.

I would like to thank our Directors, employees, consultants and advisors for all of their efforts and for progressing the Project during such challenging times. In particular I would like to add my personal thanks to our Bangladesh based staff and partners for their continued support.

Finally, on behalf of the entire Company, I would like to express my sincere condolences to all of those affected by the tragic events in Phulbari on 26 August 2006. It was a major setback for everyone involved in the Project. We are committed to developing the coal resource at Phulbari for the benefit of all our stakeholders and to help bring about further economic and social development for the people of Bangladesh. We aim to do so in a safe and sustainable way, paying full regard to the interests and concerns of local people and all other stakeholders.

Gerard Holden
Chairman

Steve Bywater
Chief Executive

SUMMARY OF EVENTS

In a year of intensive preparations, Asia Energy put in place the major building blocks to commence mining operations at its Phulbari Coal Project. External events resulted in a delay and the start-up planned for late 2006 is now delayed until after the elections in 2007.

The necessary steps were taken towards gaining final Government approval for the Project. Environmental clearance for the open pit mine was granted on 11 September 2005 following approval of the Environmental Impact Assessment by the Department of Environment.

Meeting the terms of its contract (11/C-94) for exploration and mining of coal in Northern Bangladesh, Asia Energy submitted a combined Feasibility Study and Scheme of Development Report to the Government of Bangladesh on 2 October 2005.

This was followed by Asia Energy's proposal to build a 500MW coal-fired power plant alongside the mine. A detailed scheme for the power plant was submitted to the Board of Investment on 6 October 2005.

The Government, meanwhile, announced that it intended to formulate a new Coal Policy to incorporate the major features of the Phulbari Coal Project - notably permitting the export of coal, revising royalty rates and requiring a mandatory power plant - before it could give final approval to the Project.

By the time the Government relinquished office in late October 2006, the new Coal Policy was still awaiting approval.

Despite this delay and the tragic events of 26 August 2006, preparations for the Project continued. The transportation logistics for coal to both domestic and international markets were progressed further through detailed discussions on track upgrade, new rolling stock and rail management with Bangladesh Railways. Discussions also progressed on port requirements with the Shipping Ministry and Mongla Port Authority. A site was selected in the southern river port city of Khulna for a coal stockpile and loading terminal where coal will be transferred from rail to river barges for transfer to sea-going ships. The Company also established an office in Khulna and is preparing to open an Information Centre.

Work was also carried out to refine dredging requirements necessary for deep draught vessels to reach the planned floating terminal at Akram Point for shipping coal to export markets.

The Environmental and Social Impact Assessment was extended to cover the rail upgrades and operations, river port terminal, and river barging and offshore loading operations.

The Definitive Feasibility Study (DFS) was completed in May 2006. This incorporates more than 150 reports and studies which have been completed on the Project. All environmental and social studies were prepared in accordance with the highest national and international standards including the revised Equator Principles and the International Finance Corporation's (IFC) Performance Standards on social and environmental sustainability.

As part of the Project financing process, which is being led by Barclays Capital, the DFS was separately evaluated by two independent companies, URS Australia Pty Ltd, part of the global engineering and environmental group, and mining specialists SRK Consulting.

The Asian Development Bank (ADB) reviewed the Project's Social and Environmental Impact Assessments as part of their due diligence process. In line with this process, a summary of the Environmental Impact Assessment for the Project was posted on the ADB website for 120-days advertising from mid-August 2006.

Discussions were held with various banks and major investors about future funding arrangements. There were significant milestones on financing the Project. In November 2005, the Company raised US$52 million before expenses in order to commence initial development activity and to purchase start-up capital equipment and pay deposits to secure long lead time capital items.

Asia Energy announced in March 2006 its intention to list on the stock exchange in Bangladesh. This decision was part of Asia Energy's commitment to giving investors in Bangladesh an opportunity to share in this major development project, and is also a measure of the Company's long-term commitment to Bangladesh.

Shareholders at an Extraordinary General Meeting (EGM) in July 2006 agreed to the issue of up to 100 million new shares for cash on a non pre-emptive basis. No formal decision has yet been reached on the amount of debt and equity to be raised or the way in which the Project will be financed.

The Company continued its extensive engagement with the affected communities in Phulbari, raising awareness about the Project, discussing its potential impacts and proposed mitigation measures. Disclosure of information about the Project and consultation with the affected communities was carried out in conjunction with the detailed planning for land acquisition, resettlement, the indigenous people's development plan and water management. Input from affected communities helped shape each of the social and environmental management plans.

The events of 26 August 2006 overshadowed this positive work, when security forces opened fire on demonstrators killing and injuring a number of them during a protest against the Project in Phulbari. The protest was organised by people

from outside the Project area, and Asia Energy is confident that, with the support of the Government of Bangladesh, it can work in harmony with the local communities and other stakeholders to successfully develop and implement the Project.

A caretaker Government took office in late October 2006 and approval of the Scheme of Development for the Project is therefore not expected until after a new Government is sworn in following parliamentary elections scheduled for January 2007.

THE PHULBARI COAL PROJECT

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Asia Energy Corporation (Bangladesh) Pty Ltd, a wholly owned subsidiary of Asia Energy, has a contract with the Government of Bangladesh (GoB) 'for exploration and mining of coal in Northern Bangladesh'. Contract 11/C-94 was originally signed with Australian mining company BHP (now BHP Billiton) and the Government of Bangladesh formally endorsed the assignment to Asia Energy on 11 February 1998.

The table below summarises the full details of the size and status of all the mining leases and exploration licences held by or applied for by Asia Energy in relation to the Phulbari Coal Project.

Mining Leases and Exploration Licences held by or applied for by Asia Energy

LICENCE TITLE	AREA (Hectares)
Coal Mining Lease Area 'B'	1,921
Exploration Licence Area 'H', Coal Mining Lease under application	2,112
Exploration Licence Area 'G' for mine development and infrastructure, Coal Mining Lease under application	1,447
Exploration Licence Area 'I' for mine development and extension of Phulbari Coal Basin, under application	10,371
Exploration Licence Area 'T', under application	1,775
Exploration Licences 'J' to 'Q' covering various potential co-products from overburden, under application	Over existing Project area
Coal Mining Lease Area 'U', under application	286
Total area for approved coal licences and coal leases and new application areas	**17,912**

In addition, Asia Energy has exploration licence applications for coal exploration at Dighipara (25km south of Phulbari) and coal-bed methane exploration at Jamalganji (60km south of Phulbari).

Asia Energy has established a Coal Resource at Phulbari calculated at 572 million tonnes in accordance with the 2004 Code of the JORC Committee of the Australasian Institute of Mining & Metallurgy – some 93% in the Measured and Indicated categories. The Resource was defined from more than 100 exploratory holes drilled in 2004-2005 and on the basis of seismic and gravity surveys and laboratory analysis.

The Coal Resource remains open to the south, with further drilling required to test the continuity of the coal basin in that direction.

The Total Open Cut Mineable Coal Reserves at Phulbari have been calculated as 430 million tonnes in accordance with the JORC Code. The Marketable Coal Reserves total 401 million tonnes, indicating a high yield from the coal recovery process.

Some 66% of the Coal Reserves are in the Proven category, with the other one-third of the total in the Probable category. The average Strip Ratio of the Coal Reserves is 7.4:1 (bank cubic metres of overburden per tonne of coal).

Of the total Marketable Reserves, 21% are Low Ash Metallurgical Coal and 63% are Export Thermal Coal, with the remainder being coal suitable for the domestic industrial and power generation market.

A preliminary evaluation has indicated that if the mining pit is extended some 10 metres down to the lower seam coal horizons an additional 55 million tonnes of high ash coal suitable for a mine-mouth power station could be added to Marketable Coal Reserves.

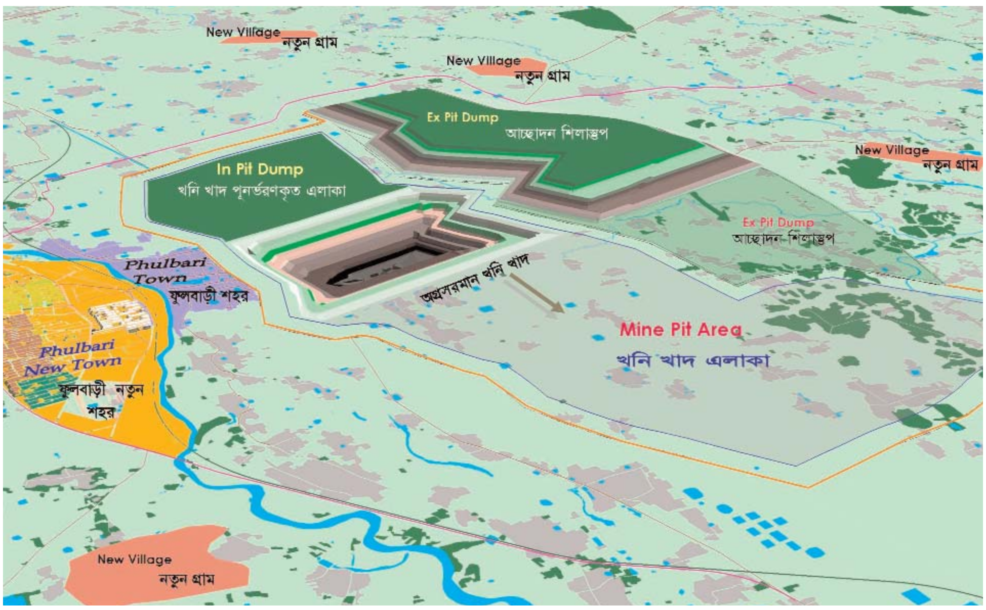
Open Cut Mine

It is planned to develop the Phulbari coal deposit by the open cut 'truck and shovel' mining method. Production is estimated at approximately 15 million tonnes per annum (Mtpa) of saleable coal products over more than 30 years.

The Project is located in Northwest Bangladesh approximately 300 kilometres (kms) from the capital Dhaka and 10 kms from the border with India. The site is a flat plateau known as the Barind Tract, between 25 and 32 metres above sea level.

The coal deposit underlies predominantly rice paddy fields at the eastern outskirts of the town of Phulbari. In addition, a north-south rail line and the Khari Pul creek both overlie the coal. Development of the Project will result in relocation of sections of rail, roads, water courses and a small part of the town. The progressive resettlement of some 40,000 people who mainly make their livelihoods from rice farming, will occur during the first 10 years of the 30-year plus mine life. This resettlement rate is manageable and has the advantage that community obligations, such as livelihood restoration programmes, will be implemented well within the duration of the Project.

The mining area is approximately eight kms long (north-south) by three kms wide (east-west). The minimum depth to coal is 165 metres and occurs in the northwest corner of the deposit, where mining will commence. The total coal thickness varies from 20 metres to 40 metres, and the maximum depth of the mine is 330 metres. The coal deposits are overlain by approximately 160 metres of Tertiary age sands, silts, gravels and clays, and Permian sediments. The Tertiary layers contain significant aquifers which will require extensive dewatering to allow open cut mining.



Transporting the coal to markets

Coal will be transported from Phulbari by rail, river and sea to supply both domestic and international markets. The majority will be railed 360 kms south to a loading terminal at Khulna from where it will be barged a further 100kms down the Pussur River to a deep water floating platform at Akram Point and loaded onto sea-going ships. Exports to India will be predominantly by rail via the land port of Darshana, while supplies to the primary domestic markets in Bangladesh will be carried by rail across the Jamuna Bridge to Gazipur, near the capital Dhaka.

Marketing targets initially envisage some 3.0 Mtpa being used in Bangladesh for industrial and power plants, with 4.0 Mtpa exported by rail to India and another 8.0 Mtpa shipped to the rest of Asia via Khulna and Akram Point. As domestic demand takes off, increasingly more coal will be sold to local markets.

During the year extensive studies were completed on rail transport for the Project, both for outbound export and domestic coal and for inbound mining equipment and consumables. Social and environmental studies were completed on all aspects of the rail transport and plans were developed to mitigate concerns that were identified.

Asia Energy worked with Bangladesh Railways on a development plan for the Western Rail corridor, and preliminary discussions took place with rolling stock suppliers to establish achievable delivery schedules. In addition talks were held with the Asian Development Bank (ADB), the World Bank (WB) and the Japanese Bank for International Cooperation (JBIC), and all three expressed interest in funding the modernisation of the rail system in Bangladesh.

The coal storage and barging terminal will be situated on the west bank of the Bhairab River in Khulna on a site owned by the Mongla Port Authority (MPA). Detailed plans and cost estimates have been drawn up for the terminal. Extending over 40 hectares, it will have the capacity to stockpile 400,000 tonnes of coal. A rail line currently runs into the site and this will be extended into a full loop to enable continuous unloading.

Asia Energy, together with the Khulna authorities and the MPA, began planning the terminal construction and management of the environmental impacts, resettlement and waterway management.

The coal will be barged down river to a sheltered deep water anchorage off Akram Point which will be opened for access by 12-metre draught ships. Access will be achieved by dredging a new approach channel across the outer bar from the Swatch of No Ground in the Bay of Bengal.

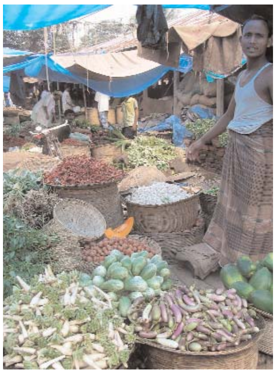
BENEFITS TO BANGLADESH

The Phulbari Coal Project is more than just a coal mine; it is a catalyst for significant economic development opportunities in Bangladesh. Coal from Phulbari will provide the country with a vital new source of power at a time of dwindling gas supplies, and it will provide Bangladesh with a significant new export commodity. The mine will generate additional tax and royalty revenues for the Government and state-run enterprises, it will create new direct and indirect jobs and spawn a wide variety of support and spin-off industries. The western rail corridor to Khulna and the deep water facility at Akram Point will open up other new markets and spur new business development.

Elements of Economic Impact

ELEMENTS OF ECONOMIC IMPACT	$US MILLION
Local community	$4,192
Communities outside the local area	$4,830
Rail and ports development	$314
Payments to Bangladesh Government	$7,070
Other elements not yet detailed	$5,010
Total Economic Impact	**$21,416**

Source: GHD 2006: Report for Phulbari Coal Project, Economic Benefits (April 2006)



A 500 MW coal-fired power plant, which Asia Energy plans to locate at the mine site, will provide a vital new source of electricity to the national grid and also help consolidate a planned shift from reliance on gas-fired power. The plant will be built so that its capacity can be increased to 1,000 MW. There is a chronic power shortage in Bangladesh; the country was plagued throughout the year by frequent and prolonged power outages. Total installed electricity capacity is currently 4,800 MW, and demand is forecast to increase to more than 8,000 MW by 2011.

Asia Energy commissioned GHD Pty Ltd (Australian Consulting Group) and Dr Atiqur Rahman (Economics Professor at North-South University) to prepare economic benefit studies during the year. They forecast the Phulbari Coal Project would add between 0.7% - 1.0% annually to Bangladesh's Gross Domestic Product (GDP) over the 30-year plus mine life.

GHD calculated the annual increase in GDP at 1.0% and the economic benefits of the Project to Bangladesh would be up to US$21 billion over the life of the Project.

"The direct effect on GDP is expected to be US$7.8 billion over the life of the Project, the indirect or multiplier effects are expected to be US$13.7 billion," the GHD report stated. "In summary, the mine and power station development is expected to contribute up to an additional one percent to GDP per year, this represents an average of US$0.7 billion addition per year".[1]

GHD said that the effect of the Project is expected to improve the social and economic well being of the local, regional and national community in Bangladesh. This will be in areas as diverse as job opportunities, health facilities and general literacy.

GHD estimated that there would be 8-10 additional jobs for every person employed directly on the Project. During the construction phase the Project will employ 2,100 people. When fully operational the mine will employ 1,200 and another 450 will work on the barging and shipment operations at Khulna, totalling 16,500 new jobs.

The analysis completed by Dr Atiqur Rahman, estimated the increase in GDP at 0.7% and valued the total contribution to GDP over the life of the Project at US$15.5 billion, excluding the effects of displacement.

Dr Rahman's study did not factor in any multiplier effect nor did it take into account the benefits of the planned power plant. It also took a more conservative view about the potential loss of agricultural income due to the temporary absorption of farmland into the mine.[2]

1 GHD 2006: Report for Phulbari Coal Project, Economic Benefits (April 2006)
2 Dr A Rahman 2006: An Economic Analysis of the Benefits and Costs of the Phulbari Coal Project (June 2006)

Working with the local community

During the year, Asia Energy broadened its outreach programme with the local people who will be affected directly or indirectly by the mine. An intensive programme of consultation continued across the four Upazilas in the Dinajpur District where mining and related activities will take place during the 30-plus years of the Project. To date, the Information Centre at Phulbari has disseminated more than 22,000 coloured illustrated leaflets and news updates explaining various aspects of the Project. Hard copies of the full Social and Environmental Impact Assessment have been made available at the Centre, as well as audio visual displays of the Project. The Centre has welcomed around 4,000 visitors since it was opened in April 2005. Of these, about half have written comments in the Visitors' Book, all mostly positive. A similar Information Centre is planned in Khulna to explain the scope of the rail and river terminal operations there.[3]

The Social and Environmental Impact Assessment has identified that over the life of the mine approximately 40,000 people will need to be resettled. This figure has been reduced from an earlier estimate due to a change in Project design to reduce impact on the local town. Working with the government, the Company aims to ensure that the resettlement will be managed in a transparent manner and in accordance with nationally established procedures as well as the highest international standards.

The Resettlement Action Plan (RAP) shows that the resettlement process will occur at different stages of the Project's development. At each stage, the process will be managed sensitively and take into account the individual circumstances and preferences of local people, both those to be resettled and host communities. Resettled

3 The Information Centres at Phulbari and Khulna are currently closed while the uncertainties surrounding the Project are resolved. The Company hopes to open these at the earliest opportunity.

people will be entitled to a combination or choice of replacement homes and livelihood restoration support and a compensation package. Livelihood restoration and development initiatives will encompass land-based, wage-based and enterprise-based livelihoods. The process will be managed sensitively in consultation with the local communities and other stakeholders and as such the RAP and Indigenous People's Development Plan is being constantly reviewed.

Asia Energy is committed to ensuring that water remains in plentiful supply in the areas around the mine, where dewatering will be required to allow safe mining operations. Water pumped from the mine and its immediate environs will be injected into the surrounding areas to ensure continued supplies for irrigation and home use. Piped water will also be made available to villages and the Phulbari Township. A total of 250 kms of underground water pipes will be laid during the life of the mine.

Household Resettlement Estimates – Mine Footprint

RESETTLEMENT PHASE	PROJECT YEAR	ESTIMATED HOUSEHOLDS	ESTIMATED POPULATION
Phase 1	1	753	3,313
Phase 2A	2	1,901	8,364
Phase 2B	2	1,754	7,718
Phase 3	3-5	2,030	8,932
Phase 4	6	723	3,181
Phase 5	8	814	3,582
Phase 6	9-10	1,185	5,214
Total		**9,160**	**40,304**

Source: Based on figures obtained from the resettlement and demographic surveys and reported in Resettlement Plan prepared by SMEC (April 2006))

A study commissioned by Asia Energy forecast that applying improved farming methods to existing and rehabilitated land would increase agricultural production in the area over the longer term. 'The Impact of Mining Activities on Agriculture', was finalised in March 2006 by Dr Chris Johansen, an internationally renowned agricultural research and development consultant. This research was the basis of pilot programmes initiated to show local farmers how they can cultivate more valuable cash crops and alternate crops on smaller parcels of land – thereby compensating for loss of land due to the mining operations.

The Phulbari coal mine and associated transport and power projects present a real opportunity to contribute to national and regional development. The Company remains committed to ensure that all the local communities will ultimately benefit from the Phulbari Coal Project despite the tragic events of 26 August 2006. In order to maximise the development opportunities presented by the Project, Asia Energy is committed to working in partnership with Project stakeholders, including civil society organisations, national and local government departments and development agencies.

Estimated Affected Land Use Categories

LAND USE CATEGORY	APPROXIMATE AREA (Hectares)					
	MINE FOOTPRINT	ROAD RE-ALIGNMENT	RAIL RE-ALIGNMENT	PHULBARI WEST EXTENSION	VILLAGE SITES	**TOTAL**
Agricultural land	4,165.95	34.34	29.45	217.0	316.2	4,762.94
Settlement areas	666.35	1.93	5.30	77.0	-	750.58
Forest areas	194.92	0.95	1.19	8.0	13.3	218.36
Water bodies/swampy areas	82.45	0.71	1.61	8.0	9.5	102.27
Infrastructure (road/rail)	81.98	2.25	0.75	7.0	3.0	94.98
Other	-	-	-	3.0	-	3.0
Total	**5,191.65**	**40.18**	**38.30**	**320.00**	**342.0**	**5,932.13**

Source: Reported in Resettlement Plan prepared by SMEC (April 2006)

ADB and URS Environmental and Social Studies Reviews

The Environmental and Social Impact Assessment (ESIA) for the mine and coal transport corridor have been independently reviewed by the Asian Development Bank (ADB) and by consultants to the financial institutions that are potential investors in the Project.

In accordance with the mandate announced in October 2005 whereby ADB would undertake a Due Diligence Review for potentially taking a senior financing role, ADB's environment and social team worked on the Project throughout the year and reviewed all the environmental and social documents. The team made several visits to the field, culminating with a high level inspection by the bank's Environment and Social Safeguards Division's director and his senior specialists in June 2006.

As an indication of ADB's intent to have a formal association with the Project and in accordance with its safeguard process, a summary of the Environmental Impact Assessment for the Project was posted on the ADB website for 120-days advertising from mid-August 2006.

URS, a global independent environmental and social audit firm, was engaged by Barclays Capital to undertake the environmental and social audit of the project. URS finalised their report in 2006, and determined that there were no major flaws identified in relation to potential environmental or social impacts for the Project, and that the small number of outstanding issues can be addressed during the Project's implementation phase.

"URS acknowledges that Asia Energy has committed to implement the Phulbari Coal Project in accordance with international best practice and with ongoing independent review of progress against such commitments. In addition, URS is confident that with the experience in the executive management team, Asia Energy has the capacity to realise these commitments."

BOARD OF DIRECTORS

Gerard Holden
(Non-Executive Chairman)

Gerard joined the Company as Chairman following a distinguished career with Barclays Group where he worked for over 20 years. In his last role as Managing Director and Global Head of Mining & Metals, he was instrumental in building Barclays Capital into a leading position in the Mining and Metals community around the world. Prior to that Gerard was Director of Derivative Finance at Barclays Capital. British-born, Gerard has a B.Sc. in Chemical Engineering from University College London and he is an Associate of the Chartered Institute of Bankers. He is also Non-Executive Chairman of Brinkley Mining plc, Joint Executive Chairman of Lonrho Africa plc and Senior Advisor to Barclays Capital.

Steve Bywater
(Chief Executive)

Steve has had a distinguished career in the resources industry developing and operating a total of 14 large-scale open pit mining operations. Before joining Asia Energy in January 2006, he was Chief Operating Officer for Rio Tinto Coal Australia. In this position Steve oversaw 7 mining operations, producing 60 million tonnes of saleable coal a year. He was previously General Manager Operations for Robe River Mining, which subsequently became a subsidiary of Rio Tinto in 2000. He was also General Manager, Mine Operations, for Hamersley Iron Limited and General Manager at Mount Isa Mines in both Mining and Metallurgical Operations. His position at Robe River Mining included management of both the port and rail facilities.

Steve has a B.Sc.in Engineering Geology and Geotechnics from Portsmouth University and a M.Sc. in Rock Mechanics and Excavation Engineering from Newcastle-upon-Tyne University. He is a Fellow of both the Australasian Institute of Mining and Metallurgy and the Australian Institute of Management.

Gary Lye
(Chief Operating Officer)

Gary is a qualified geologist and geotechnical engineer with a Master's Degree in Rock Mechanics from the Royal School of Mines in London. He previously held senior mining positions with several leading mining companies. This included roles as Strategic Mine Development Manager with Kalgoorlie Consolidated Gold Mines at their Super Pit operations in Kalgoorlie, Western Australia, and as Manager of Mining Research for CRA in Perth, Western Australia. Gary has also had 15 years experience at CRA's Bougainville Copper Mine in Papua New Guinea.

Bill McIntosh
(Executive Director - Technical)

Bill is a widely respected mining engineer with 34 years international experience who has played a key role in mining projects in Colombia, Indonesia, Zimbabwe, Argentina, India and Australia. The majority of his career has been involved with open cut coal mining developments, and he has lived and worked in Asia for more than 10 years. Bill has a mining engineering degree from the University of Melbourne and a M.Sc. in Mining from Queen's University in Canada. He is a member of the Australasian Institute of Mining and Metallurgy and the Mineral Industry Consultants Association, as well as being a Chartered Professional (Management).

Graham Taggart
(Finance Director and Joint Company Secretary)

Graham is a qualified Chartered Accountant with 25 years experience in the resources industry. Prior to joining Asia Energy plc, Graham was Chief Financial Officer and Company Secretary for Rio Tinto Coal Australia, where he was responsible for a group producing 60 million tonnes per annum of thermal and coking coal. He was previously General Manager Commercial and Chief Financial Officer for PT Kaltim Prima Coal (producing 20 million tonnes of thermal coal per annum), and before that he was Director Finance for PT Kelian Equatorial Mining (producing 500,000 oz of gold per annum), both Indonesian based.

David Lenigas
(Non-Executive Director)

David holds a Bachelor of Applied Science Degree in Mining Engineering and has 23 years of experience in the gold, diamond, coal and base metals industries. He was a founding Joint Managing Director of Asia Energy plc. Before that he was Managing Director of Emperor Gold Mines in Fiji, and he has served as managing director and chief executive officer of numerous other resource companies. He is also the Chief Executive Officer and Joint Executive Chairman of Lonrho Africa plc, a director of River Diamonds plc and of BDI Mining Corp.

Key Bangladeshi Management

Mushfiqur Rahman
(General Manager Corporate and Legal)

Mushfiqur, a Bangladesh citizen, is a qualified mining engineer with a PHD in technical sciences from the former USSR where he carried out research and worked on various mine sites. He previously held the position of Deputy Project Manager of BHP and has been associated with the Phulbari Coal Project for 13 years. Mushfiqur is responsible for administration services function and legal reporting requirements in line with the Contract and Laws of Bangladesh.

M. Anwarul Islam
(General Manager Environment and Community)

Anwar, a Bangladesh citizen, holds a Master's in Engineering from the former USSR and has undertaken higher education in environmental management in the USA, Japan and India. Anwar has over 25 years technical and managerial experience in the development, environmental and natural resource sectors dealing with various government and non-government organisations. Previously he worked for 10 years as a Senior Government Official in the Department of Environment, Bangladesh, in addition to three years as head of Bangladesh Country Office of IUCN – the World Conservation Union, Switzerland.

The Directors present their report and the Group financial statements for the year ended 30 June 2006.

Principal Activities and Business Review

Asia Energy plc (The Company) was incorporated as a Public Limited Company on 26 September 2003 and admitted to the London Stock Exchange Alternative Investment Market (AIM) on 19 April 2004.

The Company's principal activities are that of a holding company and, through its subsidiaries (see Note 10), development of the Phulbari Coal Project in Bangladesh.

A detailed review of activities, business developments and projects are included within the Chairman's Statement and the Review of Operations.

Key Developments

- 572 million tonne high quality Coal Resource defined to JORC code with 93% Measured and Indicated
- Environmental Clearance for open pit mine approved by Government of Bangladesh in September 2005 (application for renewal lodged September 2006)
- Feasibility Study and Scheme of Development lodged with the Government of Bangladesh in October 2005
- Power station proposal lodged with the Government of Bangladesh in October 2005
- US$52 million raised in November 2005 for initial development activities
- Definitive Feasibility Study completed May 2006
- Shareholders approved issue of up to 100 million new shares at the Extraordinary General Meeting in July 2006
- The Preliminary Banking Project Information Memorandum completed October 2006
- Protests organised by groups external to Phulbari against open pit mining and resettlement occurred on 26 August 2006 in Phulbari
- Shares suspended from trading 31 August 2006 – 6 October 2006
- BNP Government handed over to caretaker government on 28 October 2006, with the elections due in January 2007
- Scheme of Development approval remains outstanding

The Directors monitor the Group's performance by reference to the completion of project targets within agreed timeframes. Examples include finalising and submitting the Scheme of Development and the Definitive Feasibility Study, and completing the Preliminary Banking Project Information Memorandum within project time frames. The Directors also monitor the cash flow and cash levels. As at 30 June 2006 total cash held by the Group was £28 million.

Outlook

The Group is positioned to commence development activities as soon as Government of Bangladesh approval is gained. The share placing in November 2005 enables the Company to take the Project to the next stage of development while the Group finalises its overall funding strategy.

Due to the events of 26 August 2006, statements by a Junior Minister of the Government of Bangladesh and subsequent media reports, there has been a degree of public uncertainty surrounding the Group's Contract. Asia Energy has received no notification from the Government of Bangladesh of any changes to the terms of the Group's Contract and the Directors do not believe that there are any grounds for the Contract to be cancelled.

During this period of continued uncertainty on the timing of the Project's approval, the Group is limiting expenditure in Bangladesh and is actively exploring other investment opportunities.

Results

There was a loss for the year after taxation amounting to £520,000 (2005: Loss of £881,000). This amount was transferred to reserves.

The financial position of the Group as at 30 June 2006 was £46 million in net assets, which included £28 million cash and £18 million investment in the Phulbari Coal Project.

Dividends

The Directors do not recommend the payment of a dividend.

Going Concern

Based on a review of the Group's budgets and cash flow plans, the Directors are satisfied that the Group has sufficient resources to continue its operations and to meet its commitments for the foreseeable future. The financial statements have therefore been prepared on the going concern basis.

Employees

The Group is committed to ensuring open communication with employees in matters that affect their interests.

A bonus payment scheme is in place in the Bangladesh subsidiary to strengthen employees' involvement and commitment to the Project.

Directors

The names of the Directors are set out below:

Director	Date of Appointment	Date of Resignation
Stephen Bywater	18 January 2006	
Graham Taggart	3 April 2006	
Gary Lye	10 November 2005	
William McIntosh	20 December 2004	
Michael Frayne	5 November 2003	27 January 2006
Non-Executive Directors		
Gerard Holden	9 May 2006	
David Lenigas*	5 November 2003	
Christopher Eager	5 November 2003	9 May 2006
Jonathan Malins	26 September 2003	21 December 2005

* Mr David Lenigas resigned from his position as joint Managing Director on 18 January 2006 to become a Non-Executive Director.

Directors' Remuneration

The Company remunerates the Directors at a level commensurate with the size of the Company and the experience of its Directors. The Remuneration Committee has reviewed the Directors' remuneration and believes it upholds the objectives of the Company with regard to this issue. The remuneration accrued/paid to the Directors for the year ended 30 June 2006 is detailed below:

Director	Director Fees £	Services £	Total £	2005 £
Gerard Holden	13,223	-	13,223	-
Stephen Bywater	52,612	294,460	347,072	-
Graham Taggart	22,400	129,000	151,400	-
Gary Lye	15,400	86,746	102,146	-
William McIntosh	24,000	92,605	116,605	159,704
David Lenigas	24,000	96,000	120,000	88,000
Christopher Eager	24,000	-	24,000	24,000
Michael Frayne	14,000	116,000	130,000	88,000
Jonathan Malins	12,000	-	12,000	24,000
Laith Reynolds	-	-	-	51,336
Total	201,635	814,811	1,016,446	435 ,040

Directors' Interests

The Directors who held office at the end of the financial year, 30 June 2006, had the following interests in the ordinary shares and options of the Company according to the register of Director's interests.

	30 June 2006		At 1 July 2005 (or date of appointment if later)	
	Shares	Options	Shares	Options
Gerard Holden	26,666	200,000 (1)	-	-
Stephen Bywater	-	1,000,000 (2)	-	-
Graham Taggart	-	400,000 (3)	-	-
Gary Lye*	2,000	120,000 (3)	-	-
William McIntosh*	-	50,000 (4)	-	50,000
David Lenigas	160,000	180,000 (4)	150,000	380,000

(1) Exercise price of £4.32, expiry date 8 May 2011

(2) Exercise price of £3.70, expiry date 17 January 2011

(3) Exercise price of £4.60, expiry date 8 March 2011

(4) Exercise price of £0.75, expiry date 18 April 2009

* Conditional shares were granted to Gary Lye (30,000) and William McIntosh (80,000) during the financial year.

Substantial Shareholdings

As at 9 November 2006 the Company was aware of the following substantial interests or holdings of 3% or more of the ordinary called-up share capital of the Company:

Shareholders	Number of Shares	% of Issued Capital
RAB Capital	7,301,166	14.97%
Fidelity Group	6,459,871	13.25%
UBS AG	5,384,589	11.04%
Credit Suisse	2,233,024	4.58%
Liberty Square Asset Management	2,008,500	4.12%
L-R Global	1,824,087	3.74%
Capital Group	1,500,000	3.08%

Environmental Responsibility

The Company is aware of the potential impact that its subsidiary companies may have on the environment. The Company ensures that it, and its subsidiaries at a minimum comply with the local regulatory requirements and the revised Equator Principles with regard to the environment.

Corporate Governance

The Company was successfully admitted to AIM on 19 April 2004. The Directors consider the Corporate Governance procedures are appropriate relevant to the size and stage of development of the Company.

Code of Practice
The Listing Rules of the Financial Services Authority incorporate the Combined Code, which sets out the principles of Good Governance, and the Code of Best Practice for listed companies. Whilst the Company is not required to comply with the Combined Code, the Company's corporate governance procedures take due regard of the principles of Good Governance set out in the Combined Code in relation to the size and the stage of development of the Company.

The Board of Directors
The Board of Directors is currently comprised of six members; four Executive Directors and two Non-Executive Directors including the Chairman, Mr Gerard Holden. Each of the Executive Directors has a wealth of minerals exploration and development experience. The Non-Executive Directors similarly have a wealth of experience either in the minerals industry or in finance and corporate development.

The structure of the Board ensures that no one individual or group dominates the decision making process.

Board Meetings
The Board meets regularly through the year, providing effective leadership and overall management of the Group's affairs through the schedule of matters reserved for its decision. This includes the approval of the Company's forecast and budget, major capital expenditure, risk management policies and the approval of the financial statements. Formal agendas, papers and reports are sent to the Directors in a timely manner, prior to Board meetings. The Board delegates certain of its responsibilities to the Board committees which have clearly defined terms of references, which are listed below.

For the 12 months ended 30 June 2006, the Board met 26 times in relation to normal operational matters.

All Directors have access to the advice and services of the Company's solicitors and the Company Secretary. Any Director may take independent professional advice at the Company's expense in the furtherance of their duties.

Retirement by rotation
One third of the Directors are required to retire at every AGM of the Company by rotation, and may be re-elected by ordinary resolution.

The Audit Committee
The Audit Committee considers the Group's financial reporting (including accounting policies) and internal financial controls. The Audit Committee comprises the Non-Executive Directors and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on.

The Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on Directors' and senior executives' remuneration. It comprises the Non-Executive Directors and Chief Executive. Non-Executive Directors' remuneration and conditions are considered and agreed by the Board. Financial packages for Executive Directors are established by reference to those prevailing in the employment market for executives of equivalent status both in terms of level of responsibility of the position and their achievement of recognised job qualifications and skills. The Committee will also have regard to the terms which may be required to attract an equivalent experienced executive to join the Board from another company.

Internal Controls

The Directors acknowledge their responsibility for the Group's systems of internal controls and for reviewing their effectiveness. These internal controls are designed to safeguard the assets of the Company and to ensure the reliability of financial information for both internal use and external publication. Whilst they are aware that no system can provide absolute assurance against material misstatement or loss, in light of increased activity and further development of the Company, continuing reviews of internal controls will be undertaken to ensure that they are adequate and effective.

Risk Management

The Board considers risk assessment to be important in achieving its strategic objectives. There is a process of evaluation of performance targets through regular reviews by senior management to forecasts.

Project milestones and timelines are regularly reviewed.

Business Risk

The Board regularly evaluates and reviews any business risks when reviewing project timelines. The types of risks reviewed include:

- Regulatory and compliance obligations.
- Environmental requirements.
- Legal risks relating to contracts, licences and agreements.
- Insurance risks – the Company holds insurance coverage for potential employee and liability claims.
- Political risks arising from operating in Bangladesh – refer to Note 1 for further information.

Treasury Policy

The Group finances its operations through equity and holds its cash as a liquid resource to fund the obligations of the Group. Decisions regarding the management of these assets are approved by the Board. Refer Note 18.

Relations with Shareholders

The Board attaches great importance to maintaining good relationships with its shareholders. The Company's activities are detailed in the Annual Report and accounts, the Interim report and market announcements. Market sensitive information is regularly released to all shareholders concurrently in accordance with stock exchange rules. The AGM will provide an opportunity for all shareholders to communicate with and to question the Board on any aspect of the Group's activities. The Company maintains a corporate website where information on the Company is regularly updated and all announcements are posted. The Company welcomes communication from its shareholders.

Creditor Payment Policy

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them. At 30 June 2006, the Group and Company had an average of 30 days purchases outstanding in trade creditors.

Annual General Meeting (AGM)

The Notice of the Company's AGM will be distributed to shareholders together with the Annual Report. Full details of the Resolutions proposed at that meeting can be found in the Notice.

Auditors

The auditors to the Company, Ernst and Young LLP, have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the AGM.

Statement of Directors' Responsibilities

United Kingdom Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group, and of the profit and loss of the Group for that period. The Directors are required to prepare the financial statements on a going concern basis unless it is appropriate to assume that the Company will not continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30 June 2006 and that applicable accounting standards have been followed.

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

To the best of the Directors' knowledge, there is no relevant audit information of which the Company's auditors are unaware. The Directors have also taken all reasonable steps in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are also aware of that information.

By order of the Board

Stephen Bywater

Director

22 November 2006

GROUP PROFIT AND LOSS ACCOUNT
For the year ended 30 June 2006

	Notes	30 June 2006 £000's	30 June 2005 £000's
Administrative expenses		1,338	1,329
Group operating loss	3	(1,338)	(1,329)
Group operating loss and loss on ordinary activities before interest and taxation		(1,338)	(1,329)
Interest receivable	5	817	448
Loss on ordinary activities before taxation		(521)	(881)
Tax benefit on loss on ordinary activities	6	1	-
Loss on ordinary activities after taxation		(520)	(881)
Loss for the financial year attributable to members of the parent company		(520)	(881)
Retained loss for the period	16	(520)	(881)
Basic loss per share (pence)	7	(1.2)p	(2.3)p
Diluted loss per share (pence)	7	(1.2)p	(2.3)p

The above results relate solely to continuing operating activities of the Group.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 30 June 2006

	30 June 2006 £000's	30 June 2005 £000's
Loss for the financial year attributable to members of the parent company	(520)	(881)
Total recognised losses relating to the period	(520)	(881)

GROUP BALANCE SHEET

As at 30 June 2006

	Notes	30 June 2006 £000's	30 June 2005 £000's
Fixed assets			
Intangible assets	8	17,894	10,287
Tangible assets	9	343	361
		18,237	10,648
Current assets			
Debtors	11	155	222
Deferred tax asset	6	1	-
Current asset investments	12	46	15
Cash at bank and in hand	17(b)	28,083	5,643
		28,285	5,880
Creditors	13	(468)	(1,180)
Net current assets		27,817	4,700
Total assets less current liabilities		46,054	15,348
Net assets		46,054	15,348
Capital and reserves			
Called up share capital account	14	4,877	4,001
Share premium account	16	42,664	12,624
Other reserves account	16	310	-
Profit and loss account	16	(1,797)	(1,277)
Equity shareholders' funds	16	46,054	15,348

The Financial Statements were approved by the Board on 22 November 2006 and resolved that they be signed by Mr Stephen Bywater on its behalf.

S Bywater

Stephen Bywater
Director

COMPANY BALANCE SHEET
As at 30 June 2006

	Notes	30 June 2006 £000's	30 June 2005 £000's
Fixed assets			
Tangible assets	9	43	-
Investments	10	1,350	1,350
		1,393	1,350
Current assets			
Debtors	11	18,609	9,284
Deferred tax asset	6	1	-
Current asset investments	12	41	-
Cash at bank and in hand		27,886	5,522
		46,537	14,806
Creditors	13	(166)	(114)
Net current assets		46,371	14,692
Total assets less current liabilities		47,764	16,042
Net assets		47,764	16,042
Capital and reserves			
Called up share capital account	14	4,877	4,001
Share premium account	16	42,664	12,624
Other reserves account	16	310	-
Profit and loss account	16	(87)	(583)
Equity shareholders' funds	16	47,764	16,042

GROUP STATEMENT OF CASH FLOWS

For the year ended 30 June 2006

	Notes	30 June 2006 £000's	30 June 2005 £000's
Net cash outflow from operating activities	17(a)	(1,140)	(1,274)
Returns on investment and servicing of finance			
Interest received		817	493
Taxation		-	-
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets		(7,680)	(7,269)
Payments to acquire tangible fixed assets		(124)	(257)
Payments for security deposits		(31)	(7)
Net cash outflow before management of liquid resources and financing		(8,158)	(8,314)
Management of liquid resources			
Decrease in short term deposits		-	11,000
Financing			
Issue of ordinary share capital		31,807	1,806
Share issue costs		(1,209)	(15)
		30,598	12,791
Increase in cash	17(b)	22,440	4,477

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Notes	30 June 2006 £000's	30 June 2005 £000's
Increase in funds		22,440	4,477
Decrease in short term deposits		-	(11,000)
Change in net funds resulting from cash flows	17(b)	22,440	(6,523)
Movement in net funds		22,440	(6,523)
Net funds at beginning of the year	17(b)	5,643	12,166
Net funds at end of the year	17(b)	28,083	5,643

1. Accounting policies

Basis of preparation
The Financial Statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Political and Economic Risks
The Group's Bangladesh operations are currently subject to various political, social and economic risks inherent in an emerging market.

Bangladesh is in a period of political uncertainty and risk. The election process is due to commence, with the interim government moving into office at the end of October 2006. This process will continue until early January 2007, when the elected party takes control.

Until a new Government is in place, the Directors do not anticipate approval of the Scheme of Development for developing the mine at Phulbari to which the group's mining assets relate. While the Directors are hopeful of gaining approval soon after the elected party takes power there is uncertainty as to whether the new Government will request modifications to the contract or attempt to cancel the contract given the civil unrest which occurred at the proposed mine site in August 2006. If the contract was to be cancelled the group would be required to impair all of its mining assets and the Directors would need to assess and proceed with alternative opportunities. The group has taken legal advice on this matter and is actively evaluating all legal remedies pertaining to any proposed cancellation or breach of contract.

The Directors believe that they have a legally binding agreement and consequently will endeavour to do all they can to receive approval. Based on this they do not consider it appropriate to record an impairment. Given the existence and legality of the contract and expectations of Scheme of Development approval, the Directors feel that it is appropriate not to record any impairment in respect of the intangible fixed assets.

Fundamental Accounting Concept
The Directors are of the opinion that the Group has sufficient funds to meet its obligations as they fall due in the foreseeable future. The Group has completed the Project Definitive Feasibility Study and, in line with the Group's contractual obligations, lodged with the Government of Bangladesh in October 2005 the Feasibility Study and Scheme of Development for approval. The Government has announced that it intended to formulate a new Coal Policy to incorporate the major features of the Phulbari Coal Project before it could give final approval to the Project. By the time the Government relinquished office in late October 2006, the new Coal Policy was still awaiting approval. While awaiting approval the Company has continued work on project implementation activities (detailed engineering design of the initial mining area, tender/contract processes, water management programmes detailed design and calling of tenders, etc.) to enable a fast and efficient project start-up. The Company has been working with Barclays Capital to determine the optimum funding arrangements for the Project and has since completed the Preliminary Banking Information Memorandum for release to the International Finance Community.

The Directors believe that the Contract for the Phulbari development will not be cancelled, that approval for further development will be granted and that the current funding is sufficient to determine the appropriate funding arrangements, secure financing commitment from interested parties and, following approval of the Scheme of Development, to commence initial project development activities (placing purchase orders and deposits for major mobile equipment, land acquisition, water management equipment and activities, etc.).

Development of the Project will require further funding. Directors are of the opinion that the Group's coal interests will be commercially realised and are confident that the necessary funding will be obtained. Barclays Capital are providing advice and services in evaluating funding options for the Project, including equity, project debt, debentures, export credit agencies, multi- and bi-lateral agencies, off-take agreements and joint venture partners. With completion of the Preliminary Banking Information Memorandum, including the Independent Reviews on technical, environmental and social studies, the process to determine and secure the optimal funding arrangements continues.

Statements were made by a Junior Minister of the Government of Bangladesh and subsequently media reports claimed that the Government had cancelled Asia Energy's Contract to explore and mine coal at Phulbari. However, Asia Energy has received no notification from the Government of Bangladesh of any changes to the terms of the Company's Contract and the Directors do not believe that there are any grounds for the Contract to be cancelled.

On this basis, the Directors believe that the adoption of the going concern basis is justified.

Basis of consolidation
The Group Financial Statements consolidate the Financial Statements of Asia Energy plc and all its subsidiary undertakings held during the year.

Asia Energy Corporation Proprietary Limited Group has been included in the Group Financial Statements using the acquisition method of accounting. Accordingly, the Group Profit and Loss Account and Statement of Cash Flows include the results and cash flows of the Asia Energy Corporation Proprietary Limited Group from its acquisition on 18 December 2003. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

Note 1 Continued

The Parent Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own Profit and Loss Account in these Financial Statements. The Parent Company's profit for the year was £496,000 (2005: Loss of £350,000).

Intangible assets

Acquisitions

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised over their estimated useful lives. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Exploration and evaluation

Costs carried forward

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area.

Accumulated costs in relation to an abandoned area are written off against profit in the period in which the decision to abandon the area is made.

Amortisation

Costs on productive areas will be amortised over the life of the area of interest to which such costs relate on a unit of production output basis.

Fixed assets

All fixed assets are stated at cost less accumulated depreciation and impairment loss.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value of each asset evenly over its expected useful life as follows:

Office furniture and equipment	-	over 3 to 15 years
Field equipment	-	over 3 to 15 years
Vehicles	-	over 5 to 7 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Deferred tax

The tax charge is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation purposes and accounting purposes. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax in the future. In particular:

- deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.
Where the trade of a foreign enterprise is more dependent on the economic environment of the parent company then the Financial Statements of the undertaking are consolidated using the Temporal method on the following basis:

- Fixed assets are translated into sterling at the rates ruling on the date of acquisition.
- Monetary assets and liabilities denominated in a foreign currency are translated into sterling at the foreign exchange rates ruling at the balance sheet date.
- Revenue and expenses in foreign currencies are recorded in sterling at the rates ruling at the date of the transactions.

Changes in accounting policy

In preparing the financial statements for the current year, the Group and Company have adopted FRS21 'Events after the Balance Sheet date', FRS22 'Earnings Per Share', FRS25 'Financial Instruments: Disclosure and Presentation' (Presentation

Note 1 Continued

requirements only) and FRS28 'Corresponding Amounts'. These standards have had no effect on the current or prior year results or the balance sheet.

2. Turnover and segment analysis

There was no turnover during the financial year. The administrative expenses relate to the United Kingdom office.

The Group operates in one principal area of activity being coal exploration and evaluation. The results of Asia Energy Corporation Proprietary Limited, all relate to mineral exploration and development activity.

The Group operates within one geographical segment, being Bangladesh, and is supported by management and administrative functions in Australia and the United Kingdom.

3. Operating loss

	Notes	Year to 30 June 2006 £000's	Year to 30 June 2005 £000's
This is stated after charging:- (1)			
Directors' remuneration (2)		202	435
Other staff costs (3)		11	53
Depreciation of tangible fixed assets (4)		2	50
Operating lease rentals		18	28
Loss from sale of fixed assets		12	-

(1) The cost of conditional shares totaling £613,000 was capitalised to deferred exploration and evaluation expenditure, being directly attributable to exploration and evaluation activities.

(2) Total Directors remuneration for 2006 financial year was £1,016,000 of which £202,000 was expensed and £815,000 capitalised (2005: nil capitalised).

(3) Total staff costs for 2006 was £194,000 of which £183,000 was capitalised (2005: £83,000 capitalised).

(4) Total depreciation and amortisation for 2006 financial year was £65,000 of which £2,000 was expensed and £643,000 capitalised (2005: nil capitalised).

The total audit fee for the 2006 audit is £59,000 for the Group (2005: £51,000), of which £49,000 relates to the Company (2005: £26,000). The Auditor's remuneration for the 2006 and 2005 financial years was in respect to audit services only.

4. Directors' remuneration and staff costs

Directors' remuneration

		Year to 30 June 2006 £000's	Year to 30 June 2005 £000's
Gerard Holden	(appointed 9 May 2006)	13	-
Stephen Bywater **	(appointed 18 January 2006)	347	-
Graham Taggart **	(appointed 3 April 2006)	151	-
Gary Lye **	(appointed 10 November 2005)	102	-
William McIntosh**		117	160
David Lenigas		120	88
Christopher Eager	(resigned 9 May 2006)	24	24
Michael Frayne	(resigned 27 January 2006)	130	88
Jonathan Malins	(resigned 21 December 2005)	12	24
Laith Reynolds	(resigned 11 February 2005)	-	51
		1,016	435

** Current Executive Director

Further breakdown of these amounts is provided in the Directors' Report.

Note 4 Continued

Staff costs
During the year, the Company appointed one member of staff (2005: nil) other than the Directors disclosed below. The Group employs 70 staff in Bangladesh (2005: 56). Five employees are in accounting and administration (2005: 11) and 65 employees in exploration and evaluation (2005: 45). Total staff costs for 2006 was £194,000 (2005: £136,000), being salary and wages only.

5. Interest

	Year to 30 June 2006 £000's	Year to 30 June 2005 £000's
Bank interest receivable	817	448

6. Tax

Tax on profit on ordinary activities	Year to 30 June 2006 £000's	Year to 30 June 2005 £000's
The tax charge is made up as follows:		
Current tax:		
UK Corporation Tax	-	-
Overseas Tax	-	-
Current tax on ordinary activities	-	-
Deferred tax:		
Origination and reversal of timing differences	(1)	-
Total deferred tax	(1)	-
Tax on profit on ordinary activities	(1)	-

The difference between the effective provision for income tax and the statutory tax provision at the statutory tax rate is reconciled as follows:

	Year to 30 June 2006 £000's	Year to 30 June 2005 £000's
Loss on ordinary activities before tax	(521)	(881)
UK Corporation Tax @ 30%	(156)	(264)
Permanent differences:		
- non-deductible expenditure	18	142
Timing differences :		
- accelerated capital allowances	(2,490)	(2,409)
- other	(2)	(87)
- tax losses recognised	2,493	2,497
Tax losses not recognised	137	121
Current tax on ordinary activities	-	-

Note 6 Continued

Deferred tax
Deferred tax assets and liabilities are recognised as follows:

	Opening Balance 30 June 2005 £000's	Movement during year £000's	Foreign Exchange Difference £000's	Balance at 30 June 2006 £000's
Deferred Tax Assets:				
Accumulated tax losses	3,130	2,630	(206)	5,554
Other	6	(2)	-	4
	3,136	2,628	(206)	5,558
Less Deferred Tax Liabilities:				
Capitalised exploration costs	(2,776)	(2,490)	196	(5,070)
Net Deferred Tax Asset	360	138	(10)	488
Net Deferred Tax Asset not recognised	(360)	(137)	10	(487)
Net Deferred Tax Asset recognised	-	1	-	1

As at 30 June 2006, the Group had unrecognised tax losses arising in Australia of £1,623,000 (2005: £654,000) that are available indefinitely for offset against future taxable profits of those companies in which the losses arose, subject to the conditions of deductibility under the relevant legislation. These assets will be recognised should it become more likely than not that taxable profits or timing differences, against which they may be deducted, arise.

Tax losses totalling £4,000 have been recognised in respect of the Company (2005: unrecognised tax losses £545,000).

7. Loss per share

The calculation of the basic loss per ordinary share is based on a loss of £520,000 to 30 June 2006 (2005: Loss of £881,000) and the weighted average number of ordinary shares outstanding of 44,996,501 in the year ended 30 June 2006 (2005: 38,325,572 shares). As the Group made a loss there are no potentially dilutive shares.

8. Intangible fixed assets

	Exploration and Evaluation Expenditure £000's	Mineral Rights £000's	Total £000's
Cost:			
Opening balance	9,140	1,147	10,287
Increase during the year	7,607	-	7,607
As at 30 June 2006	16,747	1,147	17,894
Amortisation:			
Opening balance	-	-	-
Provided during the year	-	-	-
As at 30 June 2006	-	-	-
Net book value at 30 June 2006	16,747	1,147	17,894

Note 8 Continued

The exploration and evaluation activities in the area of interest have at balance sheet date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. Activities continue in the area of interest. The mineral rights intangible asset acquired on acquisition has an expected life of 30 years, being the current expected life of the mine.

The ultimate recoupment of costs carried forward is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

9. Tangible fixed assets

Group	Field Equipment £000's	Buildings £000's	Office furniture and equipment £000's	Vehicles £000's	Lease Premium £000's	Total £000's
Cost:						
Opening balance	97	55	167	95	-	414
Additions	-	-	27	77	20	124
Disposals	-	-	-	(77)	-	(77)
At 30 June 2006	97	55	194	95	20	461
Depreciation:						
Opening balance	(18)	(2)	(22)	(11)	-	(53)
Provided during the period	(22)	(1)	(26)	(15)	(1)	(65)
At 30 June 2006	(40)	(3)	(48)	(26)	(1)	(118)
Net book value at 30 June 2006	57	52	146	69	19	343
Net book value at 30 June 2005	79	53	145	84	-	361

Company	Field Equipment £000's	Buildings £000's	Office furniture and equipment £000's	Vehicles £000's	Lease Premium £000's	Total £000's
Cost:						
Opening balance	-	-	-	-	-	-
Additions	-	-	25	77	20	122
Disposals	-	-	-	(77)	-	(77)
At 30 June 2006	-	-	25	-	20	45
Depreciation:						
Opening balance	-	-	-	-	-	-
Provided during the period	-	-	(1)	-	(1)	(2)
At 30 June 2006	-	-	(1)	-	(1)	(2)
Net book value at 30 June 2006	-	-	24	-	19	43
Net book value at 30 June 2005	-	-	-	-	-	-

10. Investments

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of Company	Holding	Proportion of voting rights and shares held	Nature of business
Asia Energy Corporation Proprietary Limited	Ordinary Shares	100%	Exploration and evaluation

	2006 £000's	2005 £000's
Cost:		
Opening balance	1,350	1,350
At 30 June 2006	1,350	1,350
Net book value at 30 June 2006	1,350	1,350

11. Debtors

	At 30 June 2006 Group £000's	At 30 June 2006 Company £000's	At 30 June 2005 Group £000's	At 30 June 2005 Company £000's
Amounts due from subsidiaries	-	18,483	-	9,196
Other debtors	134	119	128	17
Prepayments	21	7	94	71
	155	18,609	222	9,284

There were no debtors falling due after more than one year at 30 June 2006.

Amounts due from subsidiary undertakings are interest bearing assets, based on a margin of 2% over the London Inter-bank Offered Rate (LIBOR), and are payable at call.

12. Current asset investments

	At 30 June 2006 Group £000's	At 30 June 2006 Company £000's	At 30 June 2005 Group £000's	At 30 June 2005 Company £000's
Security deposits	46	41	15	-
	46	41	15	-

Security deposits represent rental deposits on premises in London and Bangladesh.

13. Creditors: Amounts falling due within one year

	At 30 June 2006 Group £000's	At 30 June 2006 Company £000's	At 30 June 2005 Group £000's	At 30 June 2005 Company £000's
Trade and other creditors	468	166	1,180	114
	468	166	1,180	114

14. Share capital

	At 30 June 2006 £000's	At 30 June 2005 £000's
Called up share capital		
Authorised		
200,000,000 Ordinary Shares of 10p Each	20,000	20,000
Allotted Called Up and Fully Paid		
48,771,024 Ordinary Shares of 10p Each		
(2005: 40,011,024 shares)	4,877	4,001

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

During the year, the Company issued 8,760,000 Ordinary Shares of 10p each as follows:

- 6,740,000 share placing for cash consideration of £30,330,000
- 1,270,000 options exercised for cash consideration of £952,000
- 700,000 warrants exercised for cash consideration of £525,000
- 50,000 conditional shares were issued on satisfaction of project milestones for non-cash consideration of £318,000 for services rendered.

For the 2005 year, the Company issued 2,408,386 Ordinary Shares of 10p each for consideration of £1,806,000 in respect of 1,855,000 options and 553,386 warrants exercised.

Total share options in issue
During the year 1,270,000 options were exercised (2005: 1,855,000).

During the year 1,720,000 options were issued (2005:1,690,000).

As at 30 June 2006 the options in issue were:

Exercise Price	Expiry Date	Options in issue 30 June 2006	Options in issue 30 June 2005
£0.75	18 April 2009	420,000	1,690,000
£3.70	17 Jan 2011	1,000,000	-
£4.60	8 March 2011	520,000	-
£4.32	8 May 2011	200,000	-
		2,140,000	1,690,000

All options are currently exercisable.

Note 14 Continued

Total warrants in issue
During the year 700,000 warrants were exercised. (2005: 553,386)

No warrants were issued during the year. (2005: Nil)

As at 30 June 2006 there were 2,205,000 warrants on issue to subscribe for Ordinary Shares at 75p expiring 18 April 2009 (2005: 2,905,000 at 75p). All warrants are currently exercisable.

The figures for prior year options and warrants have been restated to correctly classify 2,100,000 options to warrants.

Conditional shares
210,000 shares will be awarded conditional upon the Group achieving certain milestones. The fair value of these shares as at 30 June 2006 was £310,000 and is reflected in the Other Reserves Account (refer Note 16).

15. Operating lease commitments

Annual commitments under non-cancellable land and buildings operating leases are as follows:

	At 30 Jun 2006 £000's	At 30 Jun 2005 £000's
Operating leases which expire:		
Within one year	105	31
In two to five years	80	15
In over five years	-	-
	185	46

Under the terms of the Prospecting License agreement with the Bangladesh authorities for contract license areas B, G and H respectively, an annual fee of 100 Taka (£0.78 at year-end exchange rate) is payable for each hectare within the license area. The Group currently leases 5,480 hectares within these license areas.

16. Reconciliation of shareholders' funds and movement of reserves

Group - 2006	Called up Share Capital Account £000's	Share Premium Account £000's	Other Reserves Account £000's	Profit and Loss Account £000's	Total Shareholders' funds £000's
Opening balance	4,001	12,624	-	(1,277)	15,348
Share issues	871	30,936	-	-	31,807
Costs of shares issued	-	(1,209)	-	-	(1,209)
Conditional shares issued	5	313	-	-	318
Provision for conditional shares	-	-	310	-	310
Loss for the year	-	-	-	(520)	(520)
At 30 June 2006	4,877	42,664	310	(1,797)	46,054

Note 16 Continued

Group - 2005	Called up Share Capital Account £000's	Share Premium Account £000's	Other Reserves Account £000's	Profit and Loss Account £000's	Total Shareholders' funds £000's
Opening balance	3,760	11,059	-	(396)	14,423
Share issues	241	1,565	-	-	1,806
Loss for the year	-	-	-	(881)	(881)
At 30 June 2005	4,001	12,624	-	(1,277)	15,348

Company - 2006	Called up Share Capital Account £000's	Share Premium Account £000's	Other Reserves Account £000's	Profit and Loss Account £000's	Total Shareholders' funds £000's
Opening balance	4,001	12,624	-	(583)	16,042
Share issues	871	30,936	-	-	31,807
Costs of shares issued	-	(1,209)	-	-	(1,209)
Conditional shares issued	5	313	-	-	318
Provision for conditional shares	-	-	310	-	310
Profit for the year	-	-	-	496	496
At 30 June 2006	4,877	42,664	310	(87)	47,764

Company - 2005	Called up Share Capital Account £000's	Share Premium Account £000's	Other Reserves Account £000's	Profit and Loss Account £000's	Total Shareholders' funds £000's
Opening balance	3,760	11,059	-	(233)	14,586
Share issues	241	1,565	-	-	1,806
Loss for the year	-	-	-	(350)	(350)
At 30 June 2005	4,001	12,624	-	(583)	16,042

Other Reserves Account comprises a provision for shares to be issued conditional on the Group achieving milestones.

17. Notes to the statement of cash flows

(a) Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 30 June 2006 £000's	Year ended 30 June 2005 £000's
Operating loss	(1,338)	(1,329)
Decrease/(Increase) in debtors	131	(160)
Decrease in inventory	-	37
Increase in creditors	53	128
Depreciation of fixed assets	2	50
Loss on sale of fixed assets	12	-
Net cash outflow from operating activities	(1,140)	(1,274)

Note 17 Continued

(b) Analysis of net funds

	Opening Balance £000's	Cash Flow £000's	At 30 Jun 2006 £000's
Cash at bank and in hand	5,643	22,440	28,083
	5,643	22,440	28,083

18. Derivatives and other financial instruments

The Group holds cash as a liquid resource to fund the obligations of the Group. The Group's strategy for managing cash is to maximise interest income whilst ensuring its availability to match the profile of the Group's expenditure. This is achieved by regular monitoring of interest rates and monthly review of expenditure forecasts.

The Company has a policy of not hedging and therefore takes market rates in respect of foreign exchange risk; however it does review its currency exposures on an ad hoc basis. Currency exposures relating to monetary assets held by foreign operations are included within the Group Profit and Loss Account.

The Group has taken advantage of the exemption in FRS 13 'Derivatives and Other Financial Instruments' in respect of short-term debtors and creditors and consequently those items are not included in the relevant analysis within the following notes.

Interest rate risk profile of financial assets:
The financial assets of the Group are comprised of monies held in bank accounts and security deposits.

The interest rate profile of the financial assets of the Group as at 30 June 2006:

	Fixed rate £000's	Floating rate £000's	Non-Interest bearing £000's	Total £000's
Sterling	-	27,887	41	27,928
Australian dollars	-	2	-	2
United States dollars	-	-	174	174
Bangladesh taka	-	-	25	25
	-	27,889	240	28,129

The interest rate profile of the financial assets of the Group as at 30 June 2005:

	Fixed rate £000's	Floating rate £000's	Non-Interest bearing £000's	Total £000's
Sterling	-	5,522	-	5,522
Australian dollars	-	1	-	1
United States dollars	-	-	57	57
Bangladesh taka	-	-	78	78
	-	5,523	135	5,658

Floating rate financial assets comprise cash balances in interest earning bank accounts at call. The financial assets in Sterling currently earn interest at the current base rate set by the Bank of England.

Non-interest bearing financial assets comprises cash deposits at call and do not receive interest.

Interest rate risk profile of financial liabilities
All of the Group's financial liabilities are short term creditors.

Credit risk
The Group considers the credit ratings of banks in which it holds funds in order reduce exposure to credit risk.

Liquidity risk
The Group ensures that it has sufficient cash to meet all its commitments when required.

Note 18 Continued

Currency exposures
Currency exposures comprise the monetary assets and liabilities that are not denominated in the operating currency of the operating unit. The currency exposures of the Group as at 30 June 2006 are shown below:

2006

	Net foreign currency monetary assets			
Functional currency	Australian Dollars £000's	United States Dollars £000's	Bangladesh Taka £000's	Total £000's
Sterling	2	174	25	201
	2	174	25	201

2005

	Net foreign currency monetary assets			
Functional currency	Australian Dollars £000's	United States Dollars £000's	Bangladesh Taka £000's	Total £000's
Sterling	1	57	78	136
	1	57	78	136

Fair values of financial assets and liabilities
All financial assets and liabilities of the Group have been recorded at their book value, which equates to their fair value.

	2006 Book value £000's	2006 Fair value £000's	2005 Book value £000's	2005 Fair value £000's
Financial assets				
Cash at bank and in hand	28,083	28,083	5,643	5,643
Current asset investments	46	46	15	15
	28,129	28,129	5,658	5,658

19. Contingent Liabilities

The Group is obliged to pay Deepgreen Minerals Corporation Limited $1USD per tonne of coal produced and sold from the Phulbari mine.

Under the investment agreement with the Government of Bangladesh, the Group will, on commencement of commercial production of coal, be obliged to pay to the Government of Bangladesh a royalty of 6 per cent of the sale value of all coal produced and sold pursuant to a Mining Lease in $USD.

The directors are of the opinion that a provision is not required in respect of these matters, as the amount is not capable of reliable measurement.

20. Related party transactions

Bowmaker Management Limited

Payments for Company Secretarial fees for the period July 2005 to February 2006 amounted to £7,000 (2005: £10,000). The services of Bowmaker Management Ltd ceased 28 February 2006. Jonathan Malins, a Director of Asia Energy plc who resigned on 21 December 2005, is the beneficial owner of 50 per cent of the issued share capital of Bowmaker. There were no balances owed by the Company as at 30 June 2006 (2005: nil).

Note 20 Continued

Adelise Services Ltd

Payments for consulting services totalling £120,000 (2005: £22,000), including the provision of the services of Mr Michael Frayne, a director of Asia Energy plc who resigned on 27 January 2006, were made in the year to 30 June 2006. Michael Frayne has a beneficial interest in and is a consultant to Adelise. Travelling and accommodation expenses of £35,000 (2005: £6,000) were also made during the year. This contract ceased on the resignation of Michael Frayne dated 27 January 2006. As at 30 June 2006 there were no balances owed by the Company (2005: nil).

Fingals Cave Pty Ltd

Payments for consulting services to the Group by Fingals Cave Pty Ltd, including the provision of the services of Mr W. McIntosh, a director of Asia Energy plc, amounting to £83,679 were made in the year to 30 June 2006. (2005: £147,929) As at 30 June 2006, £8,926 was owing (2005: £3,945).

Cambrian Mining Plc

Cambrian Mining Plc provided office space and associated services to the Company during the year and was paid £78,116 until 30 April 2006 (2005: £109,794). Mr J. Malins a director of Asia Energy plc, who resigned 21 December 2005, was also a director and shareholder of Cambrian Mining Plc. This arrangement ceased from May 2006, when the Company moved to new premises. As at 30 June 2006, there were no outstanding balances owed (2005: nil).

21. Principal operating subsidiary undertakings

Asia Energy plc owns and controls the following subsidiaries:

	Country of Incorporation	Ownership Interest 2006	2005
Parent Entity			
Asia Energy plc	United Kingdom		
Subsidiaries			
Asia Energy Corporation Proprietary Ltd	Australia	100%	100%
Asia Energy Corporation (Bangladesh) Proprietary Ltd*	Australia	100%	100%
Asia Energy (Bangladesh) Private Limited*	Bangladesh	100%	100%
Asia Mining (Bangladesh) Private Limited**	Bangladesh	100%	100%
Asia Energy Holdings Private Limited	Singapore	100%	-

* Indirectly held through Asia Energy Corporation Proprietary Ltd

** Indirectly held through Asia Energy Corporation (Bangladesh) Proprietary Ltd

All subsidiary undertakings participate in mineral exploration and evaluation activity.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ASIA ENERGY PLC

We have audited the group and parent company financial statements (the "financial statements") of Asia Energy plc for the year ended 30 June 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with the financial statements.

We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement and the Business Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 June 2006 and of the group's loss for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the directors' report is consistent with the financial statements.

Emphasis of matter –recoverability of mining assets

While not qualifying our opinion, we draw attention to note 1 in the financial statements concerning the material uncertainty over Asia Energy plc's Contract with the Bangladeshi Government and consequently the recoverability of the intangible exploration assets. The recoverability of these assets is dependent on the Company being permitted to develop the mine at Phulbari and at present there is a risk that the government may cancel the existing Contract. The intangible assets are included in the balance sheet at £17,894,000, and in the event that the Contract was cancelled, these and related amounts would be fully impaired.

Furthermore, the directors would need to assess and proceed with alternative opportunities in order to continue as a going concern. The ultimate outcome of these matters cannot be presently determined and no impairment charge has been recorded in the current year financial statements.

Ernst & Young LLP

Registered auditor

London

22 November 2006

3 YEAR SUMMARY

As the Group commenced trading in 2004, no five year summary has been prepared. However a three year summary has been provided.

	1 July 05 to 30 June 06 £000's	1 July 04 to 30 June 05 £000's	23 Sept 03 to 30 June 04 £000's
Administrative expenses	1,338	1,329	497
Group operating loss	(1,338)	(1,329)	(497)
Group operating loss and loss on ordinary activities before interest and taxation	(1,338)	(1,328)	(497)
Interest receivable	817	448	101
Loss on ordinary activities before taxation	(521)	(881)	(396)
Tax benefit on loss on ordinary activities	1	-	-
Loss on ordinary activities after taxation	(520)	(881)	(396)
Loss for the financial year attributable to members of the parent company	(520)	(881)	(396)
Retained loss for the period	(520)	(881)	(396)
Basic loss per share (pence)	(1.2)p	(2.3)p	(2.2)p
Diluted loss per share (pence)	(1.2)p	(2.3)p	(2.2)p

CORPORATE INFORMATION

Company Number	04913119	
Directors	Gerard Holden Steve Bywater Gary Lye Bill McIntosh Graham Taggart David Lenigas	(Non-Executive Chairman) (Chief Executive) (Chief Operating Officer) (Executive Director - Technical) (Finance Director and Joint Company Secretary) (Non-Executive Director)
Company Secretary	Graham Taggart Lisa Mitchell	(Finance Director and Joint Company Secretary) (Chief Financial Officer and Joint Company Secretary)

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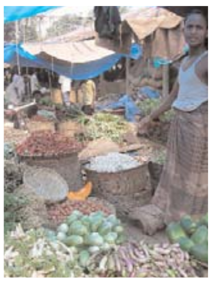
ASIA ENERGY PLC

2006





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