



# Growing with Commitment

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## Managing Directors' Statement

Today as we progress towards SinoTharwa's 3rd year, we are proud of the fact that building our company's character remains the organization's prime focus. Success, through continuous improvement, has only strengthened this commitment.

At SinoTharwa, each one of us is inspired by a momentum winning that motivates us to work towards creating new realistic capital within a lasting value system. We take this opportunity to give you a glimpse into the enriching company's character that encourages us to reach the highest standards.

We would like to start with a fundamental reality that is too often overlooked. The fact is; ours is an industry with a record of marvelous accomplishment and an industry with much to be proud of.

SinoTharwa had started as a dream, then the dream became a reality which gave us a life. We started to drill & then we competed; from this we obtain our slogan "Born to Drill & Compete". We wouldn't reach our current position without the great support that we have from our Shareholders, working team, Vendors, Contractors, Customers & Petroleum Sector Headed by His Excellency Minister of Petroleum. With your support SinoTharwa has found a recognizable position within the top largest listed drilling contractors in the Egyptian Drilling Industry; which will further strengthen our efforts to achieve a position in the global drilling market. Really, we do appreciate all your exerted efforts & support towards us.

SinoTharwa is committed to continue expansion & development in order to cover effectively the market's needs, satisfy growing demand in drilling field in a clear environment. SinoTharwa will continue dedicating company's resources to secure more work opportunities for local candidates supported by enhancing their skills through technical & non-technical training courses.

Beyond the significant current year plan, it's important to build a future program of drilling opportunities outside Egypt.

An emphasis on innovation has always been the cornerstone of all our efforts. We have notched up some interesting achievements that we want to share with you. This year we reached a total number of 6 rigs (4 Land Drilling Rigs & 2 Workover Rigs). With this development, our venture into drilling activities started yielding revenues.

Another year has gone by, along with numerous opportunities, new partnerships, while also announcing in a brand new year- one with more promises to keep higher goals to achieve and more and more smiles to bring on the faces of all those associated with us. We confirm our commitment to excellence as we look forward to another year with a determination to sustain our momentum and success.

**Li Zhigang**  
**General Manager & MD**

**Ali Salem**  
**Chairman & MD**

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## 2007 OUTLINES

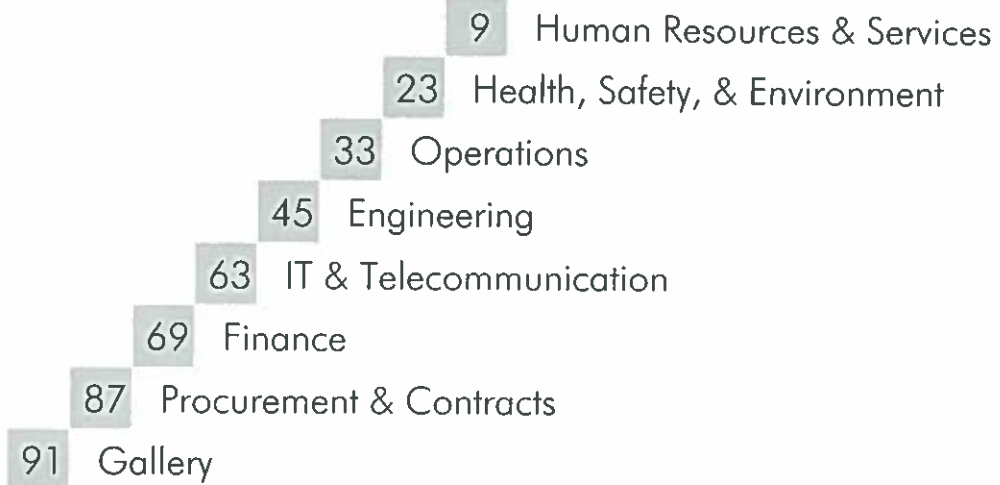
### In 2007 SinoTharwa achieved the following:

■	Total Number of Existing Land Drilling Rigs	>>>>	4 Rigs
■	Total Number of existing workover rigs	>>>>	2 Rigs
■	Total Number of Rigs Under Shippment Test & Fabrication	>>>>	7 Rigs
■	Total Manpower	>>>>	745 Employees
■	Total Investment	>>>>	184 Million USD
■	Total Revenue	>>>>	22 Million USD
■	Total Profit	>>>>	3.4 Million USD

## 2008 FORECAST

■	Potential Number of Rigs	>>>>	13 Rigs
■	Potential Investment	>>>>	237 Million USD
■	Total Expected Revenue	>>>>	66 Million USD
■	Total Expected Profit	>>>>	9 Million USD

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# Human Resources & Services

From Words We Create Development, From Staff We Achieve Miracles

Perfect achievements made by perfect team and this is our target, to create a healthy work environment by all means in order to let the employees innovate.

## Human Resources Previous Achievements

In the beginning we moved fast in order to establish the company and our target was to build and establish the company in an above average standard with a very high image.

The H.R. team is one of the main players for setting the construction, we implement plenty of policies and procedures in order to facilitate the work flow and establish the rights either for employees or the company. And also create the company's compensation and benefits system by studying the market.

On the other hand we implement the recruitment selection system in order to get the well selected and highly skilled staff for running the business to overcome the challenges and achieve our goals, it was very hard to find and to cover manpower needed, but we did it.

As the H.R. is a strategic and a consultant department, we consider ourselves as partners and not just employees.

## Moving to Bigger Challenges

The company business is moving forward very fast and it's expanding more and more every day.

We are now working in 2 strategic phases.

1 To keep the company image on top (never losing – never failing)

2 Cover the business expansion's needs as well as competing in the drilling market.

(WE ARE THE WINNERS)

Our previous achievements and coming challenges will be explained as follows:

## Policies

- Transfer policy has been developed and approved in 2007, this policy is organizing the employee's transfer between departments or locations according to work needs, rotation for improving the employee development, fill vacant position for temporary or permanent period.
- Mobile policy has been applied in 2007; in order to assist the key mobile phone users for business needs & to be reachable whenever the work required.
- Promotion policy & procedure had been approved in 2007, in order to benefit the employees, company, and to achieve both of the company & the employees' goals, on other hand to follow employee's career pass & future development.

## Compensation & Benefit

- Club & Sport activities policy has been approved in 2007, the company will contribute with the employee in the club membership fees.
- Education assistant policy & Pension Scheme are under processing.
- Bonus system policy has been applied in 2007, to compensate company's employees & appreciate them.
- This year we add the family medical insurance for staff as a participation from the company to secure the employee.

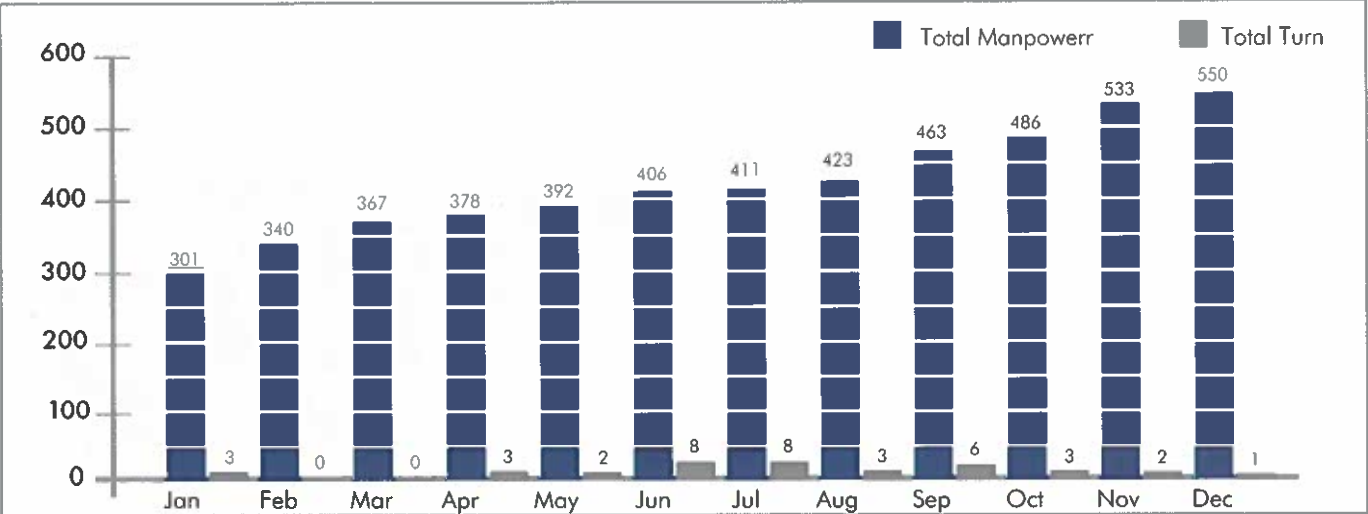
## Performance Appraisal

- The Performance Appraisal Management System was implemented at the end of 2007 according to the world's standards in order to provide feedback to the employees on how well they are doing in their jobs, to provide direction to future development & accomplishments.

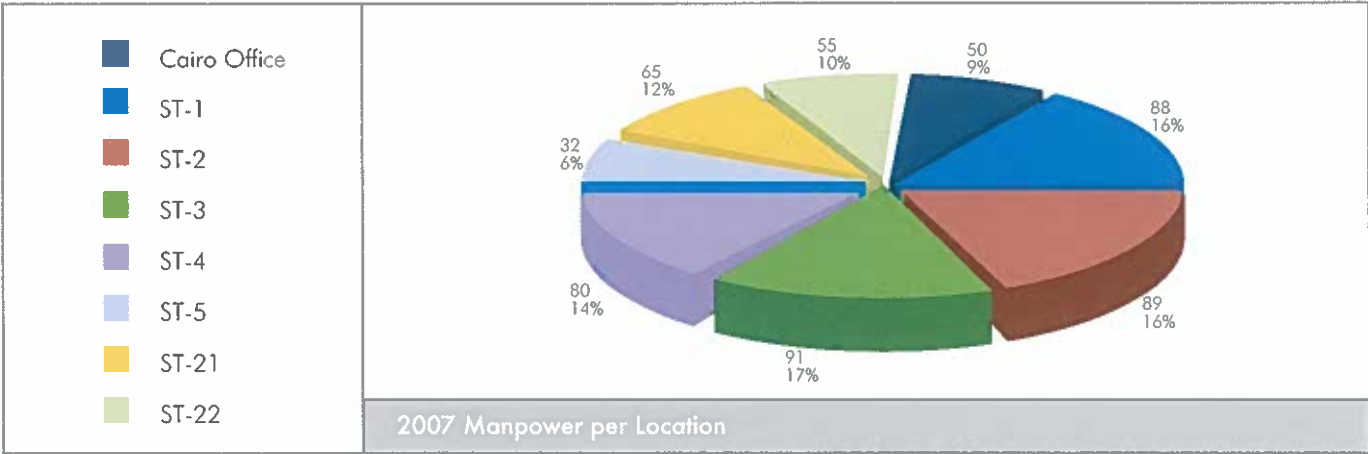
## Personnel

- The Human Resources Department covers the entire governmental funds requirement & applies all labor law, policies & procedures.
- The social insurance was paid in regular bases during 2007.
- A great effort was done with labor offices through all governmental to meet these requirements.
- New hospitals had been added to SinoTharwa's medical network.

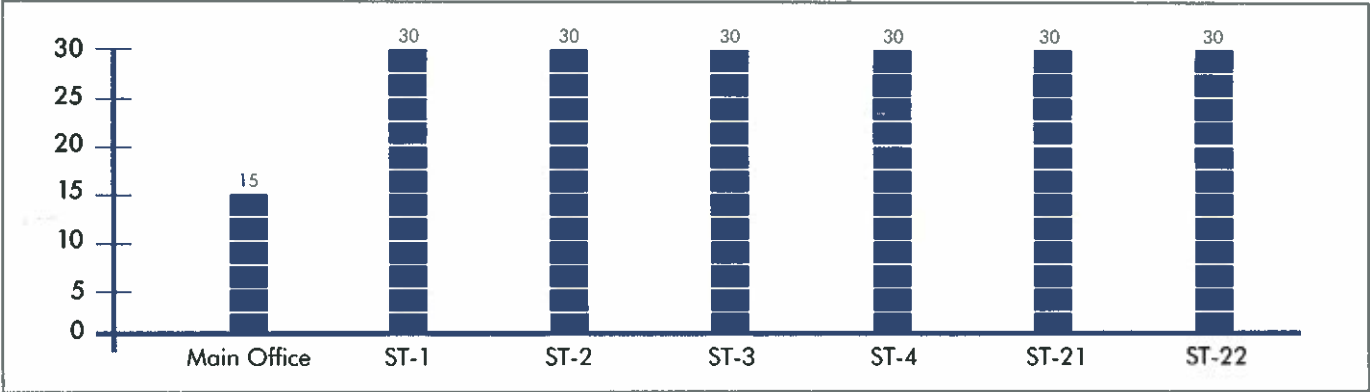
# Company's Manpower



# Man Power per Location

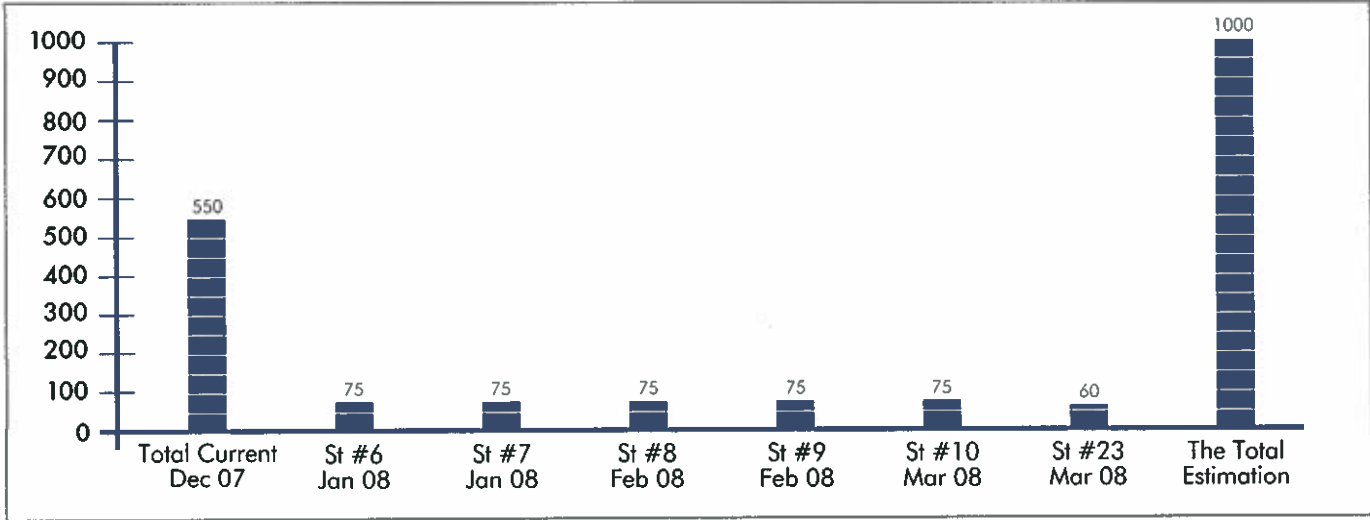


# 2007 Indirect Manpower per Location



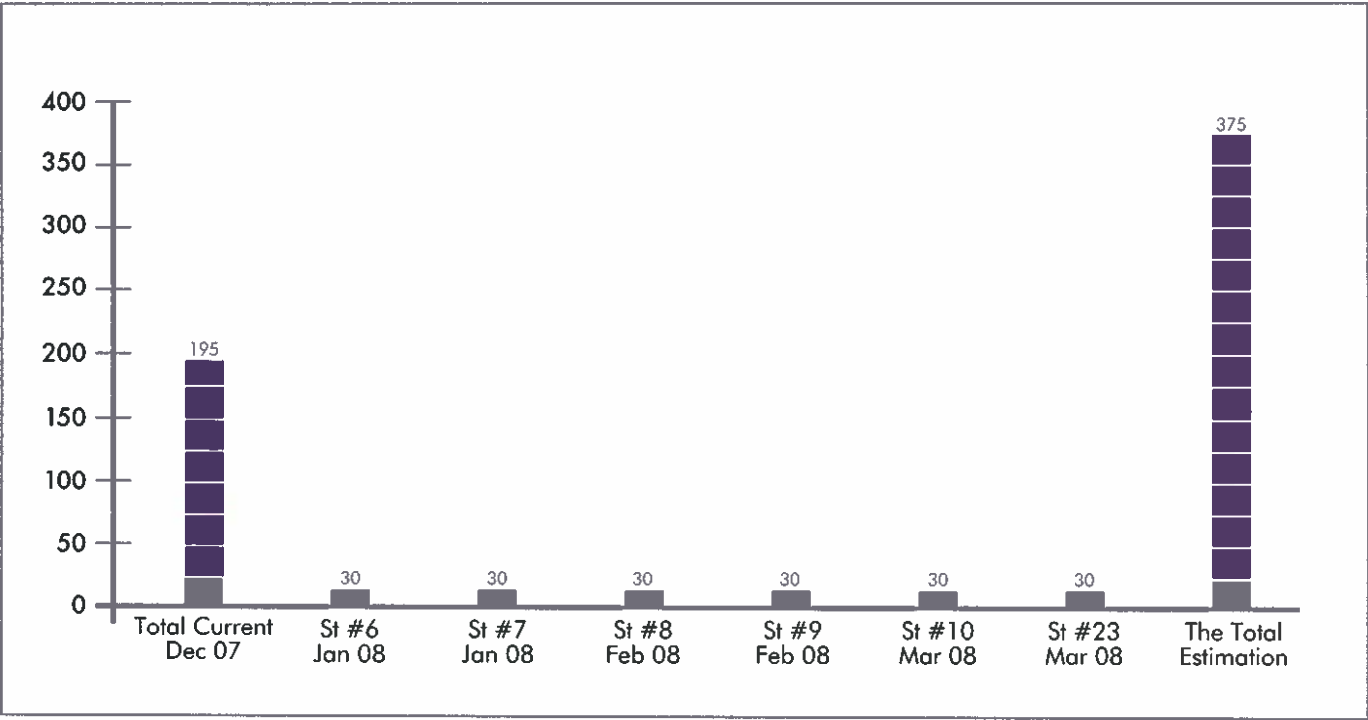
■ The indirect manpower was 195 employees during 2007 & was allocated at Rig sites & Cairo Office.

# Estimated 2008 First Quarter Manpower per location



# Estimated 2008 First Quarter Indirect Manpower per Location

■ The indirect manpower by the end of the first quarter of 2008 is planned to be 375 employees.



# General Services

1. Business trips were organized continuously during 2007 inside & outside Cairo.
2. A regular maintenance was continuously done to SinoTharwa premises.
3. Exemptions have been taken for 55 expatriates during 2007 while the actual comers were 50 and their work permits had been done.
4. Rig crew change for 6 crews has been done twice on weekly basis during 2007.
5. The Human Resources Department was responsible for issuing all permits related to government for all company's locations.
6. A regular maintenance was done during 2007 for all SinoTharwa's Vehicles.
7. Catering & cleaning activities were organized systematically during 2007.
8. A great effort had been done during moving SinoTharwa's main office from "5th district" To new location at "Maddi".
9. Company fleet policy had been developed in order to keep the vehicles safely & in good condition.

# Public Relations

1. SinoTharwa had participated in Intergas Conference Last May 2007 as an exhibitor which allowed us to represent the company in a good image and make a very good type of advertising for the company.



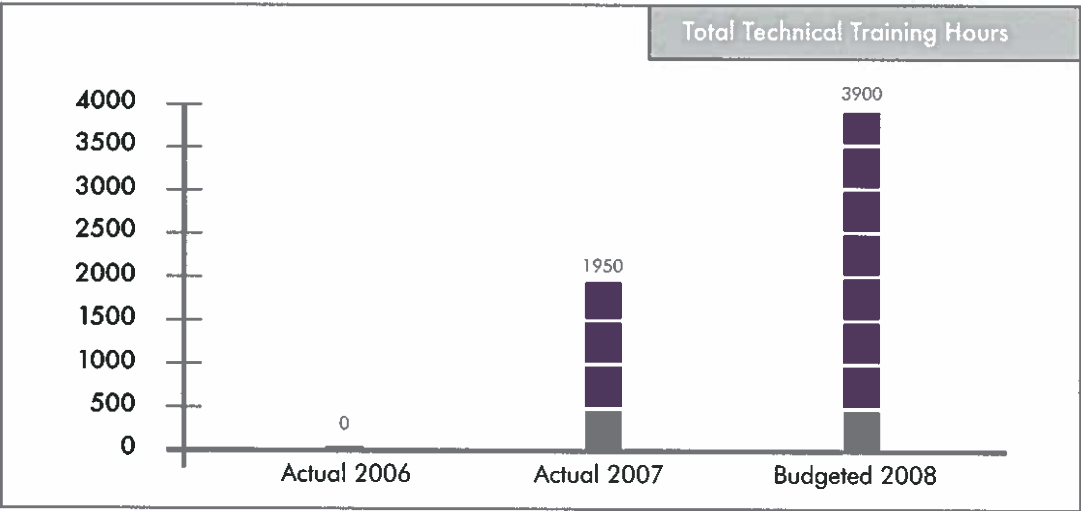
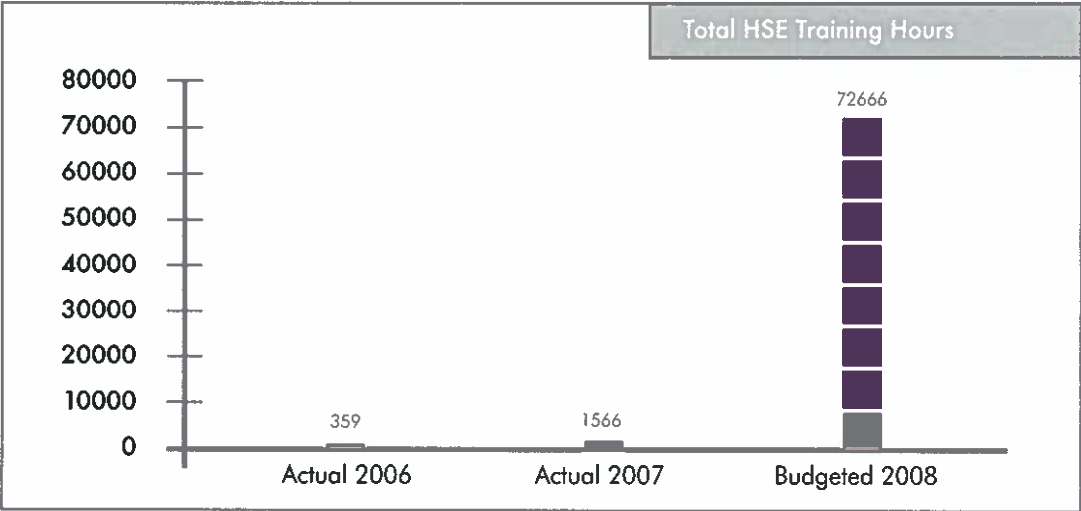
2. We managed successfully to organize all the senior level meetings such as the General Assembly & Extraordinary Meetings & in the meantime the VIP Visits.
3. Public Relation Department is responsible to handle all travelling logistics (air ticketing – hotels bookings – Meet & Assist Bookings – etc. required reservations & services). Concerning the air ticketing, there is a high standard of cooperation with Egypt Air in this issue, as they provide us with a very competitive rate & service.
4. A great celebration for the company's second anniversary had been organized effectively by the Human Resources & Services Department in attempt to gather all company's employees to celebrate the achievement of the year such as the accomplishment of one million hours without Lost Time Incident (LTI).
5. We participated in the SPE / IADC MEDT Conference & Exhibition—which held in October 2007—as a Sponsor.
6. We created all the required reportages & advertisements so as to be published in several publications such as "Petroleum Magazine, Arab Petroleum Magazine, etc."

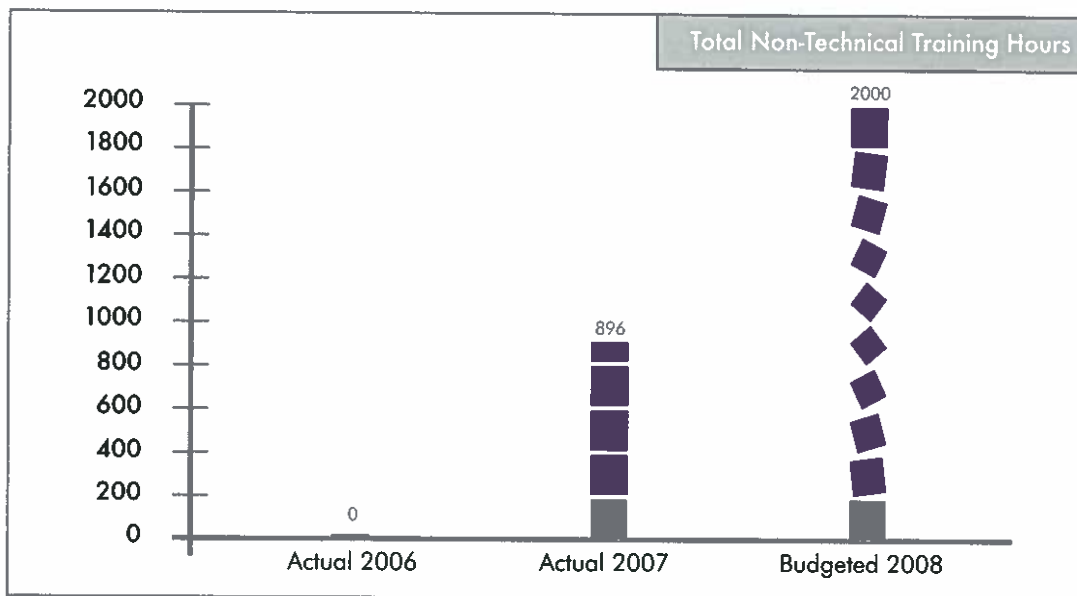
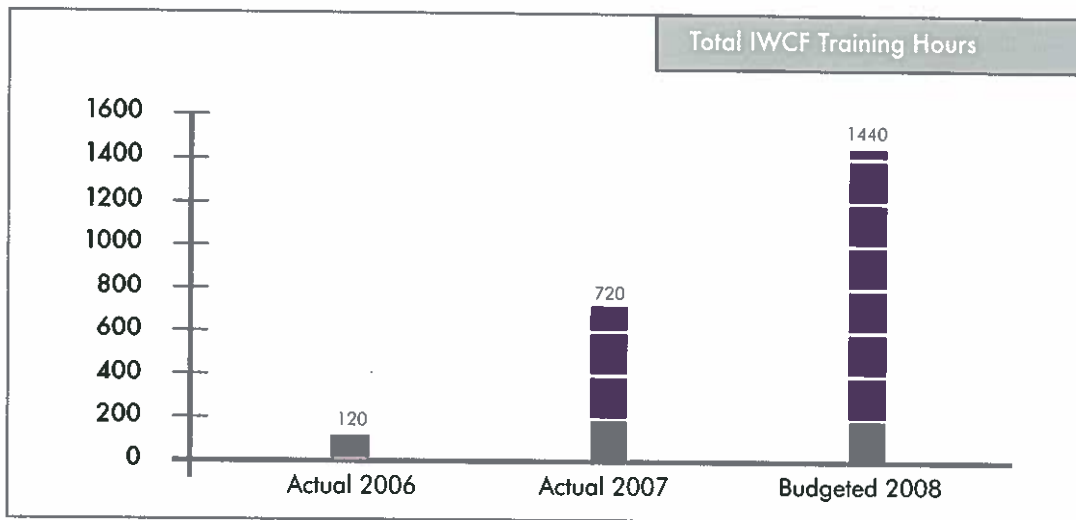
7. Due to the rapidly increase in the company's rigs' staff, Human Resources Department thought thoroughly to find a practical solution to face the lodging and accommodations problems in order to reduce the cost, the time & efforts. The solution was to establish a guest house here in Cairo in order to absorb the increase we are facing. This project study was presented to the company's top management.
8. SinoThorwa will have a participation in the 4th Cairo international conference & exhibition for gas technology, oil, petrochemical industries and mining resources which will take place during the period from 27 to 29 October 2008.
9. We will have a massive participation in the 5th MOC (Mediterranean Offshore Conference & Exhibition) which will take place during the period from May 20th To May 22nd, 2008 as a sponsor & Exhibitor.

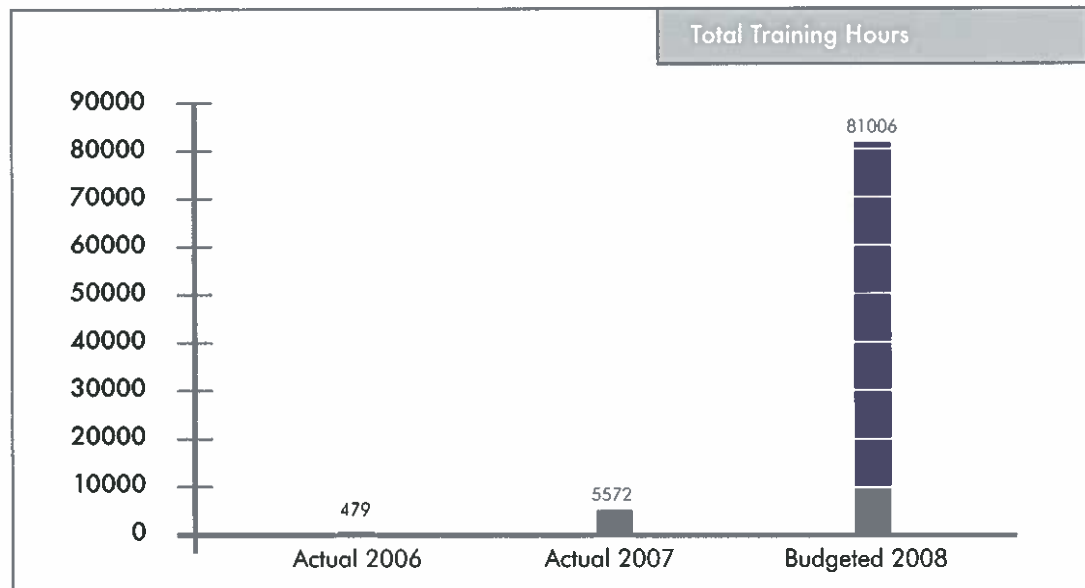
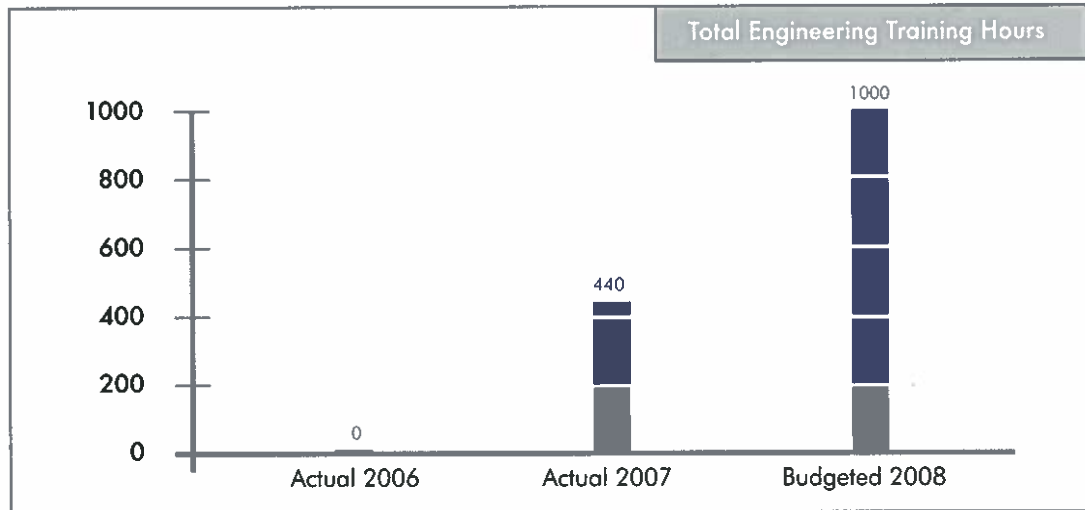


# Training & Development

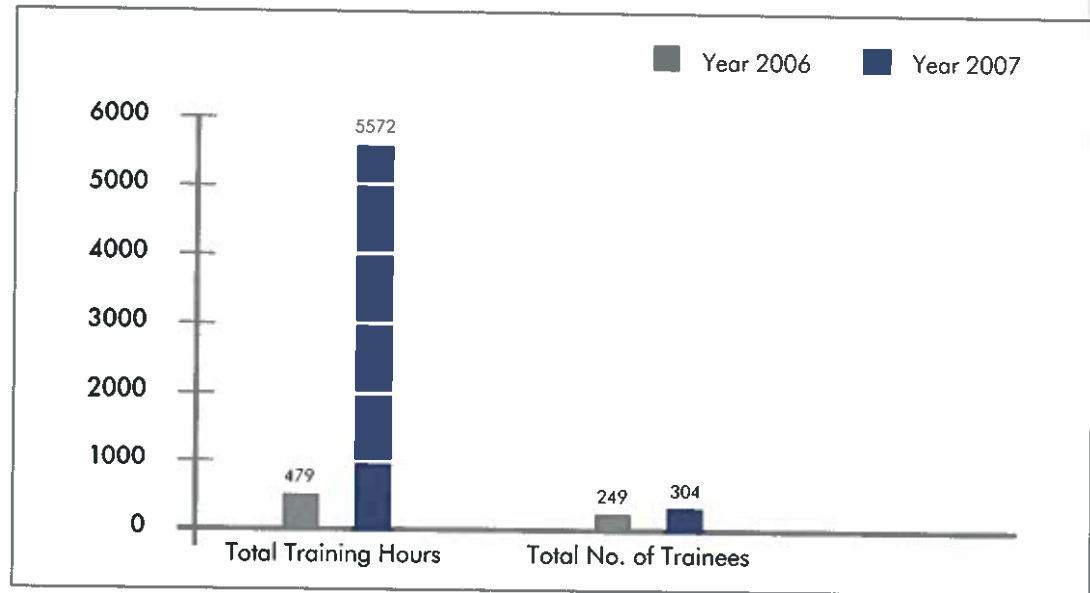
Highlights of Actual 2006 /Actual 2007 / Budgeted 2008 Training Records







# We Achieved



Training refers to the acquisition of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relates to specific useful skills. It forms the core and provides the backbone of apprenticeships and as we believe that nothing training cannot do, nothing above its reach, we focus on training in order to achieve the company goals by developing our main strategic business partner "Sino Thorwa staff".

**Health, Safety, & Environment**  
Work Smart

# 2007 Work Injuries Statistics:

During 2007 all SinoTharwa's staff worked hard to achieve company's planned targets of HSE as well as the performance target which agreed upon in rigs, departments and individuals. The following achievements are indicators of HSE successes in 2007:

The most important is that there were no fatalities or Lost Time Incidents occurred to any of SinoTharwa's staff, subcontractors or third parties in any operation area belongs to SinoTharwa.

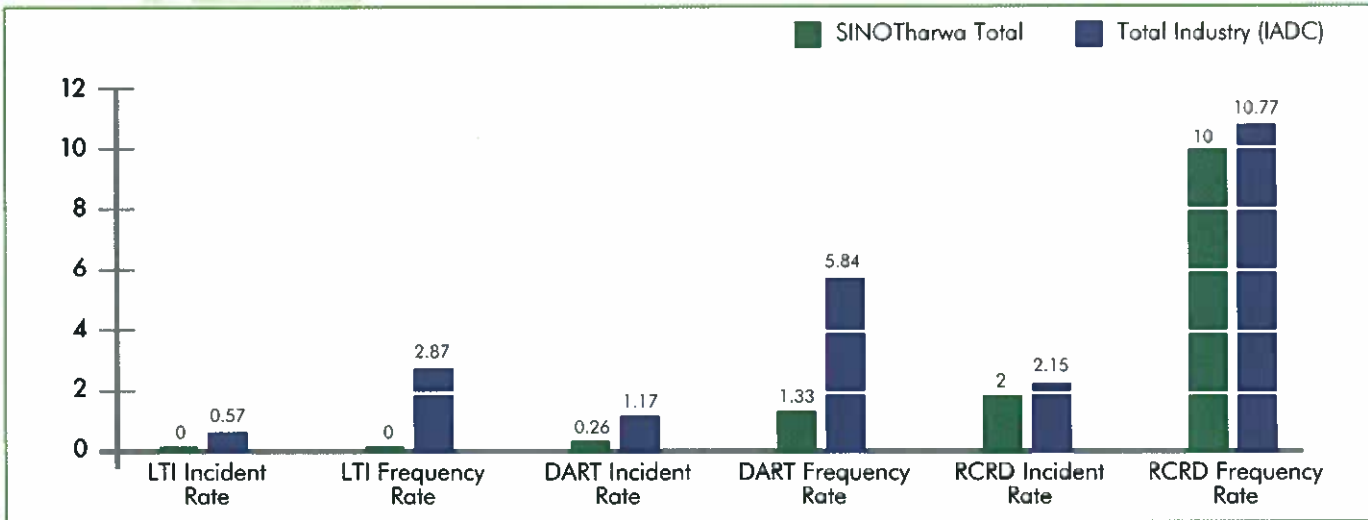
By following SinoTharwa Operators' procedures of waste segregations and disposals according to the environmental law no. 4/1994, there was no any sort of pollutant spills or environmental impacts.

Only Two Restricted Work Cases happened during 2007. Required medical services were in place then delegation of light works according to physician instructions.

Thirteen Medical Treatments during 2007 including simple injuries were handled by rig doctors on time then back to normal routine duties.

The total Recordable injuries during 2007 were 15 cases through total working hours of 1,498,927.

We did manage to have a membership at IADC for our company (IADC-ASP PROGRAM ID # 80007) which allows us to compare ourselves with the global market & highlight our safety position.

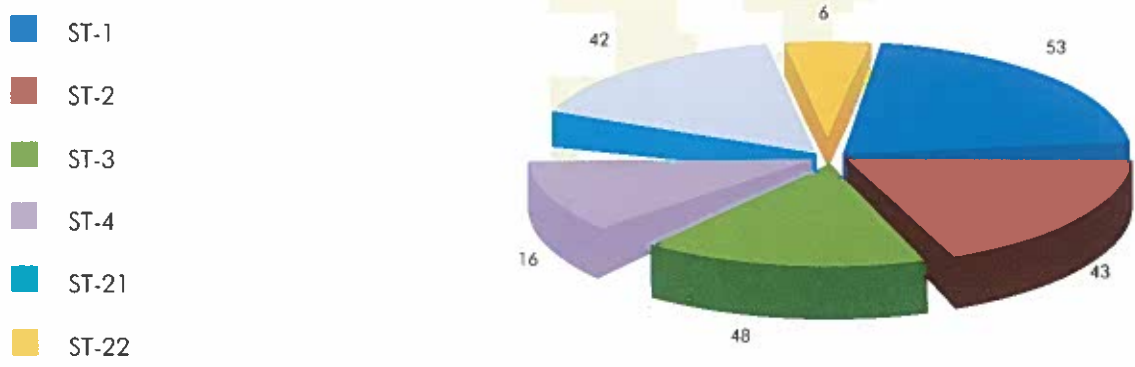


# HSE Performance Measurements

Based on 2007 HSE objectives and targets, below are the details of company actual performance compared with the planned. The Varity between rigs achieved number based on the period rig being in service. Keeping in consideration that Rig ST-4 started operations on September 2007, Rig ST-22 started operations on November 2007, respectively plus rigs ST-3 & ST-21 started actual operation by mid of January 2007.

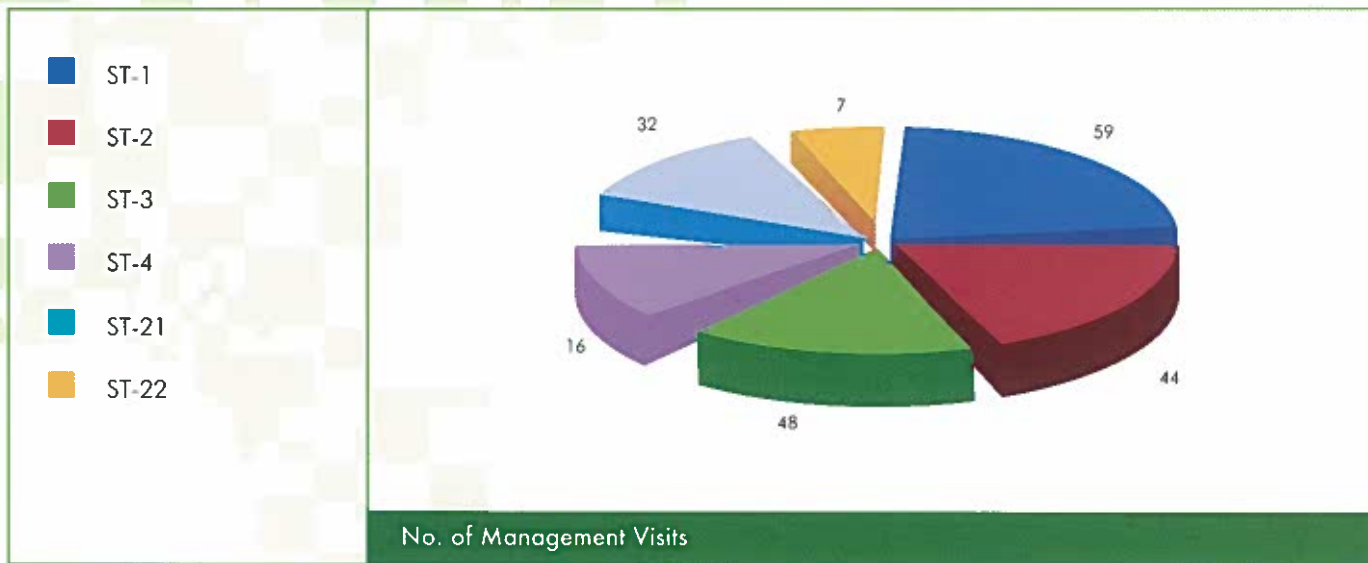
## HSE Meetings & Committees: Rig Sites:

Total HSE Meetings at Rig Sites during 2007 were 208 which representing a percentage of 96.3% from the company's target.



## Management Visits:

2007 had more condensed average of management visits around 204 Visits representing a percentage of 126% from the planned target.



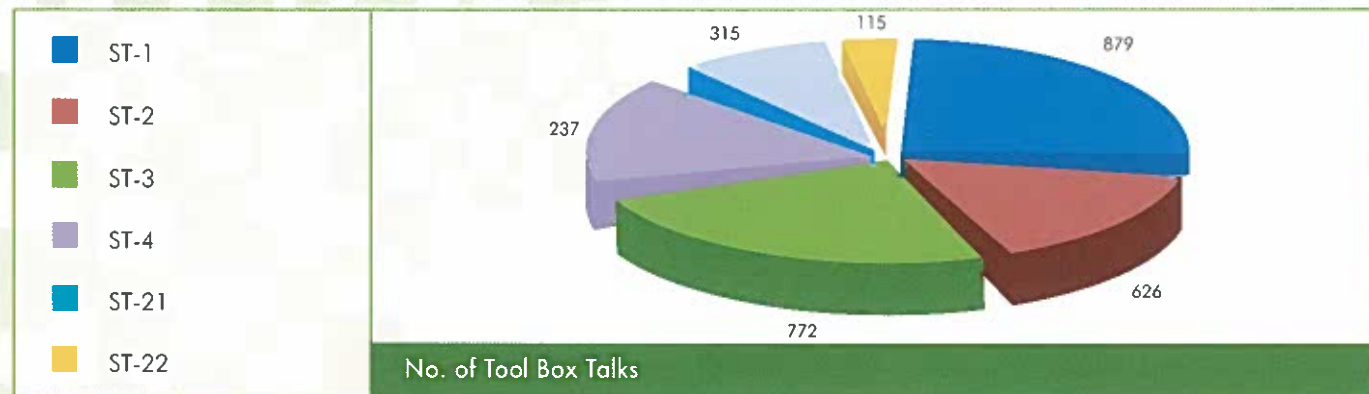
## Safety 1st Program (Substandard Behaviors & Conditions):

The analysis of safety 1st cards which submitted at daily basis assist in gaps evaluation and required actions to avoid these gaps. Total number of safety 1st cards during 2007 was 11,063 card.

Category	No. of Safety 1st Cards
PPE not worn / worn but defective	528
Procedures / Instructions not followed	1104
Equipment moved to wrong place	52
Equipment, tools used wrongly	452
Lack of communication	235
Equipment used without permission	72
Safety devices bypassed, not working	420
Work / move too slowly / too quickly	152
Defective equipment used	162
Substandard conditions not reported	63
Housekeeping, PM standard poor	318
Inadequate warning system	61
Restricted access	58
Fire, spill, explosion hazards	219
Sharp edge hazard	237
Insect, animal bite	18
Inattention to known hazards	319
Improper loading	326
Improper working position	937
Improper lifting	253
Working on operating equipment	304
Help not asked for	127
Short cuts	1647
Safety equipment unsuitable	14
Equipment location unsuitable	56
Floor uneven, slippery	628
Chemicals, dust exposure hazard	765
Lighting inadequate	134
Abnormal operating conditions	12
Ventilation inadequate	15
Inadequate supervision	1367
Noise, radiation exposure	8
Total	11,063

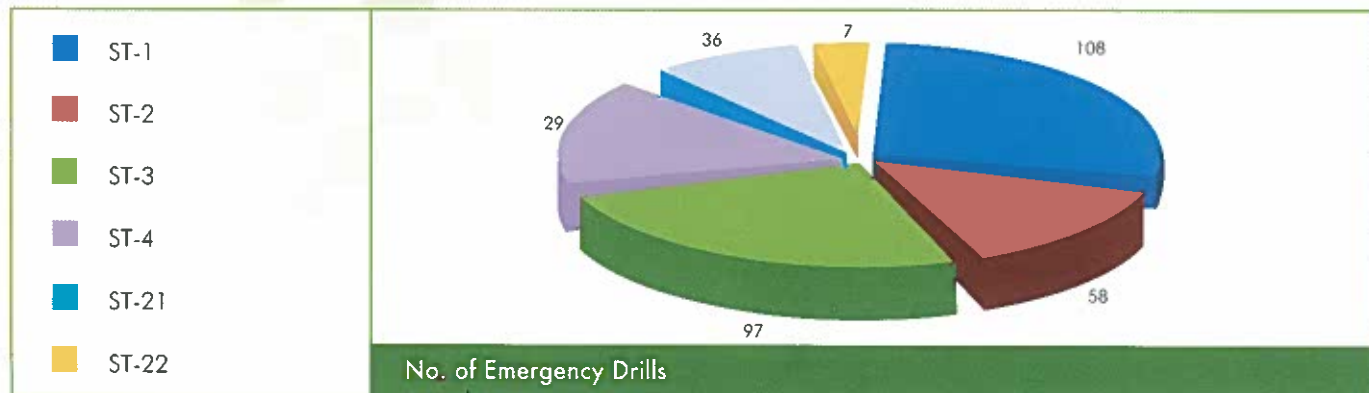
## Tool Box Talks:

Pre-job safety meetings also applied for the same purposes but actually no accurate record for how many pre-job safety meetings during the year. The only record available for Tool Box Talks is 2981, 92% from the planned target.



## Emergency Drills:

Within SinoTharwa history all emergency cases had been handled according to the company approved procedures with the participation of all concerned departments and external authorities. 2007 emergency drills was 335 drills.



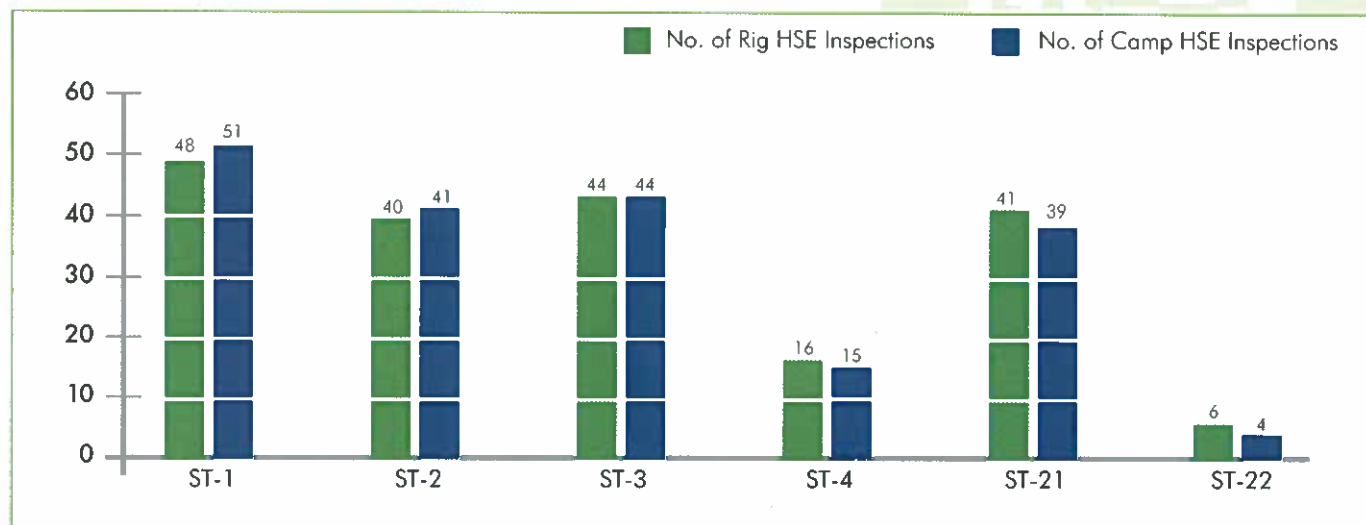
## Periodical Inspections

### Rig HSE Inspection Program:

Total number of rig HSE inspections during 2007 was 195 representing a percentage of 90.2% from planned target.

### Camp HSE Inspection Program:

Total number of Camp HSE inspections during 2007 was 194 representing a percentage of 89.8% from planned target.



# New Policies & Issues:

SinoTharwa's HSE Policy had been revised in 2007 to reflect, improve and focus on all HSE aspects and to improve its employees to be proactive in preserving HSE.

## **Following are brief of most important new HSE issues during 2007:**

- 1- Update SinoTharwa's HSE MS (Health, Safety & Environment Management System).
- 2- Establish Risk Assessment Manual.
- 3- Modify and reissue Job Safety Analysis Manual.
- 4- Activate Safe Driving rules.
- 5- Issue Employees' HSE Hand Book.
- 6- Update Visitor HSE Induction program.
- 7- Activate HSE Tracking System for all Pending items.

# HSE Events & Conferences:

SinoTharwa's Management always looking for enhancing the company's safety department by several ways, one of them is the continuous participation in many of HSE conferences in order to provide some sorts of experiences taking and handing.

## **During 2007 the HSE Dept. participated in following conferences:**

- 1- The annual Fire Fighting Information Technology conference 1st of March sponsored by Petrotrain.
- 2- Wastes segregation and recycling under supervision of Egyptian Free Zone Authority.
- 3- Middle East Drilling Technology Conference sponsored by International Association of Drilling Contractors & Society of Petroleum Engineers.

## **Regarding the other internal events, through 2007 SinoTharwa organized the following:**

- 1- Hand Injury Prevention Safety Campaign.
- 2- One Million Hours without LTI Celebration.
- 3- One Year without LTI Awards at Rig ST-1, ST-2.

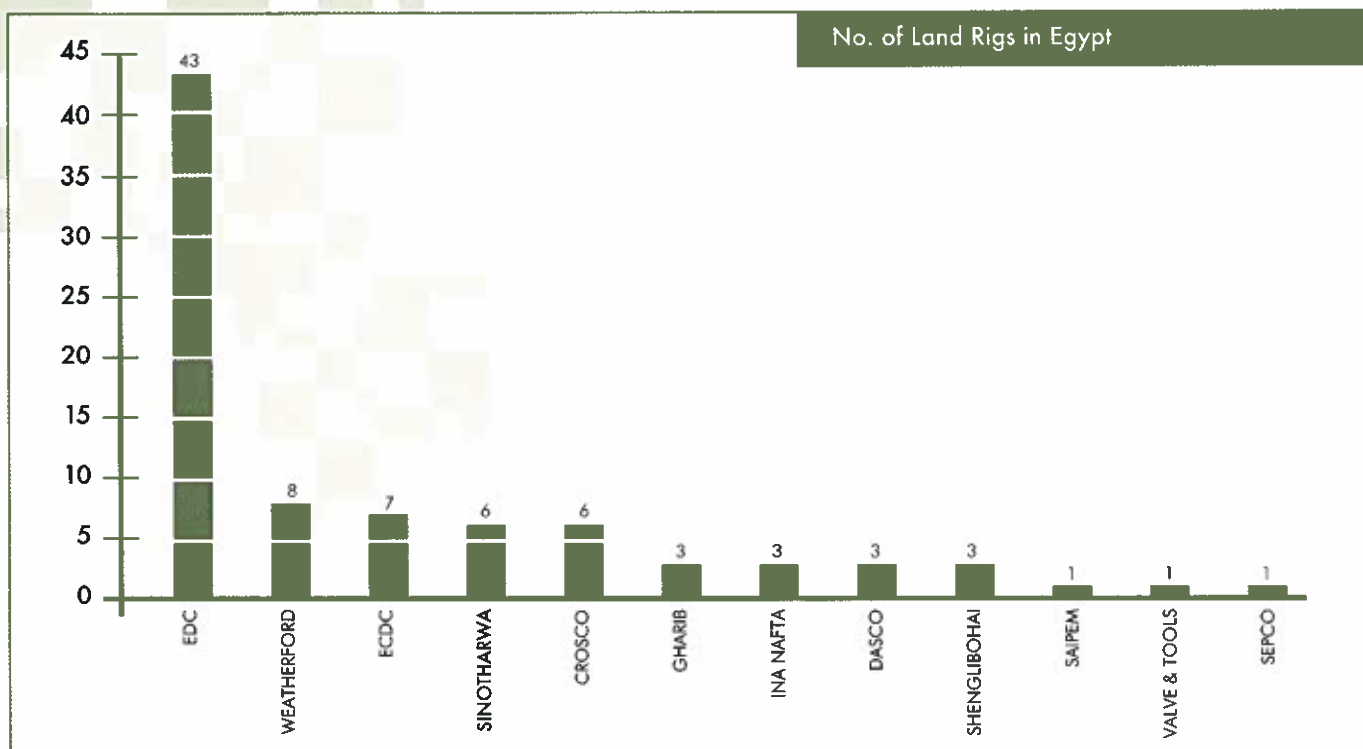
# Operations

Drilling Deep, Safe and at Optimized Cost

## Outlines:

■	No Lost Time Accident.	>>>>	18 wells.
■	No. of Drilled Wells	>>>>	14 wells.
■	No. of Workedover wells	>>>>	160,780 ft.
■	Total footage Drilled	>>>>	97.8%.
■	Average Rigs' Utility		

## Land Rig's Current Status in the Egyptian Market:



# SinoTharwa's Current Status:

In 2007 SinoTharwa's current existing rigs fleet reached the total number of 6 land rigs (4 Drilling Rigs & 2 Workover rigs).

## Rig ST-1



Year of construction

Rig's capacity

Rig accepted & started operations

Rig's contracted with

Rig's actual utility

Rig had been refurbished

October 2002 .

2000 HP "SCR".

December 8th, 2005.

Petrobel for the second 2 years.

95.46 "Including total rig move time".

98.72 "Excluding total rig move time".

April 2007

- 20 days on standby rate due to rig refurbishment and top drive installation. After refurbishment rig had been inspected by third party.

## Rig ST-2



Year of construction

Rig's capacity

Rig accepted & started operations

Rig worked with

Rig contracted with

Rig's actual utility

Rig had been refurbished

October 2001.

1500 HP "Mechanical".

January 4th, 2006.

Norpetco for 1 year.

West Baker for upcoming 2 years

97.97% "Excluding refurbish total time".

November 2007.

- 38 days on standby rate due to rig refurbishment. After refurbishment rig had been inspected by third party

## Rig ST-3



Year of construction

Rig's capacity

Rig accepted & started operations

Rig's contracted with

Rig's actual utility

2006.

2000 HP "SCR".

January 22nd, 2007.

Petrobel for 2 years.

96.9% "Including total rig move time".

■ 16 days on standby rate for rig's top drive installation.

## Rig ST-4



Year of construction

Rig's capacity

Rig accepted & started operations

Rig's contracted with

Rig's actual utility

2007.

2000 HP "SCR".

September 10th, 2007.

Arabia Oil Company in order to drill one well.

El Hamra Oil Company for two years.

99.21%.

■ Top drive installed and in use.

## Rig ST-21



Year of construction

Rig's capacity

Rig accepted & started operations

Rig's contracted with

Rig's actual utility

2006.

650 HP "Mechanical".

January 20th, 2007.

Norpetco for two years.

99.47%

## Rig ST-22



Year of construction

Rig's capacity

Rig accepted & started operations

Rig's contracted with

2007.

650 HP "Mechanical".

November 28th, 2007.

Qarun Petroleum Company for two years.

# Materials

Rig ST-1	\$ 889,931
Rig ST-2	\$ 720,428
Rig ST-3	\$ 1,031,190
Rig ST-4	\$ 1,253,796
Rig ST-21	\$ 473,579
Rig ST-22	\$ 552,709
<b>Total</b>	<b>\$ 4,921,651</b>

**Spare parts stock is high. We are planning to reduce the spare parts stock as follows:**

- One main warehouse at Badr yard.
- One small warehouse at each area (Abou Rudies – El Salam Base – Karama area).
- Improve spare parts quality (improve quality & Reduce quantity).
- Standardize equipment to minimize spare parts quantity.

## What Went Well?

- Almost receiving rigs on time.
- Covering customers' needs.
- Gaining good reputation in the Egyptian drilling market.
- Searching & found a high quality materials & spare parts in China.
- Hiring & training all the required crews in short & tight time.
- Reviewing market, raising salaries, adding more benefits and getting good experienced staff.

## What need to be improved?

- Reducing rigs move time (2 days for Land Drilling Rig & 1 day for Workover Rig).
- Spare parts & handling equipment quality.
- Critical & short time to hire & train crews.
- Shortage of experienced staff.
- Centralize materials warehouse & minimize stock of main yard this will be done as soon as Badr yard completed.
- Total lost time during year 2007 is \$300,000 (\$150,000 / rig / year) due to shortage in cranes.

### Total estimated lost time due to shortage of cranes during 2008:

- Land drilling rigs >>>> 116 days.
- Workover Rigs >>>> 84 days.

Estimated lost money due to shortage of cranes is \$2,484,400 in 2008.

### Operations Recommendation:

- Rent 3 cranes, first year with estimated rent cost \$360,000.
- Buy 3 new cranes 50T at estimated cost of \$2,460,000.
- We are planning to buy 3 new cranes during 2008.

# SinoThorwa's Rigs Status by the End of 1st Quarter 2008:

By the end of the 1st quarter of 2008 SinoThorwa will have a total number of 13 rigs (10 Land Drilling Rigs & 3 Workover Rigs).

## Rig ST-5



Rig's capacity  
Rig contracted  
Rig will start operations

Rig ready for shipment in China.  
1500 HP (SCR).  
for two years with Khalda Petroleum Company.  
by end of February 2008.

## Rig ST-6



Rig's capacity  
Rig contracted

Rig under fabrication.  
Rig will be ready to start operations by March 2008.  
1500 HP (SCR).  
for two years with Qarun Petroleum Company.

## Rig ST-7



Rig's capacity  
Rig contracted with

Rig under fabrication.  
1000 HP (SCR).  
Petrodara for 2 years.

## Rig Mubarak-2 (ST-8)



Rig's capacity  
Rig contracted with

Rig under fabrication (EPHH).  
Rig will be ready for operations by March 2008.  
1500 HP (AC).  
Agiba Petroleum Company for 2 years.

## Rig Mubarak-1 (ST-9)



Rig's capacity

Rig contracted with

Rig rigging up in EPHH's yard & under inspection.

Rig available at factory and will be delivered to operator by February 2008.

2000 HP (AC).

VEGAS Petroleum Company for three years .

## Rig Mubarak-3 (ST-10)



Rig's capacity

Rig contracted with

Rig under fabrication (EPHH).

Rig will be available by March 2008.

1500 HP (AC).

Wasco for 2 years.

## Rig ST-23

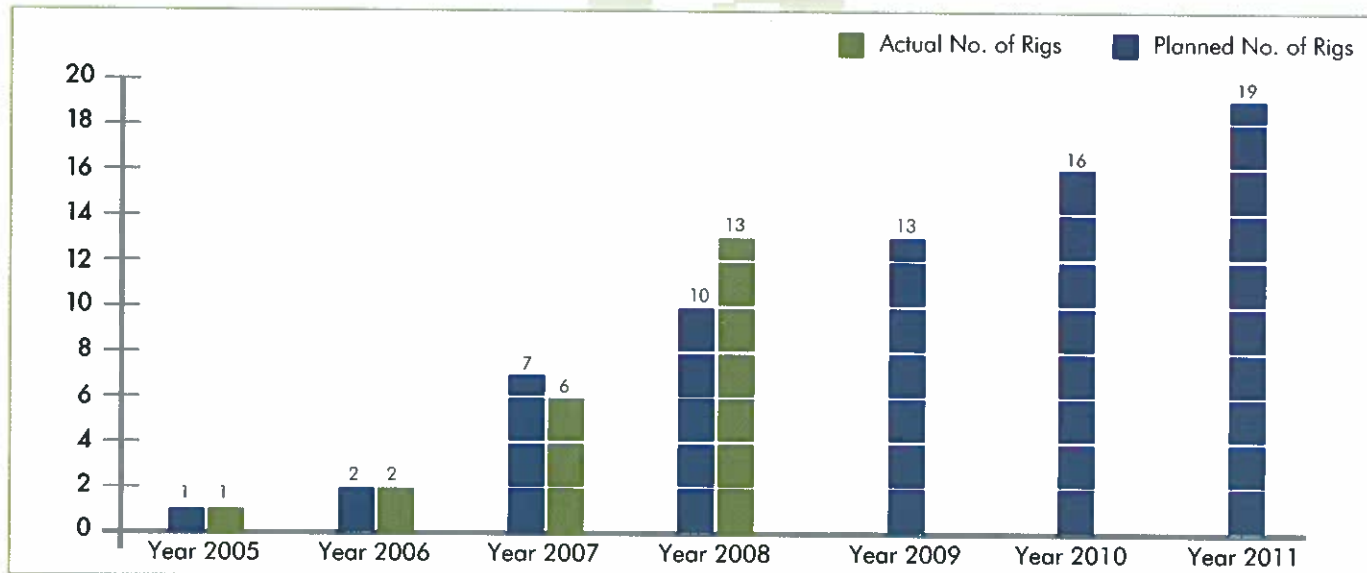


Rig's capacity  
Rig contracted

Rig ready for shipment in China.  
650 HP (Mechanical).  
for two years with Petrobel Company.

## SinoTharwa's 5 Years Plan (2007 - 2011) VS Actual Results:

The herein below graph explain SinoTharwa's 5 years plan for the number of the rigs VS the actual status.





# Engineering in Brief:

Each year, industry spends 5000 billion USD on equipment maintenance. According to maintenance specialist, at least 60% of this amount is wasted (and that's just the tip of the iceberg). Bad maintenance is responsible for equipment failures, disrupted production schedules, delay in deliveries and poor product quality.

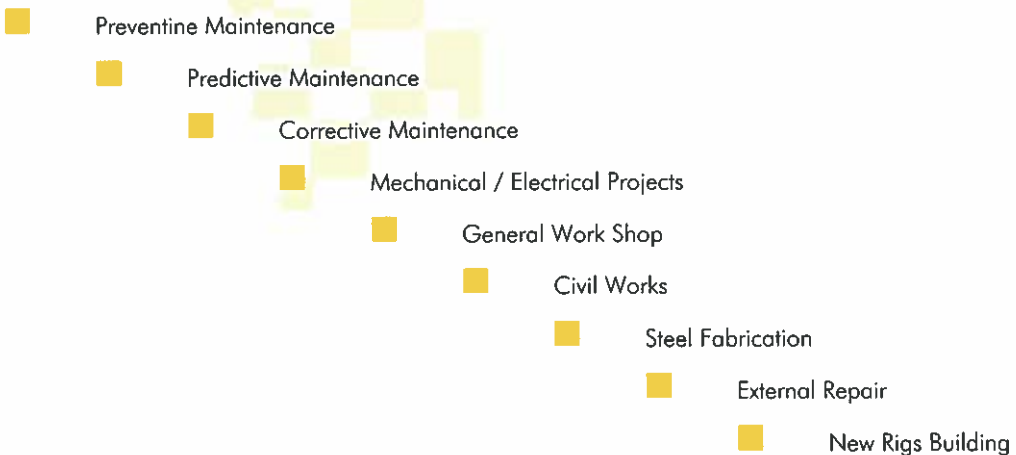
## Why is industry wasting 2 out of every 3 dollars spent on maintenance?

The answer is simple: **Poor management and poor systems.** Preventive and predictive maintenance techniques provide data that defines servicing and inspection periods accordingly maintenance departments can determine, in advance, when equipment should be shut down for overhaul. Statistics are proving that; these programs – properly implemented – can minimize equipment and system breakdowns, resulting in a major reduction in total maintenance and operation costs.

## We are considering the following facts in our work:

- 50% of environmental incidents caused by equipment failures.
- Most machine failures are not by chance; they occurred by deterioration or drift!

# Engineering Activities

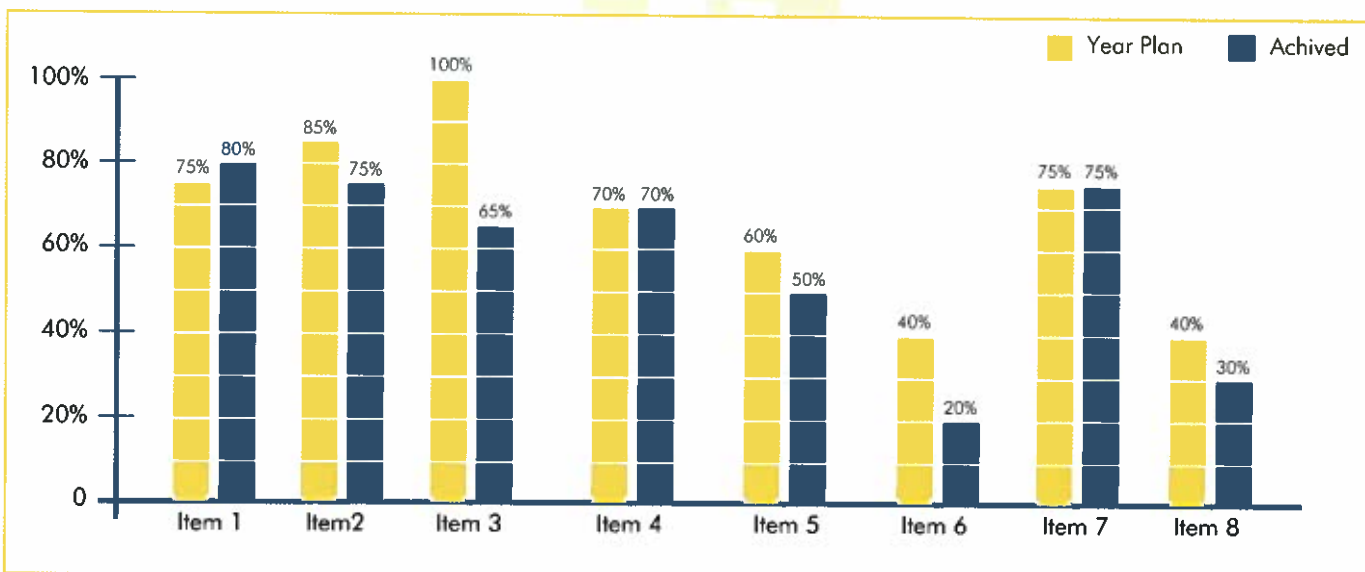


# 2007 Achievements:

## Maintenance:

### 1- Maintenance Office:

Item	Objectives	Year Plan	Achieved
1	Establish Rigs' Data Base	75%	80%
2	Prepare Equipment Maintenance Work Instructions	85%	75%
3	Collecting Rigs Manuals & Guide Books	100%	65%
4	State Company's Standards	70%	70%
5	Providing the Egyptian Drilling Market with Smart Generation of Drilling Technical Engineers	60%	50%
6	Establish Internal Audit System	40%	20%
7	ST-2 Hoisting Equipment Overhauling	75%	75%
8	Apply Technical training Courses	40%	30%

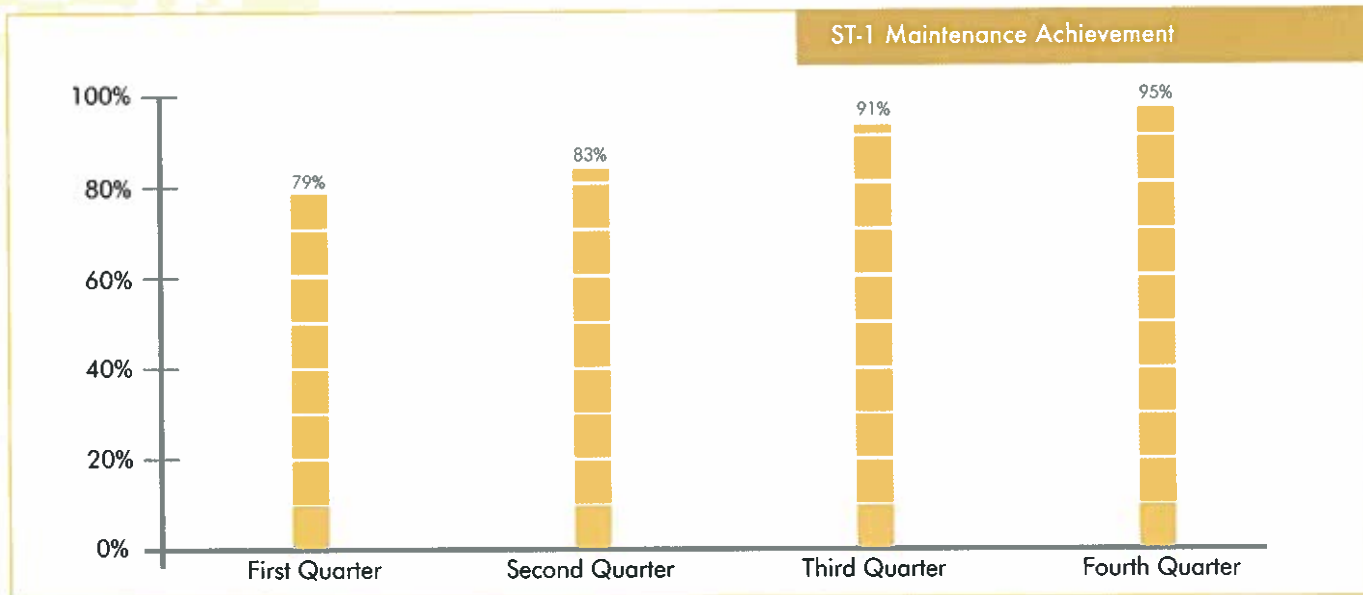


## 2- Rigs Maintenance

### - Rig ST-1:

Period	Task	Mechanical	Electrical	Total	Achievement %
1 <sup>st</sup> Quarter	Tasks Achieved	78	134	212	79%
	Total Budgeted Maint. Task	89	181	270	
2 <sup>nd</sup> Quarter	Tasks Achieved	76	166	242	83%
	Total Budgeted Maint. Task	95	197	292	
3 <sup>rd</sup> Quarter	Tasks Achieved	105	162	266	91%
	Total Budgeted Maint. Task	96	197	292	
4 <sup>th</sup> Quarter	Tasks Achieved	92	177	269	95%
	Total Budgeted Maint. Task	99	184	283	

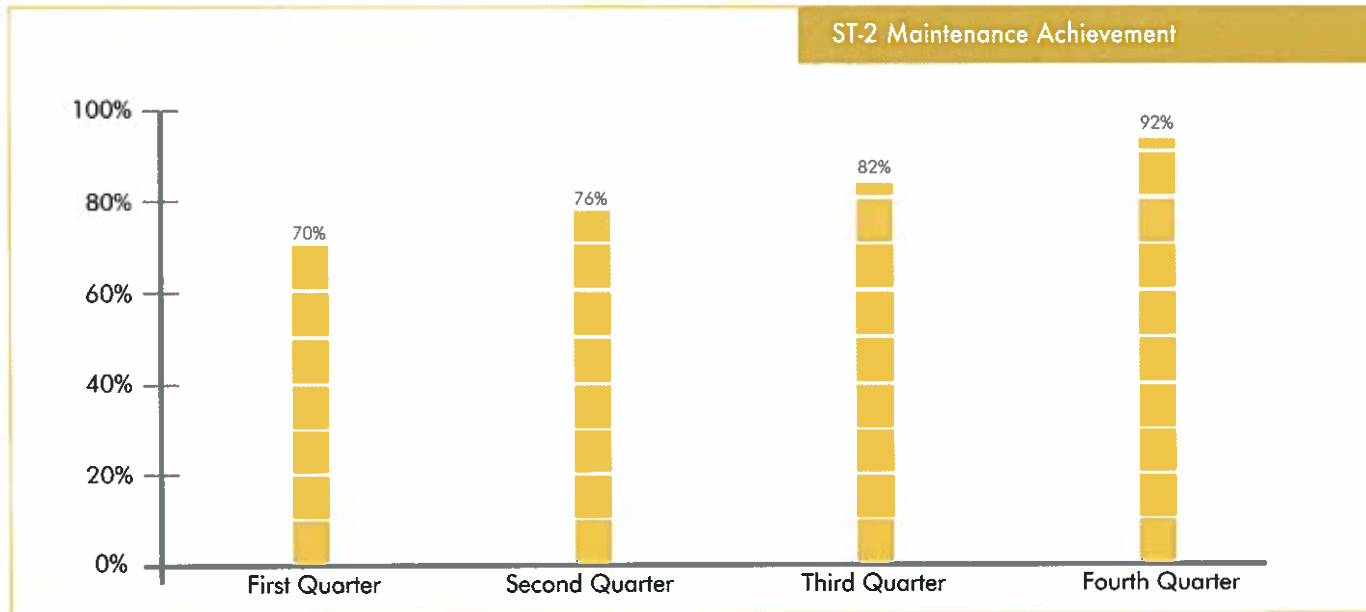
Note: complete up grading done during the 2nd Quarter On ST-1.



## Rig ST-2:

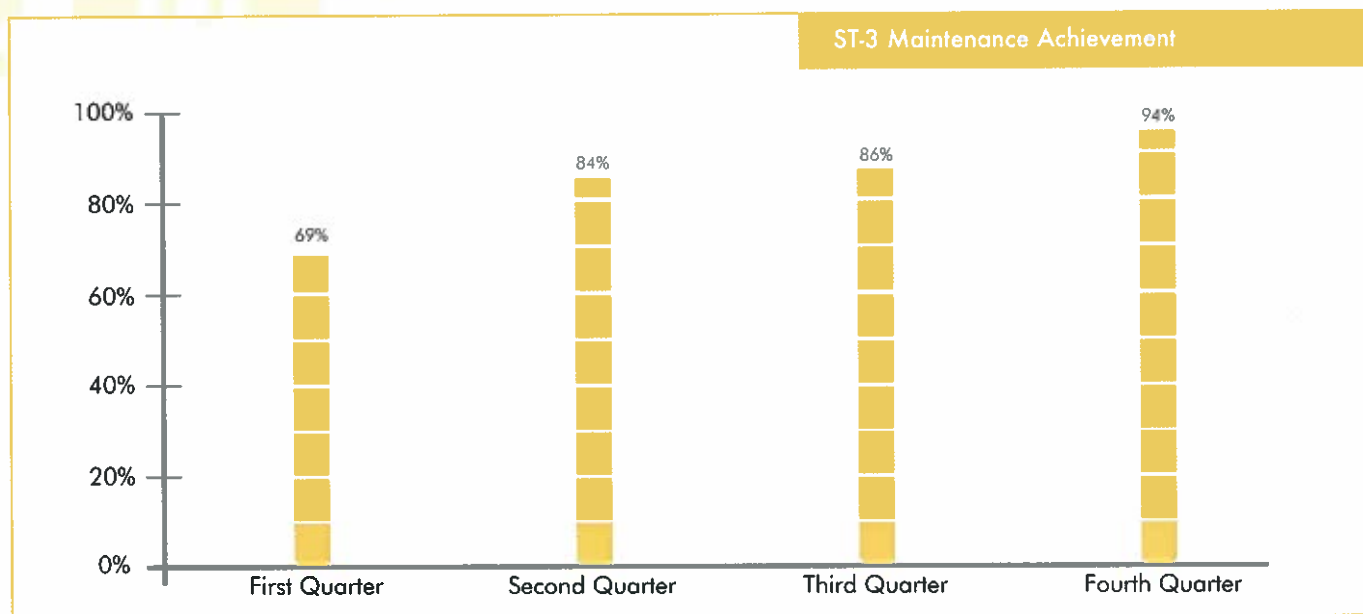
Period	Task	Mechanical	Electrical	Total	Achievement %
1 <sup>st</sup> Quarter	Tasks Achieved	73	123	196	70%
	Total Budgeted Maint. Task	103	178	281	
2 <sup>nd</sup> Quarter	Tasks Achieved	84	97	181	76%
	Total Budgeted Maint. Task	94	145	239	
3 <sup>rd</sup> Quarter	Tasks Achieved	67	117	184	82%
	Total Budgeted Maint. Task	90	134	224	
4 <sup>th</sup> Quarter	Tasks Achieved	26	91	117	92%
	Total Budgeted Maint. Task	100	158	126	

Note: complete up grading done during the 4th Quarter on ST-2.



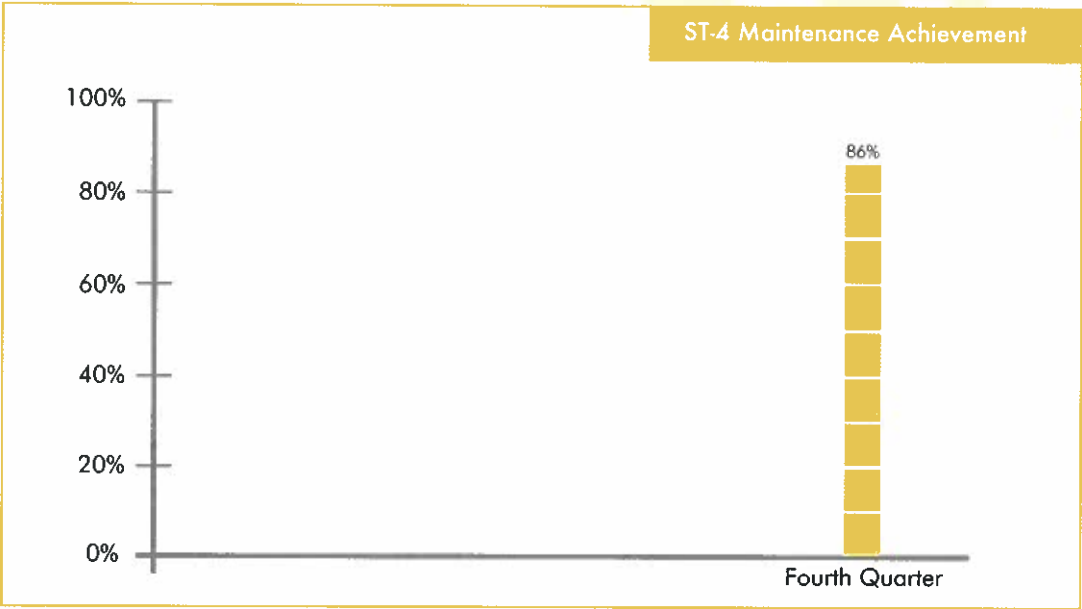
## Rig ST-3:

Period	Task	Mechanical	Electrical	Total	Achievement %
1 <sup>st</sup> Quarter	Tasks Achieved	67	126	193	69%
	Total Budgeted Maint. Task	105	175	280	
2 <sup>nd</sup> Quarter	Tasks Achieved	63	114	177	84%
	Total Budgeted Maint. Task	72	139	211	
3 <sup>rd</sup> Quarter	Tasks Achieved	116	152	268	86%
	Total Budgeted Maint. Task	114	197	311	
4 <sup>th</sup> Quarter	Tasks Achieved	90	181	271	94%
	Total Budgeted Maint. Task	100	189	289	



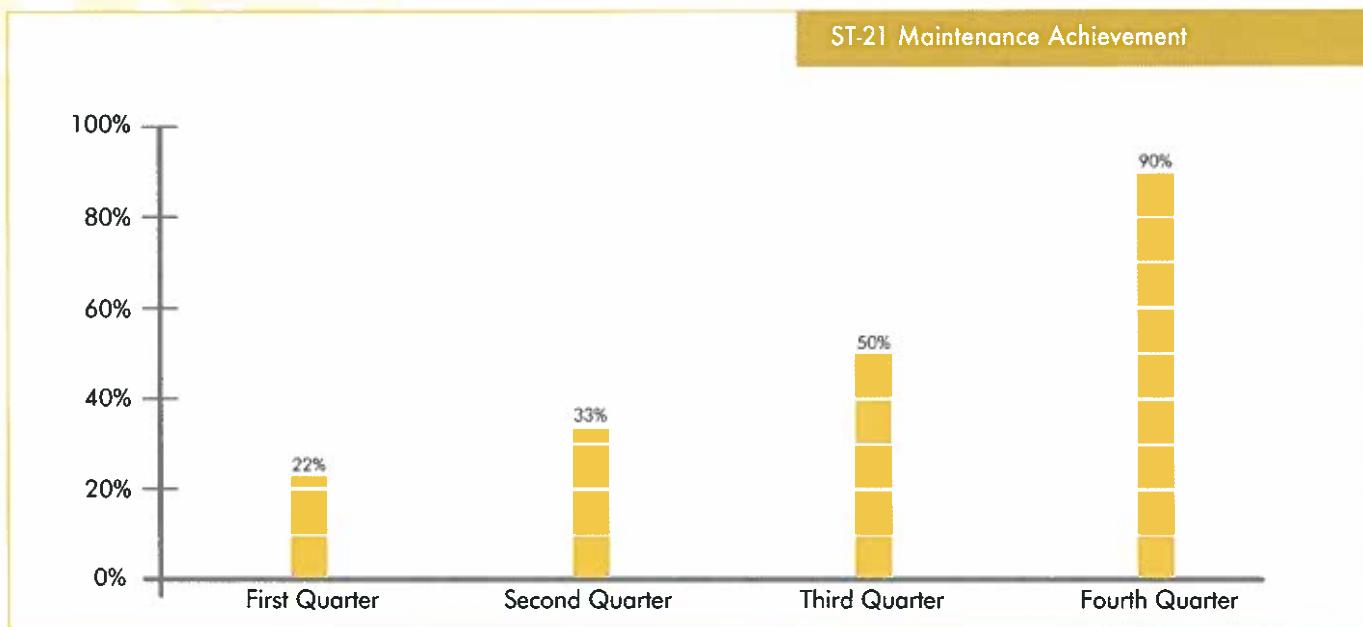
Rig ST-4:

Period	Task	Mechanical	Electrical	Total	Achievement %
4 <sup>th</sup> Quarter	Tasks Achieved	70	81	151	86%
	Total Budgeted Maint. Task	81	94	175	



## Rig ST-21:

Period	Task	Mechanical	Electrical	Total	Achievement %
1 <sup>st</sup> Quarter	Tasks Achieved	21	12	33	22%
	Total Budgeted Maint. Task	77	74	151	
2 <sup>nd</sup> Quarter	Tasks Achieved	34	22	56	33%
	Total Budgeted Maint. Task	76	92	168	
3 <sup>rd</sup> Quarter	Tasks Achieved	15	62	77	50%
	Total Budgeted Maint. Task	74	79	153	
4 <sup>th</sup> Quarter	Tasks Achieved	72	76	148	90%
	Total Budgeted Maint. Task	81	83	164	



# Projects:

## 1- Existing Rigs:

### ST-1 Upgrading:

- Upgrade / Refurbish the rig (Mast, substructure sandblast including MPI)



- Mud System modification & upgrading upon the operator needs & operation demands

### ST-2 Upgrading:

- Upgrade / Refurbish the rig (Mast, sub base sandblast steel fabrications, renew rig floor including MPI)



- Fabricated high pressure mud pump lines & standard standpipe manifold

## 2. New Rigs:

- ST-3 Rigged up in January 2007:



- ST4 Rigged up on September 2007:



- ST21 Rigged up on January 2007 and ST22 on November 2007:



- ST 23 Work over rig 650 HP & ST5 - 1500HP drilling rig build in China. Expected arrival date on middle of March 1<sup>st</sup>, 2008:

- MUBARAK-1 (ST 9) drilling rig 2000 HP assembled in EPHH factory in Sokhna and will be moved to location by February 2008:



### 3. Fabrication:

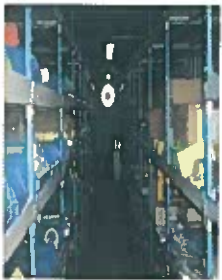
- Rig site camp on trailers



- Main & rig site camp fabrication for rig ST21, ST22, ST4, and rig 5 including master skids, and walkways



- Fuel, drill and pot water tanks for rig site and main camp for riupcoming rigs



- Warehouses provided with its shelves for rigs 22, 4, 23, and rig 5 power houses for camp sites rigs # 21, 22, 4, and rig 5



- Tool and pipe boxes, for all rigged up rigs and the coming rigs



- Establish yard with fence for all rigs



#### 4. Modifications:

- Mud System modification as per operation requirements



- Casing stabbing board modification according to Moduspec recommendation



- Fabricate and installed engines roof with spark arrestor mufflers



- Mud System modification (new shakers installation)



- Drill water tanks modification and its piping



- Refurbish Driller console



## 5. New Equipment Installed:

- Install H2S & LEL system on ST#1, 2, 3, 4



- Man Rider Installation (as per API instruction) for all rigs

- Renew the mixing & supercharge pumps



- Install new alarm panels for main engines

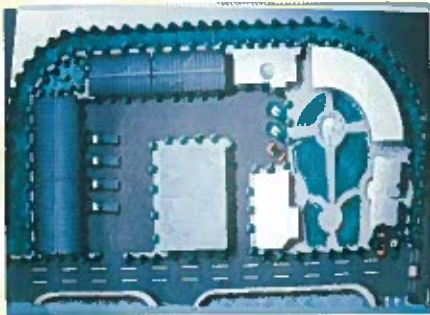
- *Install Fuel Purifier*



- *Top Drive Installation & Commissioning for Rigs 1, 3, 4*

## 6. Civil Works:

### Badr Yard:

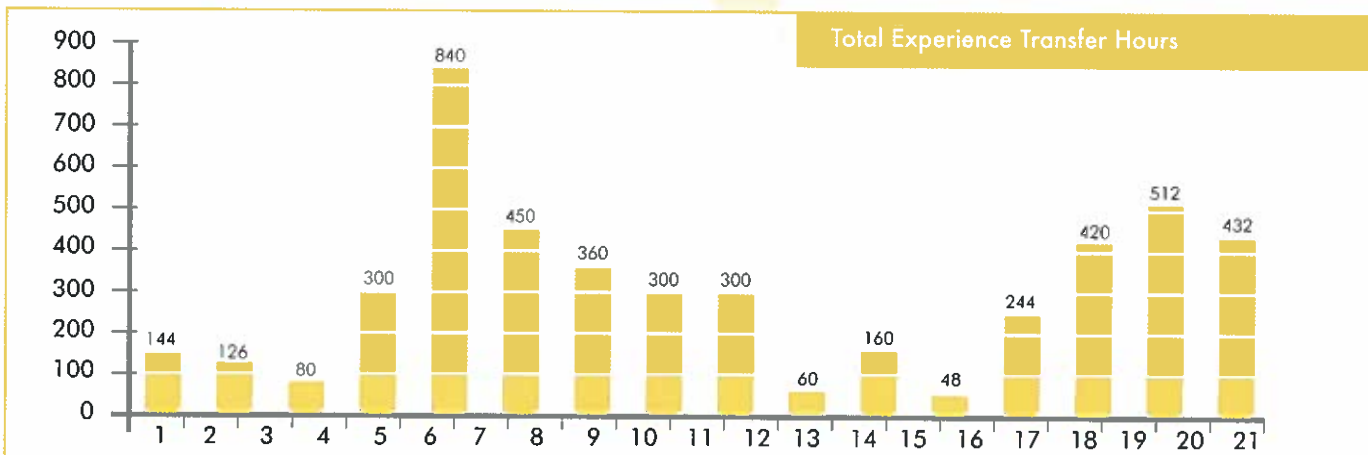


### Other Civil Works:

- *Rigs Locations Preparationsl.*
- *Rigs Yards & Camps Preparations.*

## 7. Experience Transfer:

2007 Experience Transfer Outlines				
Item	Training Subject	Number of Trainees	Training Hours	Total Hours
1	Diesel Engine Fun.	6	24	144
2	Testing & Adjusting 3512	7	18	126
3	Testing & Adjusting 3406	5	16	80
4	Maint. Chidong	5	60	300
5	Mud Pump	4	210	840
6	Compound	5	90	450
7	Rotary	4	90	360
8	Traveling Block	6	50	300
9	Crown Block	6	50	300
10	Dead Line Anckor	3	20	60
11	DrawWorks	4	40	160
12	Power Tong	2	24	48
13	SWIVEL	4	61	244
14	Air Hoist	0	0	0
15	Air Compressor	0	0	0
16	Air Conditioning	0	0	0
17	Power Generation	0	0	0
18	SCR	0	0	0
19	ABB AC Drives	12	35	420
20	Drill Watch	16	32	512
21	Top Drive System	18	24	432
<b>Total</b>		<b>107</b>	<b>844</b>	<b>4344</b>



# SinoTharwa's Engineering in 2008:

*Regarding the company's fast expansion due to the high demand on the land drilling rigs, Engineering department is sharing the company growing responsibilities with the other departments .our understanding is that; this quick growing is a challenge which needs us to expand and improve the existing systems, create new tools of inspection, analysis, monitoring and auditing to prevent the shut down and avoid unsafe acts. Our satisfaction is that we can do better than which done*

## In maintenance:

Expand:

### A) Proactive Maintenance Technologies

- Root Cause Failure Analysis (RCFA).
- Precision rebuild and installation procedures.
- New and rebuilt performance specifications and equipment certification.
- Reliability Engineering.

Improve:

### B) Advanced Topics

- Practical applications of Reliability Centered Maintenance (RCM) to maximize maintenance.
- Using inter-connectivity between CM/PM/PdM/RCM and Proactive maintenance to realize improvements.
- PM optimization.

## In Projects:

- Finish BADR yard establishment
- Activate our computerized maintenance program.
- Upgrade ST 22 from work over to drilling Rig.
- New Rigs rig up and commissioning.
- Modificate 2 ea new rigs in EPHH (ST8 & ST10) as per our standards
- Convert ST 2 from mechanical Rig to be electrical (AC or DC) Rig.
- Planning to convert work over rigs to trailer mobilization rigs saving the time and cost

## In Training:

- Continue in job training
- Outboard drill watch training
- Outboard SCR training
- General hydraulics course
- TDS 9/11 AC Mechanical course
- Ross hill intermediate SCR maintenance course (Generator controls)
- Ross hill intermediate SCR maintenance course (SCR controls)
- PLC ABB COURSE

## In Management Considerations:

- Program justification and budget considerations.
- Getting the “biggest bang for the buck”.
- Skill requirements for new technologies (job descriptions).
- Goal setting and results measuring (benchmarking).
- Benefits & economics of PPM.

# IT & Telecommunication

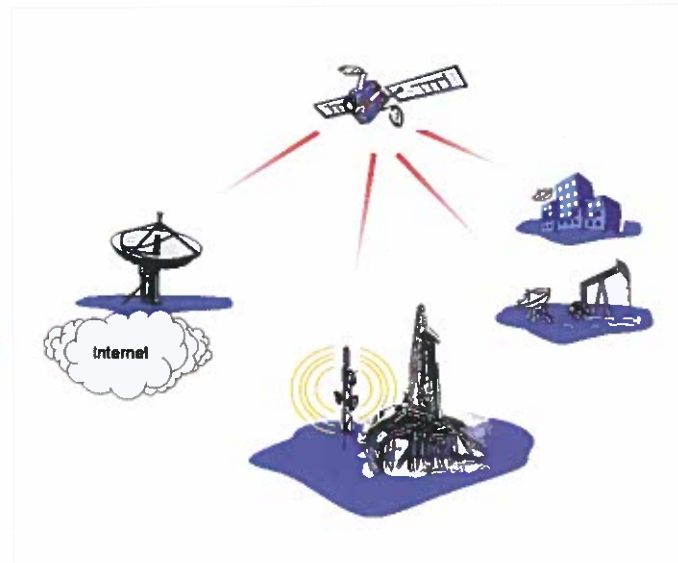
THE BEST WAY TO PREDICT THE FUTURE IS TO CREATE IT

## VSAT Satellite Internet Solution:

Our high-speed satellite Internet system combines a VSAT modem and a 1.2 meter broadband satellite Internet dish. This carries of our Voice-Over IP communication, consisting of two components, one at each end (remote and office). This system also features a bandwidth management system that guarantees bandwidth to our most important applications.

So far, these systems had been installed and are operational at all of our Rigs sites.

The same solution will be implemented in all our upcoming Rigs.



## Satellite Telephones:

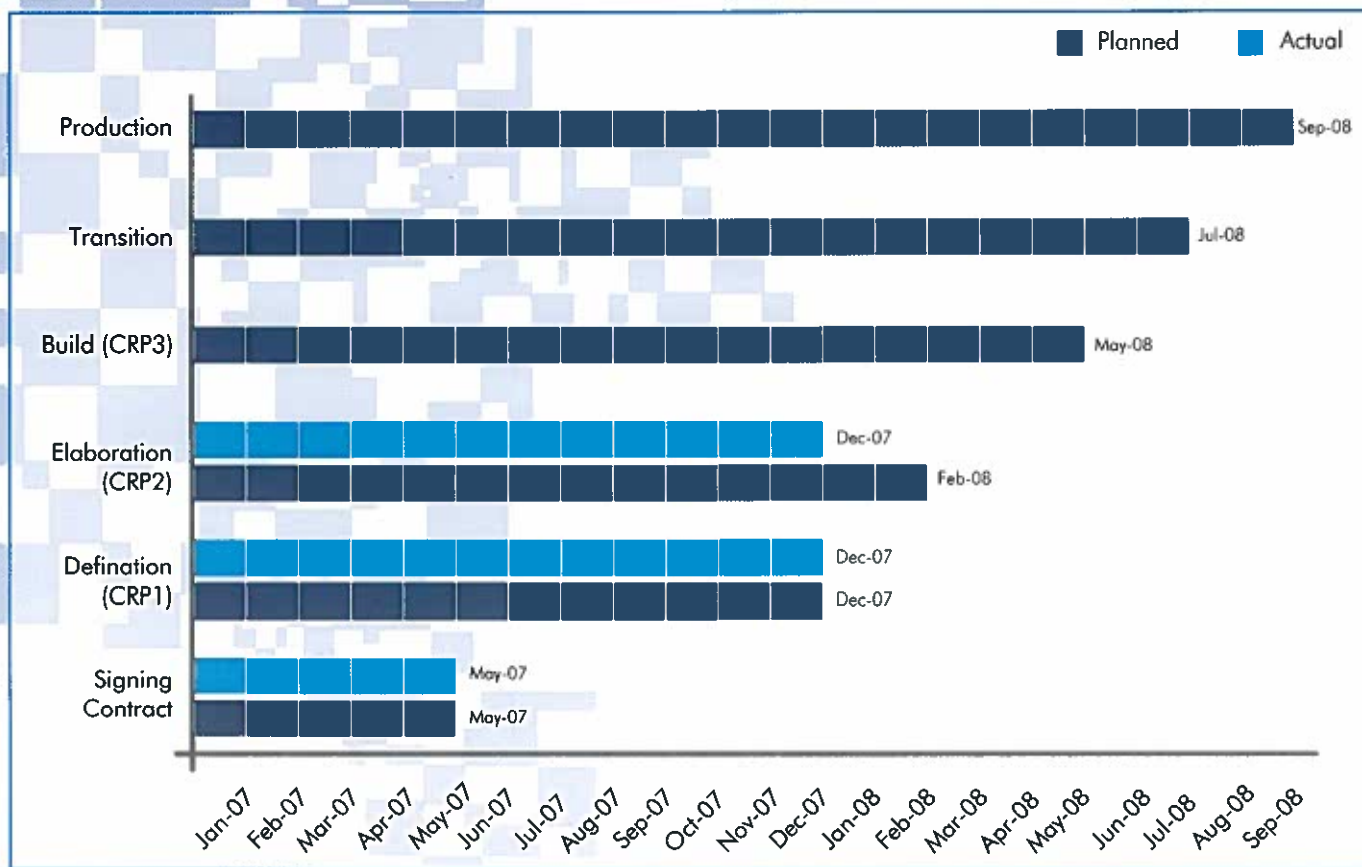
We have now a **satellite telephone system.**

- It is a complete, hardware-based solution that requires no special software.
- Voice quality is similar to a good mobile phone, though you'll have the slight satellite delay.
- The best part of this system is that you can extend a local call across the satellite link even if the remote site is a drilling rig outside any coverage area.
- Other features include standard types of dialing and the ability to support inbound and outbound faxes.

These phones are operational and ready-to-use whenever the needs arise.

## ERP System (Oracle) Implementation:

- August 2007 is considered the real start of the Implementation of Oracle Applications. The implementation uses an iterative approach based on Conference Room Pilots (CRPs) that incorporates our involvement from the very beginning and throughout the lifecycle.
- Since this real start till the end of the 2007, our management, with the help of Giza Systems' Consultants, were busy exploring and getting familiarized to Oracle Applications using Business Flows, mapping these Flows to SinoTharwa's Business Processes and identifying gaps and additional requirements.
- Definition Phase, represented in CRP1, has been completed successfully and considered an excellent experience for our departments' heads. This phase results is better understanding of:
  - 1- Our requirements.
  - 2- Deployment of these requirements.
  - 3- Getting the most advantage of every single function in the Applications, not only to meet but also to enhance our processes
- The coming step is to start the Elaboration Phase, where gaps and additional requirements identified in the Definition Phase will be addressed and elaborated, if needed, in order to reach a final solution to our requirements.
- By the mid of 2008, SinoTharwa will use a fully integrated ERP Applications, which, enhances processes, eliminates double work, allows better control and speeds up response to top management requirements.



**Finance**

Where Vision Gets Built

# Financial Auditor Report



MOSTAFA SHAWKI & CO

Translation of Financial Statements  
Originally Issued in Arabic

## INDEPENDENT AUDITORS' REPORT

To the Quota holders of  
Sino Tharwa Drilling Company  
"Limited Liability Company Private Free Zone"

We have audited the Financial Statements of **Sino Tharwa Drilling Company "A Limited Liability Company Private Free Zone"** for the year ended 31 December, 2007, which comprise the balance sheet as of December 31, 2007, the statements of income, cash flows and the change in quota holders equity for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Egyptian Standards on Auditing and in light of governing laws. Those standards require that we plan and perform the audit to obtain a 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 evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and the results of its operations, its cash flows and change in its quota holders equity for the year then ended in conformity with Egyptian Accounting Standards and in light of governing laws.

The company maintains proper accounting records that include all that is required by law and the company statutes. The inventory physical count was conducted by the company's management in accordance with normal practice.

The financial information referred to in the Board of Managers' report, prepared in compliance with Law No. 159 of 1981, and its executive regulations, are in agreement with the company's records to the extent such information is normally recorded.

Auditor

Dr. Ahmed Shawki

MAZARS MOSTAFA SHAWKI

Cairo, 7 February 2008

152 Mansour El Fakhry Street, Mostafa Shawki P.O. Box 2080, El-Dokki, El-Dokki, El-Dokki, El-Dokki  
Tel: 0020 111 2288 990 880 241 220 051 9410  
E-mail: mazars@mazars.com www.mazars.com

# Financial Statements for the Year Ended 31th December, 2007

## Balance Sheet as of 31 December 2007 (Amounts Expressed in USD)

	Note	2007	2006
<b>Long Term Assets:</b>			
Fixed Assets (Net)	3-2F	64,265,124	20,400,241
Projects Under Construction	4-2G	53,027,390	39,701,893
<b>Total Long Term Assets</b>		<b>117,292,514</b>	<b>60,102,134</b>
<b>Current Assets</b>			
Inventory	5-2H	4,921,651	1,175,148
Accounts Receivable	6-2K	5,860,176	1,420,539
Debitors and other debit balances	7	539,722	40,822
Cash at bank balances	8-2I	17,056,739	10,990,968
<b>Total Current Assets</b>		<b>28,378,288</b>	<b>13,627,477</b>
<b>Current Liabilities</b>			
Loans annuities due within a year	13-2Q	9,490,220	5,431,082
Creditors and other credit accounts	9	13,342,476	10,851,044
<b>Total Current Liabilities</b>		<b>22,832,696</b>	<b>16,282,126</b>
Working Capital		5,545,592	(2,654,649)
<b>Total Investments- Financed as follows:</b>		<b>122,838,106</b>	<b>57,447,485</b>
<b>Quota holders equity:</b>			
Capital	10	40,000,000	18,000,000
Legal reserve	11	171,422	--
Retained earnings		1,145,428	--
Net profit for the period		3,403,140	1,714,224
<b>Total Quota holders Equity</b>		<b>44,719,990</b>	<b>19,714,224</b>
<b>Long Term Liabilities</b>	13- 2Q		
Long term loans		76,982,753	37,733,261
Creditors For Purchasing Fixed Assets		1,135,363	--
<b>Total Long Term Liabilities</b>		<b>78,118,116</b>	<b>37,733,261</b>
<b>Total Investments and long term assets</b>		<b>122,838,106</b>	<b>57,447,485</b>

- The accompanying notes are an integral part of these financial statements
- Auditors' report attached

# Financial Statements for the Year Ended 31th December, 2007

## Income Statement

For the period from 1st January 2007 to 31st December 2007

Description	2007	2006
Operating Revenue	22,495,928	9,621,021
<b>Deduct:</b>		
Operating Expenses	14,477,774	6,620,277
<b>Gross Profit</b>	<b>8,018,154</b>	<b>3,000,744</b>
<b>Deduct:</b>		
General & Administrative Expenses	2755071	1211396
Financing Expenses	1914174	311866
Capital Losses	371672	--
Board of Directors' Allowances	67096	22494
<b>Add:</b>		
Capital Gain	301915	--
Interests Received	191084	243799
Other Revenue	--	15437
<b>Net Profit for the Period</b>	<b>3,403,140</b>	<b>1,714,224</b>

# Financial Statements for the Year Ended 31th December, 2007

## Cash Flow Statement

For the period from 1st January 2007 to 31st December 2007

	2007	2006
<b>Cash Flow from Operating Activities</b>		
Net profit for the period	3,403,140	1,714,224
Adjustments for net profit with cash flow from operating activities		
Fixed Assets Depreciation	4,952,419	2,452,189
Gain on sale of Fixed Assets	(301,915)	
<b>Operating Profit before changes in working capital</b>	<b>8,053,644</b>	<b>4,166,413</b>
<b>Working Capital Changes</b>		
(Increase) in Inventory	(3,746,503)	(1,175,148)
(Increase) in Clients	(4,439,637)	(1,420,539)
(Increase) in - Debtors & other debit accounts	(498,900)	(40,822)
Increase in creditors and other credit accounts	2,491,432	10,851,044
<b>Net Cash Flow from operating activities</b>	<b>1,860,036</b>	<b>12,380,948</b>
<b>Cash Flow from Investing activities</b>		
Gain on sale Of Fixed Assets	301,915	--
Purchase of fixed assets	(48,817,302)	(22,852,430)
Increase on projects under construction	(13,325,497)	(39,701,893)
<b>Net Cash Flow (used) for Investment Activities</b>	<b>(61,840,884)</b>	<b>(62,554,323)</b>
<b>Cash Flow from Financing Activities</b>		
Increase in Short Term loans	4,059,138	5,431,082
Increase in Long Term Loans	40,384,852	37,733,261
paid profit dividends	(397,371)	--
Capital Payment	22,000,000	18,000,000
<b>Net Cash Flow from Financing Activities</b>	<b>66,046,619</b>	<b>61,164,343</b>
Net increase in cash and cash equivalent	6,065,771	10,990,968
Cash and cash equivalent beginning balance	10,990,968	--
<b>Cash and cash equivalent ending balance</b>	<b>17,056,739</b>	<b>10,990,968</b>
<b>Cash and Cash equivalent represent :</b>		
Cash at banks	17,056,739	10,990,968
	<b>17,056,739</b>	<b>10,990,968</b>

# Financial Statements for the Year Ended 31th December, 2007

## Changing in Shareholders Equity Statement

For the financial period from 1st January 2007 to 31st December 2007

Description	Capital	Legal Reserve	Retained Earnings	Net Profit	Total
Paid Capital	18,000,000	--	--	--	18,000,000
Year Net Profit	--	--	--	1,714,224	1,714,224
<b>Shareholders equity on 31 December 2006</b>	<b>18,000,000</b>	<b>--</b>	<b>--</b>	<b>1,714,224</b>	<b>19,714,224</b>
Shareholders equity on 1 January 2007	18,000,000	--	--	1,714,224	19,714,224
Payment of Capital	22,000,000	--	--	--	22,000,000
Dividends	--	--	--	(1,714,224)	(1,714,224)
Transferred to legal reserve	--	171,422	--	--	171,422
Transferred to retained earnings	--	--	1,145,428	--	1,145,428
Year Net Profit	--	--	--	3,403,140	3,403,140
<b>Shareholders equity on 31 December 2007</b>	<b>40,000,000</b>	<b>171,422</b>	<b>1,145,428</b>	<b>3,403,140</b>	<b>44,719,990</b>

# 1. The Company:

Sino Thorwa Drilling Company "Limited Liability Company Private Free Zone" was established in the Arab Republic of Egypt on 29th of August 2005 based on the free zone system according to Investment Incentives and Guarantees Law No. 8 for the year 1997 and taking into consideration Law No.95 for the year 1992. The company was registered in the Commercial Register No. 12235 on 29th of August 2005.

The purpose of the company is to drill and maintain oil wells and perform other related activities, establish workshops for the maintenance of drilling, production, service equipment, transportation, renting necessary equipment to serve the drilling of wells, exclusively working with drilling and exploitation companies, which enjoy customs exemption, and companies working outside Egypt.

## 2. Significant Accounting policies :

As summary of the principal accounting policies, all of which have been applied consistently throughout the period, is as follows:

### A. Accounting Basis:

The accounts have been prepared in accordance to the Egyptian Accounting Standards and in compliance with relevant Egyptian laws and regulations.

### B. Measurement Basis :

These financial statements have been prepared using the historical cost convention. The financial assets and liabilities have been prepared using the fair value convention.

### C. Functional and Reporting Currency :

The financial Statements have been prepared in U.S Dollar which is the functional and reporting currency.

### D. Use of Estimate:

The preparation of financial statements in conformity with Egyptian accounting Standards requires the use of estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although, these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

- Estimates and related assumptions are reviewed on a regular basis.
- In case change in estimates relates to the current period, it is recognized therein. If it relates to this year and future years, it is recognized in both.

### E. Foreign Currency Transactions:

The company maintains its accounts in US Dollars. All transactions denominated in any other currencies are translated to US Dollar using the exchange rates published by EGPC, in the first day of each month in which the expenses is recorded.

At the period end the company revalues monetary assets and liabilities. Translation differences are included in the statement of Income.

### F. Fixed Assets:

#### a. Initial Recognition :

- Fixed assets are stated at historical cost and presented in the Balance Sheet net of accumulated depreciation and impairment loss.
- Fixed assets value includes all direct cost for acquiring the asset. For the assets that are internally produced, the cost includes material costs, direct labor cost and other overhead cost necessary to make the asset ready for use in its intended place and purpose. It also includes costs of removing the asset and the rearrangement of the asset's location.
- The special component is accounted as independent item of the fixed assets that differs in their useful life

#### b. Subsequent Cost:

The book value of fixed assets includes the cost of replacing part or a component of these assets, when future economic benefits of this cost are expected and cost could be reliably measured. Other costs are recognized in the income statement as incurred.

#### c. Depreciation :

Fixed assets are stated at historical cost and are depreciated using the straight line depreciation method based on their estimated useful lives using the following annual rates:

Asset	Depreciation Rate
Rigs and Drilling Equipment	8 - 6.25 %
Drill String	33%
Buildings and Constructions	5-10-15-33%
Transportation	10-20%
Furniture and Office Supplies	10%
Computers	33%

The company starts depreciation from the month succeeding the date of using the assets in operations.

## G. Projects under Construction:

Projects under construction are recognized at cost according to the initial recognition. Cost includes all expenditures necessary for bringing the asset to a working condition and for its intended purpose. Projects under construction are transferred to fixed assets, when it is ready for use in its intended purpose.

## H. Inventory

Materials inventories are priced at a cost or net realizable value whichever is the lower. Cost includes purchase costs and all incidentals until delivered to the company's warehouse. Cost is determined according to First In First out method.

## I. Cash and Cash Equivalents :

For the purpose of the statement of cash flows, the company considers all cash, bank current accounts, demand deposits and bank overdrafts that are part of the company's cash management system to be cash and cash equivalent.

## j. Impairment

### a. Financial assets:

- The financial asset is considered to be impaired if there is subjective evidence showing that there is one or more event negatively affect the estimated future cash flow from that asset.
- Impairment loss on financial asset measured at amortized cost is calculated as the net of the book value and the fair value of the estimated cash flow as discounted using the effective interest rate.
- Impairment loss on financial assets available for sale is calculated with reference to the current fair value.
- Impairment loss is measured independently on each asset. The value of other financial assets is estimated for each group that common credit risk characteristics.
- All impairment losses are stated in the Statement of Income. The accumulated losses related to the financial asset available for sale and that are previously included in the shareholders' equity is transferred to the Statement of Income.
- The impairment loss is shown in the Statement of Income if it is objectively related to an event after recognizing it. The financial assets available for sale which is considered as an equity tool is recognized directly in the quota holders' equity.

### b. Non-financial assets:

- The carrying amounts of the company's assets other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.
- For the goodwill and the intangible assets with non determinable life or that is not available for use, the recoverable amount is estimated at each balance sheet date.
- An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.
- The unit generating the cash flow is represented in the smallest group of the assets that generate cash inflow. Impairment losses are recognized in the income statement.
- The recoverable amount of the assets or its cash-generating unit represents its value in use or its fair value after deducting selling cost, whichever is higher. To realize the current value, the estimated cash flow is discounted using the discount rate before tax that reflects the current market evaluation of the time money value and risks related to the asset.
- Impairment loss related to the goodwill is not reversed. For other assets, the impairment loss recognized in the previous period is reviewed on the balance sheet date to be determining if there is any indication of loss decrease. In such case, impairment loss is reversed to the extent that the book values of the asset does not exceed its realizable value after depreciation had the impairment not occurred.

## K. Accounts Receivable and other debit balances

Customers balance is shown at expected net realizable value. Accounts are written off, when it is estimated that they would not be collected. Doubtful accounts are assessed based on a comprehensive review of all balances on the financial statements date.

## L. Suppliers – Current Account

Suppliers and other credit balances are stated at cost.

## M. Dividends:

Dividends are shown as a liability on the period of dividends declaration

## N. Expenses

### a. Rent expense

Paid rent is recognized in the income statement on a prorate temporaries. Incentives for rent collection are recognizes in the income statement as part of the rent expenses.

### b. Interest Expense

Interest expense is included in the income statement based on the accrual basis.

## O. Provisions

Provisions for liabilities are recognized when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the liability can be reliably estimated. Provisions are estimated by deducting the future cash inflow with the rate before tax which reflect the current market evaluation of the money value and risks related to the liability (when necessary) .

## P. Revenue Recognition

Revenue are measured using the fair value of the amount due based on the agreements. Revenue is recognized when economic future benefit is expected and reliably measured.

## Q. Borrowing Cost:

Cost of loans is charged as an expense during the period in which the company incurred such cost excluding, the interest directly related to the acquisition and construction of the new rigs which is capitalized over the entire cost of the rig and depreciated throughout the estimated lifetime of the Rig. Capitalization ceases upon the completion of the preparation of the Rigs and their readiness for operation.

## R. Employees' Pension System

The Company contributes to the governmental social insurance system for the benefit of its employees in accordance with the Social Insurance Law No.79 for 1975 as amended. Such contributions are charged to the expense in the income statement as incurred.

### 3.Fixed Assets (Net):

Fixed assets (net) amounted to US dollar 64,265,124 and is comprised as follows

Description	Rigs & Drilling Equip.	Drill Collars	Buildings and Construction	Trans. Units	Furniture and Office Supplies	Computers	Total
Assets Cost as of Dec. 31 , 2006	17,591,168	3,200,058	1,317,817	445,350	140,139	157,897	22,852,429
Additions for the period **	39,214,731	5,605,758	3,407,614	433,431	499,349	200,610	49,361,493
Disposals for the period	(28,896)	(429,957)	(53,689)	--	(21,204)	(10,443)	(544,189)
<b>Assets cost as of Dec. 31 ,2007</b>	<b>56,777,003</b>	<b>8,375,859</b>	<b>4,671,742</b>	<b>878,781</b>	<b>618,284</b>	<b>348,064</b>	<b>71,669,733</b>
Accumulated Depreciation as of Jan. 1st ,2007	1,356,158	841,412	156,218	62,715	9,916	25,770	2,452,189
Period Depreciation	2,769,525	1,688,732	441,197	123,342	34,505	67,636	5,124,937
Accumulated Depreciation of disposals	(2,890)	(137,522)	(26,803)	--	(2,120)	(3,182)	(172,517)
<b>Accumulated Depreciation as of Dec. 31 ,2007</b>	<b>4,122,793</b>	<b>2,392,622</b>	<b>570,612</b>	<b>186,057</b>	<b>42,301</b>	<b>90,224</b>	<b>7,404,609</b>
<b>Net assets as of Dec. 31,2007</b>	<b>52,654,210</b>	<b>5,983,237</b>	<b>4,101,130</b>	<b>692,724</b>	<b>575,983</b>	<b>257,840</b>	<b>64,265,124</b>
<b>Net assets as of Dec.31,2006</b>	<b>16,235,009</b>	<b>2,358,646</b>	<b>1,161,599</b>	<b>382,635</b>	<b>130,224</b>	<b>132,128</b>	<b>20,400,241</b>

\*\* Additions to rigs and drilling equipment for the year, amounted to \$49,361,493 included amount of \$1,828,686 as interest that is capitalized according to capitalization conditions based on interest rates applied on loans used to finance this equipment.

\*\* Rigs as of 31/12/2007 amounted to 6 (Six) rigs.

### 4. Projects under Construction:

Projects under construction reached an amount of 53,027,390 US Dollar, consisting of:

Description	2007	2006
Plot of land situated in Badr City (storage areas and workshops)	1,964,142	1,950,358
Advance payments for purchase of Rigs	51,063,248	37,751,535
	<b>53,027,390</b>	<b>39,701,893</b>

The advance payments represent the amounts paid for the purchase of 7 Rigs on account. They include an amount of US Dollar 1,097,123 representing interest on loan portions used to finance them.

### 5. Inventory:

The balance of inventory on December 31st , 2007 amounted to US\$ 4,921,651 comprised the following:

Description	Rig No.	2007	2006
Materials and spare parts	ST 1	889,931	599,053
Materials and spare parts	ST2	720,428	576,095
Materials and spare parts	ST3	1,031,190	--
Materials and spare parts	ST4	1,253,796	--
Materials and spare parts	ST21	473,597	--
Material and spare parts	ST22	552,709	--
		<b>4,921,651</b>	<b>1,175,148</b>

## 6. Account Receivables:

Accounts Receivables balances on 31/12/2007 amounted to \$5,860,176 is represented as follows:

Description	2007	2006
Baloyeim Petroleum Company – Petrobel (ST1 & ST3)	2,185,648	789,560
North Bahoria Petroleum Company – Norpetco (ST2 & ST21)	929,623	630,979
Arabian oil Company (ST4)	1,528,704	--
AGIBA (ST 2)	535,025	--
QARUN Petroleum Company (ST22)	588,877	--
Other customers	92,299	--
	<b>5,860,176</b>	<b>1,420,539</b>

## 7. Debtors and other Debit balances:

Debtors and other debit balances amounted to \$ 539,722 on 31/12/2007 as follows:

Description	2007	2006
Prepaid Expenses	155,137	15,061
Advances	11,162	11,805
Deposits with others	19,930	6,957
Accrued revenue	13,896	-
Advances paid to suppliers	245,357	6,999
Other debit balances	94,240	-
<b>Total</b>	<b>539,722</b>	<b>40,822</b>

## 8. Cash and Bank Balances:

Cash and bank balances amounted to \$ 17,056,739 consist of:

Description	2007	2006
Current accounts	877,090	9,322,744
Time deposits	16,016,649	1,512,094
Letter of guarantees cover	163,000	156,130
<b>Total</b>	<b>17,056,739</b>	<b>10,990,968</b>

## 9. Creditors and Other credit balances:

Creditors and other credit balances amounted to \$13,342,476 on 31/12/2007, comprised the following:

Description	31/12/2007	31/12/2006
Creditors for purchase of fixed assets – Sinopec Star (50% Quota Holder)	7,303,742	8,201,660
Creditors for purchase of fixed assets	3,015,834	2,210,509
Suppliers	992,276	392,598
Accrued expenses	846,508	28,929
Tax Authority – withholding tax	5,399	8,989
Other Credit balances	11,287	8,359
Warranty guarantee deducted	779,524	--
Warranty withhold from suppliers	387,906	--
	<b>13,342,476</b>	<b>10,851,044</b>

## 10. Capital:

The Company has a capital of \$18 Million, divided in 1,800 cash shares with a par value of \$ 10 000 each. Quota Holders subscribed to capital as follows :

Description	Equity	Dollar Value	Contribution Percentage
Sinopec Star Petroleum Co.	900	9,000,000	50%
Tharwa Petroleum Company	900	9,000,000	50%
	<b>1,800</b>	<b>18,000,000</b>	<b>100%</b>

In the General Assembly meeting dated March 19th, 2007, it was agreed to increase the capital to an amount of \$ 40,000,000 divided into 4,000 shares of \$10,000 par value, each. The General Assembly also approved that E-Gas Company becomes a quota holder.

Capital is structured as follows:

Description	Equity	Dollar Value	Contribution Percentage
Sinopec Star Petroleum Co.	2,000	20,000,000	50%
Tharwa petroleum Co .	1,450	14,500,000	36.25%
E-Gas Co.	550	5,500,000	13.75%
<b>Total</b>	<b>4,000</b>	<b>40,000,000</b>	<b>100%</b>

Such increase in Capital has been approved in the Commercial Registration for the Company on November 8th, 2007. The new capital structure took effect on 14 November 2007, when the profit for the period amounted to US dollar 2,779,094, while profit from 15 November 2007 till year end amounted to US dollar 624,046.

## 11: Legal reserve:

According to the company statutes, the company must deduct 10% of its profit as the legal reserve so as to reach 50% of the capital and whenever it decreases, the deduction is resumed. No dividends are allowed out of this reserve.

## 12 : Transactions with Related Parties:

Below, is a description of transactions conducted with related parties during the period

Name of Related Party	Nature of relationship	Nature of transaction	Transaction Value	Balance on 31/12/2007
Tharwa Petroleum Co.	36.25 % Quota Holder	Rent of free zone land and part of a building	8,265	345
Sinopec Star / Chinese Co.	50% Quota Holder	Purchase of drilling rigs, sustaining rigs, spare parts and technical consultancy	36,962,680	7,303,742 7,304,087

The balance for the above mentioned transactions is included in creditors and other credit balances (note – 9)

## 13. Loans:

Long term loans amounted to \$ 76,982,752 on 31 December 2007 are comprised of the following:

Long Term Loans Description	2007 Installment due		2006 Installment due	
	Short Term	Long Term	Short Term	Long Term
National Bank of Egypt Loan with an amount of 8 million USD acquired on 15/02/2006 with a grace period of 6 months ending Aug. 2007, used to buy Rig ST# 1 & ST#2, paid on quarterly basis	2,668,000	2,022,508	2,668,000	4,704,653
National Bank of Egypt Loan with an amount of 18 million USD acquired on 07/06/2006 with a grace period of 1 year ending Dec. 2016, used to buy Rig ST#3, paid on semi-annual basis	1,800,000	14,400,022	1,8863,082	16,200,000
National Bank of Egypt Loan with an amount of 18 million USD acquired on 01/08/2006 for a grace period of 1 year ending July 2017, used to buy Rig ST#21 & ST#4, paid on quarterly basis	1,800,000	15,749,112	900,000	9,283,805
Arab Bank Loan with an amount of 20 million USD acquired on 11/12/2006 for a grace period of 1 year ending Sep. 2016, used to buy Rig ST#22 & ST#5, paid on quarterly basis	2,222,220	17,772,517	--	7,544,803
Arab African Bank Loan with an amount of 20 million USD acquired on 14/06/2007 with a grace period of 15 months ending June 2018, used to buy Rig ST#6 & ST#7, paid on quarterly basis	1,000,000	12,549,576	--	--
National Bank of Egypt Loan with an amount of 58.5 million USD acquired on 15/11/2007 with a grace period of 1 year ending Nov. 2017, used to buy Rig ST#8 & ST#9 & ST#10, paid on quarterly basis	--	14,489,017	--	--
<b>Total</b>	<b>9,490,220</b>	<b>76,982,752</b>	<b>5,431,082</b>	<b>37,733,261</b>

- All above loans are guaranteed by depositing the Rigs Revenue at the said Bank.
- Average interest rate on the above loans during the year is 0.92% above LIBOR.

## 14. Tax Status:

According to Article 35 of Law 8 for the year 1997, the company profits are not subject to Egyptian tax and customs duties through out the lifetime of the project and in accordance with the purpose stated in the Tax Card. Establishment contracts and, mortgage agreements are exempted from stamp tax, registration and state development tax for the period of 5 years starting the date of registration in the Commercial Registry.

a) **Payroll Tax:**

The company regularly pays salary and wages taxes. A settlement was made as from the date of the commencement of activities to December 31st, 2007 and it was delivered to the Tax Investment Department.

b) **Withholding Tax:**

The company applies the withhold tax deduction system and prepares tax forms according to the Tax Authority's instructions which are sent together with the deducted amounts on a quarterly basis.

## 15. Financial Instrument and Risk Management:

The company's financial instruments are represented as assets and financial commitments. Financial assets include cash at banks, debtors and bank loans. Disclosures to the financial statements include the accounting principles used for recording and measuring the most important financial instruments and all related revenues and expenses. The following shows the risks related to the financial instruments and the procedures followed to mitigate the effort of such risks:

a) **Credit Risk:**

Credit risk is represented by the ability of the company debtors to pay back the loan taken from the company and the majority of company debtors represent amounts due on the clients and advances paid suppliers.

b) **Foreign Currency Risk:**

The foreign currency risk results from to foreign currency exchange rates fluctuations which could affect payments in currency other than US Dollar. Management assesses such risk and handles it on an accounting basis when there is no means for covering it.

c) **Liquidity Risk:**

The liquidity risk represents certain factors that could affect the pay back of part or total amount of the company's commitment. It is worth mentioning that the company has a positive working capital.

d) **Market Risk**

Market risk represents future changes in the value of financial instruments as a result of changes in market conditions. The company does not undertake any future hedging contracts.

e) **Financial Instruments Fair Value**

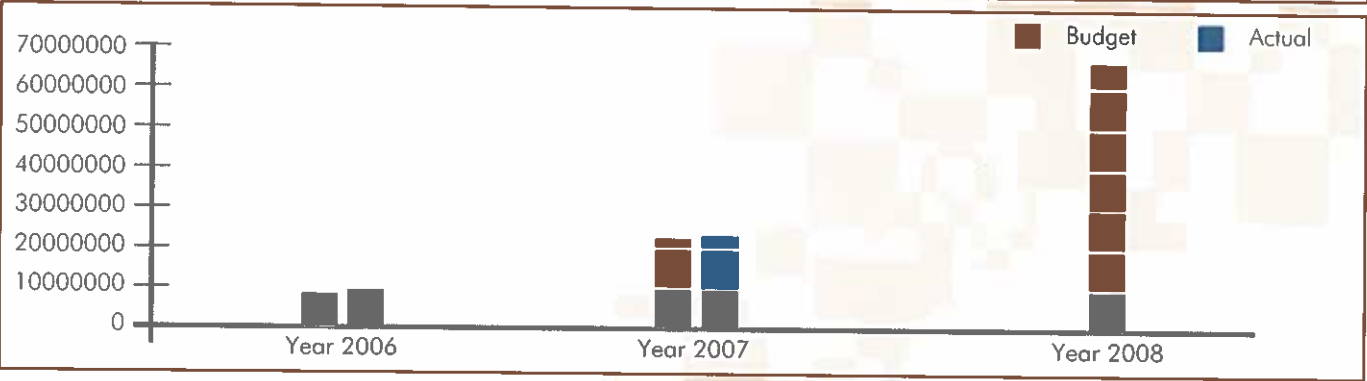
According to the applied measurements of the company's assets and liabilities balances as per the notes to the financial statements, most assets and liability balances are carried at amounts, which approximate their fair values.

## 16. Comparative figures:

Comparative figures represent the results of the company's operation for the period from August 29th, 2005 till December 31st, 2006.

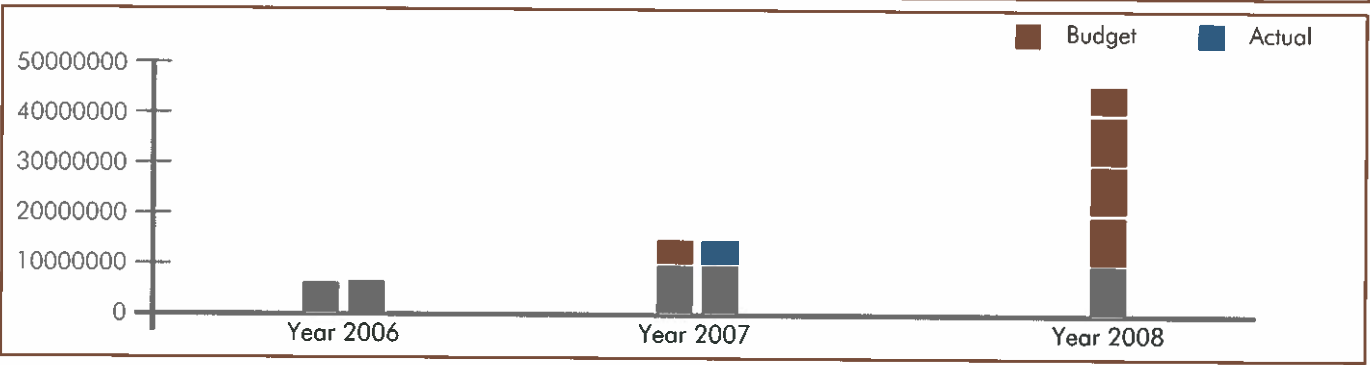
# Total Revenue

Year	2006		2007		2008	
Description	Budget	Actual	Budget	Actual	Budget	Actual
Revenue	8,442,370	9,621,021	22,266,362	22,495,928	66,195,698	----

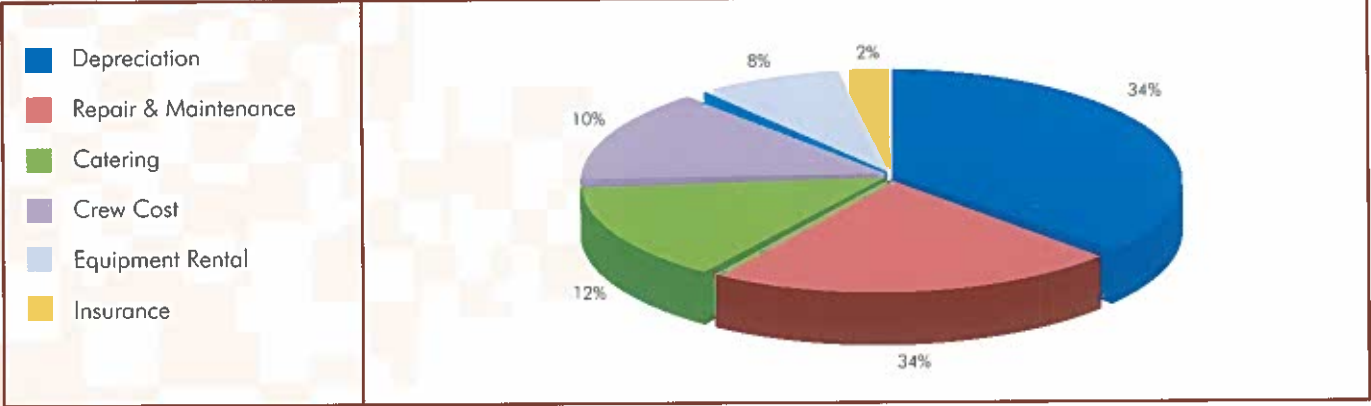


# Total Operating Cost:

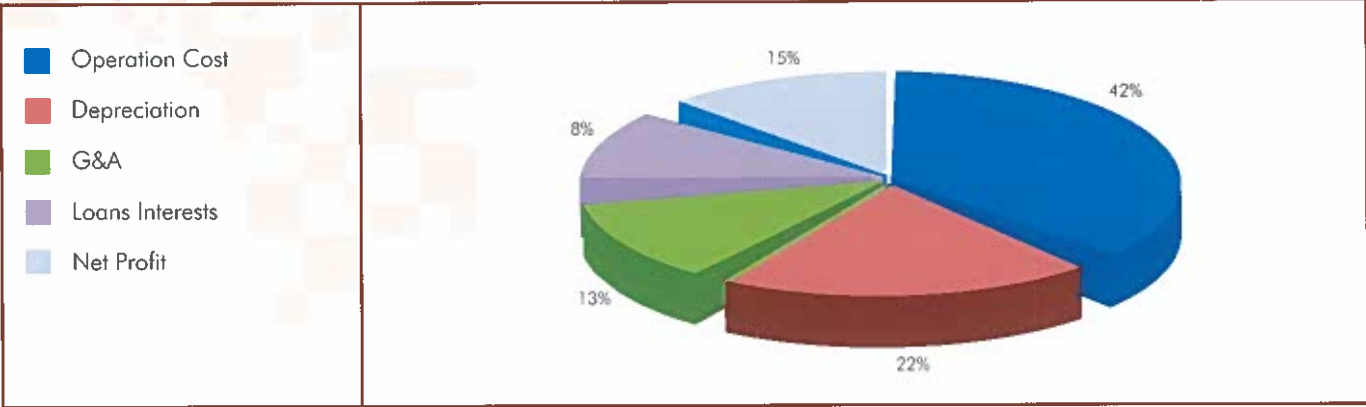
Year	2006		2007		2008	
Description	Budget	Actual	Budget	Actual	Budget	Actual
Operating Cost	6,240,360	6,620,277	14,976,975	14,477,774	45,730,544	----



# Operating Cost As Of Dec. 31th ,2007:

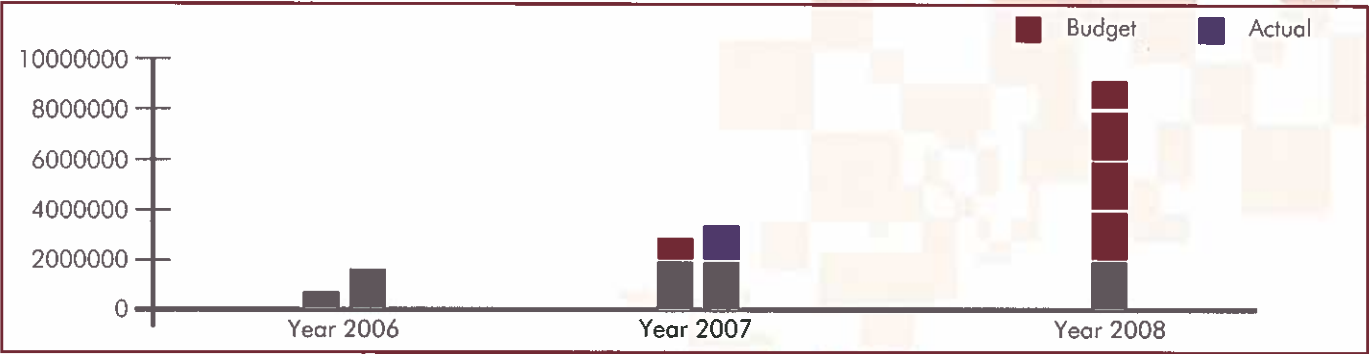


# Total Revenue Breakdown



# Net Profit

Year	2006		2007		2008	
Description	Budget	Actual	Budget	Actual	Budget	Actual
Net Profit	698,720	1,714,224	2,882,812	3,403,140	9,000,246	----

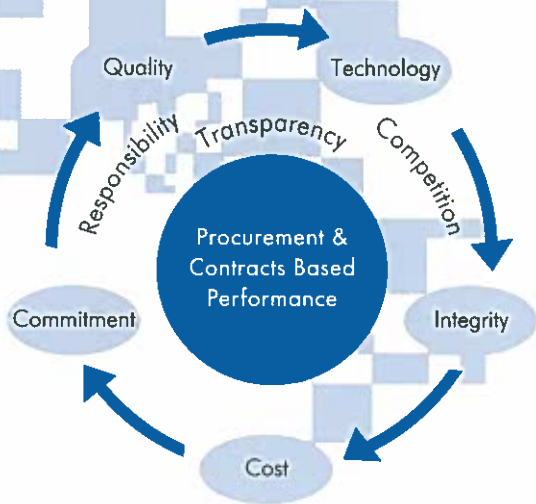


# Procurement & Contracts

Drive out fear, create trust and create new climate for innovation

# Superior 2007 Results:

	Total supply amount expense in local market EGP	Total number of purchase orders	Total contracted service expensed in local market EGP	Number of issued service contracts	Total number of awarded drilling rig contracts
2006	8,360,000.00	672	20,725,000.00	14	3
2007	17,600,000.00	1.965	41,450,000.00	32	8



The function of procurement & contracts department is to secure best value of professional procurement & contracts services to the company. This is undertaken against a backdrop of accountability which requires the need to show transparency of actions, provide sound commercial protection and demonstrate compliance with all international, national and company regulations & procedures and procurement best practice.

### Further optimization of procurement activities:

- In 2007, procurement and contracts activities were impacted by increases the number of rigs and its associated materials and spare parts.
- Additional challenges arose from the tensed delivery schedules and tough competition in the drilling field.
- However, by leveraging the advantages of our procurement and contracts, we succeeded in achieving further material-cost savings despite the challenging environment.
- Apparently, raw-material prices for our major commodities have risen significantly, especially for steel, oil, rubber and certain precious metals. Procurement and contracts reacted to this development by maintaining long-term agreements, allowing us to secure our steady supply of materials and services while minimizing the impact of future price fluctuations.
- In addition, together with the engineering department, the procurement & contracts team searches for ways to save material as well as to use alternative and innovative materials in order to reduce the cost and fulfill the exact requirements.
- As a by-product of the acceleration of decline rig rates worldwide, we endure the challenge of manipulating the stability of rigs market prices in Egypt to achieve one of the main goals of establishing our drilling company.
- We currently carry a variety of insurance for our drilling rigs and equipment. We are partially self-insured for certain claims in amounts we deem to be customary and reasonable. We maintained all risk insurance policy based on new for old coverage principals without deduction for depreciation.



### The procurement & contracts department undertook all its activities in accordance to with the core principle of value for money which enhanced its procurement by::

- Encouraging competition by ensuring nondiscrimination, and using a competitive process;
- Promoting the use of resources in an efficient, effective and ethical manner; and
- Making decisions in an accountable and transparent manner.
- The most significant this year was the striking into the Egyptian drilling market and strengthens our tendency in front of other competitors.
- By enhancing our strategic evolution, we achieve excellence throughout all purchasing and contracts activities and strive towards our goal of continuing to be a leading the drilling market now and in the future.
- Looking into 2008, we expect average rig demand to grow and we expect our business to continue growing at a faster rate than the underlying work volume.
- We expect our business expansion outside Egypt in order to prolong our economic life and reputation, as well as having new market challenges.

