

SONATRACH PETROLEUM CORPORATION

Consolidated Financial Statements
for the Year ended December 31, 2005
and Independent Auditors' Report

États financiers consolidés
de l'exercice terminé le 31 décembre 2005
et Rapport des vérificateurs indépendants

INDEPENDENT AUDITORS' REPORT

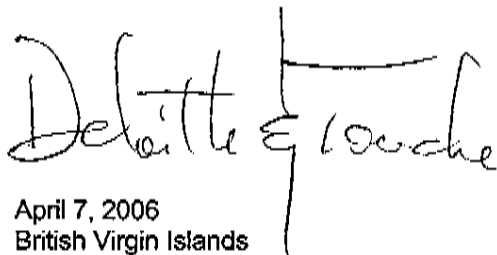
To the Members of the Board of Directors and Shareholder of

Sonatrach Petroleum Corporation

We have audited the accompanying consolidated balance sheet of Sonatrach Petroleum Corporation and its subsidiaries (the "Group") as at December 31, 2005, and the related consolidated statements of income, changes in shareholder's equity and cash flows for the year then ended (all expressed in United States dollars). These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the consolidated Group as at December 31, 2005, and the results of its consolidated operations, consolidated changes in shareholder's equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.



April 7, 2006
British Virgin Islands

SONATRACH PETROLEUM CORPORATION

CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 2005

(Expressed in United States dollars)

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash (Note 3)	27,758,818	5,333,616
Time deposits (Note 3)	200,012,842	178,469,884
Accounts receivable (Note 4)	199,585,121	168,810,668
Inventory	13,491,386	485,992
Prepaid expenses	2,256,661	-
Due from parent company	-	5,030,986
Due from related parties (Note 5)	15,075,988	21,591,154
Unrealised appreciation on future contracts (Note 16)	749,355	-
Investments in securities (Note 6)	5,101,596	4,598,926
	<u>464,031,767</u>	<u>384,321,226</u>
LONG-TERM ASSETS		
Fixed assets (Note 7)	251,992,939	233,284,159
	<u>\$ 716,024,706</u>	<u>\$ 617,605,385</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable (Note 8)	63,912,833	39,406,163
Due to parent company	-	8,704,084
Due to related parties (Note 10)	158,486,980	116,772,782
Income taxes payable (Note 11)	280,810	206,200
Deferred income (Note 9)	5,705,000	-
Current portion of long-term debt (Note 12)	18,790,000	11,735,000
	<u>247,175,623</u>	<u>176,824,229</u>
LONG-TERM LIABILITIES		
Long-term debt (Note 12)	142,815,000	128,165,000
<u>SHAREHOLDER'S EQUITY</u>		
SHARE CAPITAL (Note 13)	-	-
SHARE PREMIUM (Note 13)	20,000,000	20,000,000
RETAINED EARNINGS	306,074,416	292,616,156
FOREIGN EXCHANGE DIFFERENCES	(40,333)	-
	<u>326,034,083</u>	<u>312,616,156</u>
	<u>\$ 716,024,706</u>	<u>\$ 617,605,385</u>

APPROVED BY THE BOARD OF DIRECTORS:

Director - treasurer

See notes to consolidated financial statements

SONATRACH PETROLEUM CORPORATION
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2005

(Expressed in United States dollars)

	2005	2004
SALES		
Hydrocarbon products (Note 15)	2,604,164,645	1,948,674,730
Freight, demurrage and others (Note 15)	105,222,417	83,693,351
	2,709,387,062	2,032,368,081
COST OF SALES		
Hydrocarbon products (Note 15)	2,538,249,977	1,891,331,126
Realised (gains)/losses on forward and future contracts	(3,017,837)	17,712,517
Unrealised appreciation on future contracts (Note 16)	(749,355)	-
Other operating costs	98,247,501	69,616,934
	2,632,730,286	1,978,660,577
GROSS PROFIT	76,656,776	53,707,504
ADMINISTRATIVE EXPENSES	(19,145,648)	(12,374,107)
OPERATING INCOME	57,511,128	41,333,397
FINANCIAL EXPENSES	(7,087,962)	(2,011,573)
FINANCIAL INCOME	7,226,702	3,957,693
OTHER INCOME	1,275,473	1,260,746
GAIN ON DISPOSAL OF FIXED ASSETS	-	6,766,250
INCOME BEFORE INCOME TAXES	58,925,341	51,306,513
INCOME TAXES	467,081	367,885
NET INCOME	\$ 58,458,260	\$ 50,938,628

See notes to consolidated financial statements

SONATRACH PETROLEUM CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2005

(Expressed in United States dollars)

	Share capital	Share premium	Foreign exchange reserve	Retained earnings	Total shareholder's equity
	\$	\$	\$	\$	\$
SHAREHOLDER'S EQUITY					
BALANCE JANUARY 1, 2004	-	15,000,000	-	261,677,528	276,677,528
Net income	-	-	-	50,938,628	50,938,628
Dividends	-	-	-	(20,000,000)	(20,000,000)
Increase in share premium	-	5,000,000	-	-	5,000,000
SHAREHOLDER'S EQUITY					
BALANCE DECEMBER 31, 2004	-	20,000,000	-	292,616,156	312,616,156
Net income	-	-	-	58,458,260	58,458,260
Dividends	-	-	-	(45,000,000)	(45,000,000)
Foreign exchange reserve	-	-	(40,333)	-	(40,333)
SHAREHOLDER'S EQUITY					
BALANCE DECEMBER 31, 2005	-	20,000,000	(40,333)	306,074,416	326,034,083

See notes to consolidated financial statements

SONATRACH PETROLEUM CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

(Expressed in United States dollars)

	2005	2004
CASH FLOW PROVIDED BY/(USED IN):		
OPERATING ACTIVITIES		
Net income	58,458,260	50,938,628
<i>Items not involving the movement of cash:</i>		
Foreign exchange adjustments on fixed assets	8,948	-
Depreciation	16,382,028	12,698,759
Change in unrealised appreciation on futures	(749,355)	-
Foreign exchange conversion	(40,333)	-
Gain on disposal of fixed assets	-	(6,766,250)
<i>Changes in non-cash operating working capital:</i>		
Accounts receivable	(30,774,453)	(61,202,306)
Inventory	(13,005,394)	(111,487)
Prepaid expenses	(2,256,661)	-
Due from parent company	5,030,986	(4,999,986)
Due from related parties	6,515,166	(1,960,966)
Investments in securities	(502,670)	(808,995)
Accounts payable	24,506,670	908,454
Deferred income	5,705,000	-
Due to parent company	(8,704,084)	(1,195,916)
Due to related parties	41,714,198	76,645,421
Income taxes payable	74,610	96,379
	102,362,916	64,241,735
INVESTING ACTIVITIES		
Purchase of fixed assets	(35,106,653)	(99,320,614)
Proceeds from sale of assets	6,897	15,097,500
Proceeds on disposal of long-term investments	-	23,289,000
	(35,099,756)	(60,934,114)
FINANCING ACTIVITIES		
Repayment of long-term debt	(13,495,000)	(8,200,000)
Proceeds from long-term debt	35,200,000	70,700,000
Dividends paid	(45,000,000)	(15,000,000)
	(23,295,000)	47,500,000
INCREASE IN CASH AND CASH EQUIVALENTS	43,968,160	50,807,621
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	183,803,500	132,995,879
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 227,771,660	\$ 183,803,500

See notes to consolidated financial statements