

Notes to the consolidated financial statements

For the year-ended 31 December 2009

1 Segmental analysis

Adoption of IFRS 8, Operating Segments

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Officer to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required the Group to identify two sets of segments (business and geographical), using a risks and rewards approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments.

The Group's reportable and geographical segments which have not changed as a result of the adoption of IFRS 8, are Thailand, Indonesia, the Philippines, Lao PDR, Vietnam and Other.

Other activities include its corporate centre in the UK.

Information regarding the Group's operating segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of IFRS 8.

Segment revenues and results

The following is an analysis of the Group's revenue and assets by reportable segment:

	2009						Total \$'000s
	Thailand £'000s	Indonesia \$'000s	Philippines \$'000s	Lao PDR \$'000s	Vietnam \$'000s	Other \$'000s	
Revenue (external)	109,476	58,385	–	–	–	(10,713)	157,148
Operating profit/(loss)	44,615	(7,919)	(22)	136	(17)	(23,614)	13,179
Interest revenue						531	531
Finance cost						(4,411)	(4,411)
Other financial losses						(12,258)	(12,258)
Profit/(loss) before tax							(2,959)
Tax						(10,572)	(10,572)
Profit/(loss) for the year							(13,531)
Non-current assets	331,263	443,209	6,239	8,262	28,961	20,986	838,920
Total assets	375,295	466,371	6,820	8,816	29,331	75,344	961,977
Depreciation and amortisation	36,076	26,104	–	8	–	218	62,406
Additions to non-current assets	43,895	69,229	1,193	(2,095)	6,821	1,795	120,838

Segment revenues and results continued

	2008						
	Thailand £'000s	Indonesia \$'000s	Philippines \$'000s	Lao PDR \$'000s	Vietnam \$'000s	Other \$'000s	Total \$'000s
Revenue (external)	40,452	60,301	–	–	–	–	100,753
Operating loss	(40,496)	(887)	(22,748)	(72)	(10)	(17,684)	(81,897)
Interest revenue						5,814	5,814
Finance cost						(2,953)	(2,953)
Other financial gains						3,564	3,564
Loss before tax							(75,472)
Tax						8,977	8,977
Loss for the year							(66,495)
Non-current assets	329,306	400,195	5,046	10,366	22,039	12,470	779,423
Total assets	357,913	464,345	6,042	10,802	22,879	77,830	939,812
Depreciation and amortisation	10,489	17,236	–	–	–	379	28,104
Additions to non-current assets	336,813	331,846	18,869	8,584	19,535	(940)	714,707
Impairment	55,000	–	–	–	–	–	55,000

The accounting policies used for the reportable segments are the same as the Group's accounting policies.

For the purposes of monitoring segment performance and allocating resources between segments, the Group's Chief Operating Officer monitors the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of the segments financial assets (except for trade and other receivables) (see note 19) and tax assets.

Information about major customers

Included in revenues arising from Thailand are revenues of approximately \$92,511,000 (2008: \$15,547,000) which arose from sales to the Group's largest customer.

2 Revenue

Revenue, excluding interest revenue (see note 7), comprises:

	2009 \$'000s	2008 \$'000s
Sales of oil	134,795	62,218
Sales of gas	33,066	38,535
Oil and gas derivatives:		
Hedging fees	(3,401)	–
Realised settlement losses	(7,312)	–
Total revenue (excluding interest revenue)	157,148	100,753

Total revenue in accordance with IAS 18 includes interest revenue and amounted to \$157,679,000 (2008: \$106,567,000).

3 Cost of sales

Cost of sales comprises:

	2009 \$'000s	2008 \$'000s
Operating costs	69,448	37,179
Royalty Payable	9,889	4,254
Amortisation of oil and gas properties	61,957	27,725
Impairment	–	55,000
Overlift/(underlift)	4,582	(1,303)
Movement in inventories of oil	(22,127)	2,697
Total cost of sales	123,749	125,552

Royalty of \$7,768,000 (2008: \$3,113,000) was payable in respect of certain Thailand assets held by the Group in accordance with the applicable Thailand tax regulations. Royalty was deductible as an advance payment of income tax to the extent income tax was payable (see note 10).

4 Employee numbers and costs

The monthly average number of employees (including Executive Directors and consultants) employed and charged to operations was as follows:

	2009 Number	2008 Number
Professional	65	44
Administration	27	17
Total employee numbers	92	61

The aggregate remuneration was as follows:

	2009 \$'000s	2008 \$'000s
Wages and salaries	15,086	17,530
Share based payment	3,434	2,033
Pension	611	573
Social security	869	784
Total employee costs	20,000	20,920

A proportion of total employee costs were directly attributable to capital and other projects and were capitalised or expensed consistent with the project expenditures as follows:

	2009 \$'000s	2008 \$'000s
Non-current assets	7,267	12,059
Operating costs	7,600	2,800
Administrative	5,133	6,061
Total employee costs	20,000	20,920

5 Operating lease arrangements

	2009 \$'000s	2008 \$'000s
FPSO lease	10,950	3,810
Office leases	2,152	1,312
Minimum lease payments under operating leases Recognised in income statement for the year	13,102	5,122

5 Operating lease arrangements continued

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2009		2008	
	FPSO \$'000s	Offices \$'000s	FPSO \$'000s	Offices \$'000s
Within one year	10,950	1,553	10,950	2,553
In second year	10,950	852	10,950	1,378
In the third to fifth year	18,090	273	29,040	723
Total outstanding operating lease commitments	39,990	2,679	50,940	4,654

6 Operating profit/(loss)

Operating profit/(loss) is stated after charging:

	2009 \$'000s	2008 \$'000s
Employee costs expensed	12,733	8,861
Amortisation and depreciation of property, plant and equipment	61,957	83,104
Auditors' remuneration (see below)		
Audit services	486	388
Non-audit services	997	4,316
Net foreign exchange gains/(losses)	318	(1,533)
Movement in inventories of Oil	(22,127)	2,697
Operating lease arrangements (see note 5)		
FPSO lease	10,950	3,810
Office lease	2,152	1,312

Auditors' remuneration

The following is an analysis of gross fees paid to the Company's Auditors, Deloitte LLP:

	2009 \$'000s	2008 \$'000s
Audit services		
Fees payable to the Company's Auditors for the audit of the Company's annual accounts	323	256
The audit of the Company's subsidiaries pursuant to legislation	163	132
Total audit fees	486	388
Non-audit services		
Other services provided pursuant to legislation	98	87
Corporate finance services (reporting accountant services)	–	3,898
Tax services	899	311
Other services	–	20
Total non-audit services	997	4,316
Total	1,483	4,704

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

7 Interest revenue

	2009 \$'000s	2008 \$'000s
Loans:		
Amortisation of deferred fees	–	2,456
Loan interest revenue	269	746
	269	3,202
Other Bank Interest Revenue	262	2,612
Total interest revenue	531	5,814

8 Finance costs

	2009 \$'000s	2008 \$'000s
Long term borrowings:		
Amortisation of capitalised arrangement fees	724	2,448
Interest expense	5,851	5,846
Unwinding of discount	806	114
Less interest capitalised	(2,970)	(5,457)
Total finance costs on long term borrowings	4,411	2,951
Other Bank Interest Expense	–	2
Total finance costs	4,411	2,953

9 Other financial gains and losses

	2009 \$'000s	2008 \$'000s
(Loss)/profit relating to oil price hedges	(11,513)	2,307
Loss relating to interest rate hedges	(1,108)	–
Profit/(loss) on investments	45	(276)
Currency exchange gain	318	1,533
Total other financial (losses)/gains	(12,258)	3,564

10 Taxation

The tax charge for the year of \$10,572,000 (2008: credit of \$8,977,000) comprised corporate income tax of \$23,895,000 (2008: \$14,651,000) and a net deferred tax credit of \$13,323,000 (2008: \$23,628,000) arising on the Group's Thailand and Indonesia activities.

Reconciliation of Tax to Loss

The tax credit for the year can be reconciled to the loss before tax per the income statement as follows:

	2009 \$'000s	2008 \$'000s
Loss before tax	(2,959)	(75,472)
Applicable rate of tax	28%	28.5%
Tax at the applicable rate of tax	(829)	(21,509)
Tax effect of:		
Items which are not deductible for tax	(3,839)	19,059
UK losses not recognised	4,687	306
Royalty tax credit	(1,188)	(1,774)
Different foreign tax rates	4,063	(5,059)
Total tax charge/(credit)	10,572	(8,977)

The applicable rate of tax is assumed as 28% being the UK corporation tax rate.

Items not deductible for tax primarily relates to depreciation in respect of the Group's assets in Thailand and Indonesia.

11 Loss per ordinary share

The calculation of the basic and diluted loss per share on the following data:

	2009 \$'000s	2008 \$'000s
Loss for the purpose of basic loss per share being the net loss attributable to being the net loss attributable to equity holders of the parent	(13,351)	(66,495)
Effect of dilutive potential ordinary shares	-	-
Loss for the purpose of diluted loss per share	(13,531)	(66,495)
	2009 Shares'000s	2008 Shares'000s
Weighted average number of ordinary shares for the purpose of basic earnings loss per share	152,781	126,268
Effect of dilutive potential ordinary shares: ¹	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings loss per share	152,781	126,268
	2009 \$'s	2008 \$'s
Loss per ordinary share		
Basic and diluted	(0.09)	(0.53)

1 As there is a loss for the year ended 31 December 2009, there is no difference between the basic and diluted earnings per share. Potentially dilutive ordinary shares for the year ended 31 December 2009 were 4,490,963 (2008: 2,489,785)

12 Intangible exploration and evaluation assets

	2009 \$'000s	2008 \$'000s
Exploration and evaluation		
At 1 January	214,814	54,523
Additions	34,625	206,770
Transfers to property, plant and equipment	–	(7,414)
Costs written off	(5,860)	(39,065)
At 31 December	243,579	214,814

13 Property, plant and equipment

	Oil and gas properties			Other fixed assets			Total net book value \$'000s
	Cost \$'000s	Amortisation \$'000s	Total \$'000s	Cost \$'000s	Depreciation \$'000s	Total \$'000s	
1 January 2008							
Additions for the period	141,725	(22,998)	118,727	1,756	(592)	1,164	119,891
Transfers from	507,830	–	507,830	107	–	107	507,937
intangible assets	7,414	–	7,414	–	–	–	7,414
Charge for the period	–	(82,725)	(82,725)	–	(379)	(379)	(83,104)
31 December 2008	656,969	(105,723)	551,246	1,863	(971)	892	552,138
Additions for the period	85,793	–	85,793	420	–	420	86,213
Charge for the period	–	(61,957)	(61,957)	–	(449)	(449)	(62,406)
31 December 2009	742,762	(167,680)	575,082	2,283	(1,420)	863	575,945

Additions to oil and gas properties include capitalised interest of \$2,970,000 (2008: \$5,457,000) charged at an average rate of 5.4% (2008: 4.7%). Included in the net book amount at 31 December 2009 in oil and gas properties are assets amounting to \$567,580,000 (2008: \$543,832,000) pledged against the Group's BNPP led seven years reserve-based lending facility.

14 Other receivables – restricted bank deposits

Restricted bank deposits of \$11,398,000 (2008: \$12,084,000) represent deposits held as security against bank guarantees issued by the bank on behalf of the Group.

15 Commitments and guarantees

Bank guarantees:

At 31 December 2009, there were outstanding bank guarantees issued by banks on behalf of the Group, amounting to \$21,341,000 (2008: \$26,993,000).

Capital commitments:

The Group's outstanding financial capital commitments represent the minimum agreed amounts the Group will expend completing its obligated work programmes of carrying out geophysical and geological studies, and to drill exploration and appraisal wells. At 31 December 2009, the Group's anticipates it will discharge its minimum financial capital commitments as follows:

	2010 \$'000s	2011 \$'000s	2012 \$'000s
Future capital commitments	38,000	30,000	2,000

The above commitments are shown net of the farmout to Origin.

16 Group companies

The principal Subsidiaries and Jointly Controlled Entities of the Group, the activity of which relates to oil and gas exploration, development and production, at the Balance Sheet date were as follows:

Subsidiaries:

Company	Country of operation	Country of incorporation	Percentage holding
Salamander Energy Group Limited ¹	United Kingdom, Thailand and Vietnam	United Kingdom	100.00%
Salamander Energy (E&P) Limited	United Kingdom and Thailand	United Kingdom	100.00%
PHT Partners LP	United States of America	United States of America	100.00%
Salamander Energy (Holdco) Limited	United Kingdom	United Kingdom	100.00%
Salamander Energy Singapore Pte Ltd	Singapore	Singapore	100.00%
Salamander Energy (SE Asia) Limited	United Kingdom	United Kingdom	100.00%
Salamander Energy (Bontang) Company Pte Ltd	Indonesia	Singapore	100.00%
Salamander Energy (Java & Sumatra) BV	The Netherlands	The Netherlands	100.00%
Salamander Energy (Java) BV	Indonesia	The Netherlands	100.00%
Salamander Energy (Sumatra) BV	Indonesia	The Netherlands	100.00%
Salamander Energy (Philippines) Limited	The Philippines	United Kingdom	100.00%
Salamander Energy (Indonesia) Limited	Indonesia	United Kingdom	100.00%
Salamander Energy (Vietnam) Limited	Vietnam	United Kingdom	100.00%
Salamander Energy (Simenggaris) Limited	Indonesia	United Kingdom	100.00%
Salamander Energy (Bengara) limited	Indonesia	United Kingdom	100.00%
Salamander Energy (Lao) Company Limited	Lao PDR	Lao PDR	100.00%
Salamander Energy (Canada) Limited	Canada	Canada	100.00%
Salamander Energy Oil & Gas Inc	Canada	Canada	100.00%
Salamander Energy Oil & Gas USA Inc	United States of America	United States of America	100.00%
Salamander Energy Oil & Gas Crystal Inc	United States of America	United States of America	100.00%
Salamander International Holdings Limited	British Virgin Islands	British Virgin Islands	100.00%
Salamander Energy (Asahan) Limited	Indonesia	British Virgin Islands	100.00%
Salamander Energy (Seruway) Limited	Indonesia	British Virgin Islands	100.00%
Salamander Bualuang & Kambuna Holdings Limited	British Virgin Islands	British Virgin Islands	100.00%
Salamander Energy (Bualuang) Limited	British Virgin Islands	British Virgin Islands	100.00%
Salamander Energy (Glagah Kambuna) Limited	Indonesia	British Virgin Islands	100.00%
Salamander Energy (Kutai) Limited	Indonesia	United Kingdom	100.00%
Salamander Energy (S.E. Sangatta) Limited	Indonesia	United Kingdom	100.00%
Salamander Energy (North Sumatra) Limited	Indonesia	British Virgin Islands	100.00%
Salamander Energy (Bualuang Holdings) Limited	United Kingdom	United Kingdom	100.00%
Salamander Energy (Glagah Kambuna Holdings) Limited	United Kingdom	United Kingdom	100.00%

1 Salamander Energy Group Limited is the only direct subsidiary of the Company.

Jointly controlled entities:

Company	Country of operation	Country of incorporation	Percentage holding
APICO LLC	Thailand	United States of America	27.18%
APICO (Khorat) Holdings LLC	Thailand	United States of America	27.18%
APICO (Khorat) Limited	Thailand	Thailand	27.18%

16 Group companies continued

The following amounts are included in the financial statements relating to proportionately consolidated Jointly Controlled Entities of the Group:

	2009 \$'000s	2008 \$'000s
Total revenue	16,965	24,905
Total expenses	11,347	14,084
Non-current assets	57,506	60,956
Current assets	6,511	5,842
Non-current liabilities	1,861	1,463
Current liabilities	6,489	7,956

17 Deferred tax assets and liabilities

Net deferred tax liabilities were:

	Accelerated tax amortisation	
	2009 \$'000s	2008 \$'000s
At 1 January	147,502	1,262
Acquisition of subsidiaries	–	169,868
Credited to income statement	(13,323)	(23,628)
At 31 December	134,179	147,502

Deferred tax assets and liabilities included in the balance sheet were as follows:

	2009 \$'000s	2008 \$'000s
Deferred tax assets	2,271	387
Deferred tax liabilities	(136,450)	(147,889)
Net deferred tax liabilities	(134,179)	(147,502)

At 31 December 2009, the Group had not recognised a potential deferred tax asset of \$7,972,000 (2008: \$2,085,000) relating to tax losses as there was insufficient evidence of future taxable profits in the relevant jurisdictions. These losses can be carried forward indefinitely.

There are no significant unrecognised temporary differences associated with undistributed profits of subsidiaries and joint ventures.

18 Inventories

	2009 \$'000s	2008 \$'000s
Oil	16,732	2,697
Materials	7,594	5,197
Total inventories	24,326	7,894

19 Trade and other receivables

	2009 \$'000s	2008 \$'000s
Prepayments	3,582	3,323
Trade debtors	10,619	10,614
Underlift	–	1,416
Other debtors	36,777	28,422
Total trade and other receivables	50,978	43,775

The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty. The average age of these receivables is 23.1 days (2008: 38.5 days).

The Group does not have any receivables that are past their due date. No provision for doubtful debts has been raised as it is believed that all trade debtor balances are recoverable. The Directors consider the carrying amount of trade and other receivables approximates to their fair value.

20 Cash and cash equivalents

	2009 \$'000s	2008 \$'000s
Amounts held directly by the Group	43,448	100,835
Amounts held in joint ventures	4,305	2,177
Total cash and cash equivalents	47,753	103,012

Of the amounts held directly by the Group, \$18,278,000 (2008: \$29,706,000) was held in debt service accounts and subject to restrictions in accordance with the Group's debt facility, the key terms of which are described in note 21 to the consolidated financial statements.

Financial institutions, and their credit ratings, whom held greater than 5% of the Group's cash and cash equivalents at the balance sheet date were as follow:

	S&P credit rating	2009 \$'000s	2008 \$'000s
HSBC Bank plc	AA-	16,228	51,912
The Hong Kong and Shanghai Banking Corporation Ltd	AA-	3,616	10,575
BNP Paribas	AA	18,192	27,742
Sumitomo Mitsui Banking Corporation Europe Limited	A+	5,004	–

21 Borrowings

	2009 \$'000s	2008 \$'000s
Principal repayable on maturity	178,464	160,918
Less deferred fees ¹	(3,871)	(3,902)
Total unamortised borrowings	174,593	157,016
Less amounts due within one year	(38,287)	–
Total long term borrowings	136,306	157,016

1 Deferred fees includes fees of \$650,000 associated with the subordinated junior facility signed in December 2009.

Net debt

	2009 \$'000s	2008 \$'000s
Long term borrowings	136,306	157,016
Add amounts due within one year	38,287	–
Less restricted bank deposits	(11,398)	(12,084)
Less cash and cash equivalents	(47,753)	(103,012)
Total net debt	115,442	41,920

At the Balance Sheet date, the principal repayable on maturity is calculated to be repayable as follows:

	2009 \$'000s	2008 \$'000s
On demand or due within one year	38,287	–
In the second year	29,338	2,563
In the third to fifth year inclusive	110,839	86,419
After five years	–	71,936
Total principal payable on maturity	178,464	160,918

Borrowings at the balance sheet date are a BNPP led seven year borrowing base facility entered into in June 2008. The loan is secured against certain of the Group's Thailand and Indonesia development and producing assets and includes certain covenants relating to the ratio of the loan balance outstanding to the net present value of cash flows of the secured assets. There has been no breach of terms on the borrowing facility. The key terms of the facility are:

- An initial facility amount of \$200 million.
- The Group may draw an amount up to the lower of the facility amount or the borrowing base amount as determined by the cash flows arising from the borrowing base assets.
- Interest accrues at a rate of between 2.20% and 2.95% plus LIBOR depending on the maturity of the assets. The borrowing base amount is re-determined on an annual basis, with the Group further having the option to undertake two mid-period redeterminations in each year should it elect to do so.
- Annual redeterminations of debt capacity.
- No early repayment penalties.
- Change of control provisions.

At 31 December 2009, the Group had drawn fully against the facility the amount that was available (2008: \$15,561,000 available but undrawn).

22 Provisions

Provisions for decommissioning and restoration of oil and gas assets are:

	2009 \$'000s	2008 \$'000s
At 1 January	4,713	–
On acquisition of subsidiary	–	2,726
Additions	1,881	1,873
Unwinding of discount	806	114
At 31 December	7,400	4,713

23 Trade and other payables

	2009 \$'000s	2008 \$'000s
Trade creditors	656	733
Overlift	4,489	–
Other creditors	22,145	23,969
Accrued expenses	22,345	17,127
Total trade and other payables	49,635	41,829

The average credit period taken for trade purchases is 43.8 days (2008: 37.4 days). The Directors consider the carrying value of trade and other payables approximates to their fair value.

24 Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group are able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents as disclosed in note 20, and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in note 26 and the statement of changes in equity. This is further discussed in the Directors Report.

Gearing ratio

Management reviews the capital structure on a continuing basis. The gearing ratio at the year-end was as follows:

	2009 \$'000s	2008 \$'000s
Borrowings	174,593	157,016
Equity plus borrowings	746,599	739,119
Gearing ratio	23%	21%

The gearing ratio is defined as borrowings divided by equity plus borrowings.

Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which the income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the statement of accounting policies.

Categories of financial instruments

	2009 \$'000s	2008 \$'000s
Financial assets:		
Restricted bank deposits	11,398	12,084
Cash and bank balances	47,753	103,012
Loans and receivables	18,430	36,513
Mark to market value of derivatives	–	5,708
Financial liabilities:		
Mark to market value of derivatives	10,314	–
Amortised Cost	221,558	201,541

Financial assets and liabilities exclude tax receivables and payables as they do not constitute a contractual right or obligation to receive or pay cash or another financial asset.

Financial risk management

The Group's Board of Directors monitor and manage the financial risks relating to the operations of the Group through an internal risk register. These include commodity, foreign exchange, credit, liquidity and interest rate risks.

Commodity price risk

The Group's policy is to consider oil and gas price hedging when and where it is economically attractive to lock-in prices at levels that protect the cash flow of the Salamander Group, its business plan and debt related coverage ratios. All hedging transactions to date have been related directly to expected cash flows and no speculative transactions have been undertaken.

For 2009, the Group's oil production was all sold at prices relative to the spot market. During January 2009 the Group purchased Swaps for 3,750 bopd with a price of \$54.00. During May 2009 the Group purchased Zero Cost Collars for 2010 for 2,500 bopd with a put and call price of \$60.00 and \$78.00 respectively and in July additional Zero Cost Collars for 1,500 bopd with a put and call price of \$60.00 and \$90.00.

During 2009, 64% of the Group's gas production (its Indonesian gas production) was sold at fixed prices under long term contracts with the balance (its Thai gas production) sold at prices relative to the spot market. The Group held no hedges with respect to its gas production during 2009.

The key variable which affects the fair value of the Group's hedge instruments is market expectations about future commodity prices. The following illustrates the sensitivity of net income and equity to a twenty per cent increase and a twenty per cent decrease in this variable:

Increase/(decrease) to mark to market value

	Oil \$'000s
Twenty per cent increase	(24,144)
Twenty per cent decrease	1,131

Foreign exchange risk

The Group undertakes certain transactions denominated in foreign currencies, hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed through maintaining the majority of the Group's cash and cash equivalent balances in US Dollars, the Group's functional and presentational currency. The Group does also holds, from time to time, cash balances in UK Pounds Sterling and other currencies to meet short-term commitments in those currencies.

Foreign exchange risk continued

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2009 \$'000s	2008 \$'000s	2009 \$'000s	2008 \$'000s
UK Pounds Sterling	48	5,878	1,149	1,732
Singapore Dollar	1	483	52	1,095
Indonesian Rupiah	15,174	7,769	1,131	1,095
Thailand Baht	13,148	9,511	5,783	5,128
Vietnamese Dong	874	355	611	405
Other	31	15	2	2

The following table details the Group's sensitivity to a 20% increase or decrease in the US Dollar against the relevant foreign currency. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the yearend for a 20% change in the foreign currency rate. A positive number below indicates an increase in profit after tax where the US Dollar strengthens by 20% against the relevant currency. For a 20% weakening of the US Dollar against the relevant currency, there would be an equal and opposite impact on the profit after tax and the balances below would be negative.

	2009 \$'000s	2008 \$'000s
Change in Profit or Loss		
UK Pounds Sterling	220	829
Singapore Dollar	10	122
Indonesian Rupiah	2,808	1,335
Thailand Baht	1,473	877
Vietnamese Dong	52	10

Credit risk

Credit risk refers to the risk that a counter-party will default on its obligations resulting in a financial loss to the Group. The Group is exposed to the following credit and counter party risks:

In respect of cash and cash equivalents, the Group's principal financial asset, the credit risk is deemed limited because the majority of the cash and cash equivalents are deposited with banks with AA or A credit ratings assigned by international credit-rating agencies.

In respect of the Group's trade sales, the Group manages credit risk through dealing with, whenever possible, either international energy companies or state owned companies based in Thailand and Indonesia and obtaining sufficient collateral where appropriate. The Group consistently monitors counterparty credit risk.

The carrying value of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk at the year-end without taking account of any collateral obtained.

In addition, the Group's operations are typically structured via contractual joint venture arrangements. As such the Group is reliant on joint venture partners to fund their capital or other funding obligations in relation to assets and operations which are not yet cash generative. The Group closely monitors the risks and maintains a close dialogue with those counterparties considered to be highest risk in this regard.

Liquidity risk

The Group manages its liquidity risk by maintaining adequate cash and cash equivalents, and borrowing facilities to meet its forecast short, medium and long-term commitments. The Group continually monitors its actual and forecast cash flows to ensure that there are adequate reserves and banking facilities to meet the maturing profiles of its financial assets and liabilities.

The following tables detail the Group's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date the Group was required to pay at the balance sheet date. The table includes both interest and principal cash flows.

	2009						
	Weighted average effective interest rate %	Less than 1 month \$'000s	1-3 months \$'000s	3 Months to 1 year \$'000s	1-5 years \$'000s	5+years \$'000s	Total
Non-interest bearing	n/a	24,620	22,345	–	–	–	46,965
Variable interest rate instruments	5.4	735	1,470	44,507	157,552	–	204,264
Total		25,355	23,815	44,507	157,552	–	251,229

	2008						
	Weighted average effective interest rate %	Less than 1 month \$'000s	1-3 months \$'000s	3 Months to 1 year \$'000s	1-5 years \$'000s	5+years \$'000s	Total
Non-interest bearing	n/a	24,702	17,127	–	–	–	41,829
Variable interest rate instruments	5.8	681	1,362	6,674	112,813	73,600	195,130
Total		25,383	18,489	6,674	112,813	73,600	236,959

Additionally, note 15 to the financial statements set-outs the Group's outstanding financial commitments at the balance sheet date.

The following table details the Group's remaining contractual maturities for its derivative financial liabilities:

	2009			
	Less than 1 month \$'000s	1-3 months \$'000s	3 months to 1 year \$'000s	Total \$'000s
Oil collar		190	873	9,206
Interest rate swap		92	185	1,108
Total		282	1,058	10,314

Interest rate risk

The Group is exposed to interest rate movements through its lendings, borrowings and cash and cash equivalent deposits, which are at rates fixed to LIBOR.

The sensitivity analysis' below have been determined based on the Group's exposure to an interest rate movement and is prepared assuming the amount of the net debt and interest rate swaps outstanding at the balance sheet date were outstanding for the whole year.

For net debt, if interest rates had been 1% higher or lower and all other variables were held constant, the Group's profit after tax for the year ended 31 December 2009 would have decreased or increased as applicable by \$1.3 million (2008: \$0.4 million). This is principally attributable to the Group maintaining a lower cash and cash equivalents position as described in note 20.

For interest rate swaps, if interest rates had been 1% higher or lower and all other variables were held constant, the Group's profit after tax for the year ended 31 December 2009 would have decreased or increased by \$1.3 million and \$1.8 million respectively (no interest rate swaps held in 2008).

Fair value of financial assets and financial liabilities

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of the Groups' fair value financial assets and liabilities are deemed to be Level 2.

	2009			
	Level 1 \$'000s	Level 2 \$'000s	Level 3 \$'000s	Total \$'000s
Derivative financial liabilities held to hedge the Group's exposure on expected future sales:				
Derivative financial liabilities	–	10,314	–	10,314
	–	10,314	–	10,314

There were no transfers between Level 1 and 2 during the year.

25 Related party transactions**Transactions with key management personnel**

Details of the remuneration of key management personnel are provided below:

	2009 \$'000s	2008 \$'000s
Short term employee benefits	6,710	7,181
Share based payment	1,036	1,581
Total key management employee costs	7,746	8,762

26 Share capital

Share capital as at 31 December 2009 amounted to \$29,844,000 (2008:\$29,844,000).

Authorised equity share capital

	2009 Number	2008 Number
Ordinary Shares at £0.10 each	205,000,000	205,000,000

Allotted equity share capital

	2009 Ordinary shares 10p Number	2008 Ordinary shares 10p Number
At 1 January	152,781,255	88,604,554
17 March 2008: Allotment of Shares	–	30,843,367
8 August 2008: Allotment of Shares	–	33,333,334
At 31 December	152,781,255	152,781,255

27 Share option schemes and share based payment

The Company has implemented an equity-settled share option scheme (PSP) for employees called the Salamander Energy Performance Share Plan ('PSP'). Further details of the PSP are set out in the Remuneration Report. Awards under the PSP may be satisfied by the issue of new shares, or the transfer of shares from the Company's treasury or shares purchased in the market. In any ten year period, the Company may not issue (or have the possibility to issue) more than ten per cent of the issued capital of the Company pursuant to awards granted under the PSP and any other rights granted under any other employee share plan adopted by the Company. Shares held in treasury will count as new issue shares for the purposes of the above limits unless institutional bodies decide that they need not count. Shares purchased in the market will not, however, count towards the limit described above.

Movement in PSP Shares during the year was as follows:

	2009		2008	
	Shares under opinion Number	Weighted average price £'s	Shares under opinion Number	Weighted average price £'s
Outstanding at 1 January	2,489,785	0.10	1,709,026	0.10
Granted during the year	1,994,754	0.10	890,635	0.10
Lapsed during the year	(541,946)	–	–	–
Forfeited during the year	(82,397)	–	(109,876)	–
Outstanding at 31 December	3,860,196	0.10	2,489,785	0.10
Exercisable at 31 December	–		–	

The expense recognised for unvested employee share options of \$3,433,649 relates wholly to equity-settled share based payment arising from grants made under the PSP. At 31 December 2009, the total future expense relating to unvested awards not yet recognised was \$3,309,937, which is expected to be recognised over the following 3 years. The weighted average exercise price for options that were forfeited during the year was £0.10.

27 Share option schemes and share based payment continued

The weighted average fair value of share options granted during the year, as estimated at the date of grant, was £0.89 per share (2008: £1.84). This was calculated using a Monte-Carlo simulation model based on the following assumptions:

	2009	2008
Weighted average share price at date of grant	£1.29	£2.80
Exercise price	£0.10	£0.10
Expected volatility	63%	32%
Expected life	3 Years	3 Years
Expected dividend	0%	0%
Risk-free interest rate	1.93%	4.25%

Expected volatility was determined by calculating the historical volatility of the comparator group's share price, over a period equal to the expected life of the options. The median of the constituents of the comparator group which had a three year history was used to determine the estimate for the Company volatility. The mean average of all the constituents of the comparator group (including those with only a short listing history) was 54% (2008: 57%). The average comparator group correlation was 22% (2008: 9%).

There is a 12 month window for exercise. However, as the exercise price is nominal it is assumed that recipients exercise at the end of the performance period. Therefore an expected life of three years after the date of grant has been assumed.

28 Dividends

The Company has declared no dividend for the year (2008: nil).

29 Post balance sheet events

During February 2010, the Group increased its equity interest in the Bengara PSC from 25% to 41.67% having assumed incremental equity from PTTEP following the drilling of the South Sebuka gas discovery well in 2009.

On 15 February 2010, the Group announced that the Si That-3 had been unsuccessful. Further analysis will be completed during 2010 to determine whether the structure merits further analysis.

On 3 March 2010, the Group increased its equity position in the Bontang PSC from 70% to 90% by acquiring PT Eksindo Petroleum Tabuhan's 20% share in consideration for the issue of 792,942 Salamander Energy plc shares.

During March 2010, the Group agreed to acquire a 50% operated interest in Block 101-100/04, in the Hanoi Trough offshore Vietnam, from Santos Vietnam Pty Ltd and Singapore Petroleum Vietnam Song Hong Co Ltd with the proposed drilling of one well 2011.

On 18 March 2010, the Group will announce its proposed issue of an up to \$100 million convertible bond. It is intended that the funds will be applied towards the acquisition of new opportunities.