CONTENTS

DIRECTORS AND OTHER INFORMATION

CURRENT DIRECTORS	J. Teeling *Chairman* D. Horgan *Managing* T. Buckingham H. Wilson
SECRETARY	J. Finn
REGISTERED OFFICE	162 Clontarf Road, Dublin 3. Telephone 353-1-8332833 Fax 353-1-8333505 E-Mail petrel@iol.ie Website www.petrelresources.com
AUDITORS.	Deloitte & Touche, Chartered Accountants, Deloitte & Touche House, Earlsfort Terrace, Dublin 2.
BANKERS.	Allied Irish Banks plc., Annesley Bridge, North Strand Road, Dublin 3.
SOLICITORS	Ivor Fitzpatrick & Co., 44-45 St. Stephen's Green Dublin 2.
REGISTRATION NUMBER	92622
AUTHORISED CAPITAL	100,000,000 1p Shares
ISSUED CAPITAL	35,410,388
MARKET	OFEX in London
NUMBER OF SHAREHOLDERS	350

This is an interesting and exciting time for our company. Iraq is the focus of our activity. We are putting more resources into our efforts to obtain an agreement to develop some existing oil fields in Southern Iraq while at the same time we are seeking exploration acreage in the Western Desert. Our presence in Baghdad has thrown up an interesting opportunity to establish a trading house.

Apart from our Iraqi projects we are continuing a dialogue with an oil exploration and production company. The contact may lead to some form of joint venture. Our other interests in Namibia, Uganda and offshore Ireland will play little or no part in our immediate future.

Oil opportunities in Iraq are greater than any others I have ever seen. Iraq has the worlds second largest proven oil reserves, over 113 billion barrels, and has larger probable reserves than Saudi Arabia - maybe 350 billion barrels. Over 70 known deposits are awaiting development, some of them giants capable of producing in excess of 500,000 barrels a day. Production costs at less than $1 a barrel are among the lowest in the world. Once sanctions are lifted daily output can quickly double from the current level of 3 million barrels a day. The country itself, though suffering the effects of sanctions and war, is highly developed.

Petrel staff and consultants have made visits to Baghdad to further our proposals to acquire and develop two existing oil fields. Following extensive discussions with the relevant authorities and site visits we are revising our tender proposals. The new submission will involve drilling, facility refurbishment and development proposals. We are pleased to work with the Iraqi authorities within the current UN regulations.

Apart from proposing the development of known deposits we have been looking at exploration opportunities in the 9 blocks on offer in the Western Desert. We have identified certain areas of interest and we will be pursuing an exploration licence over the coming months.

An attractive opportunity has come out of our visits to Iraq - a trading house. There is a long record of trade between Iraq and Ireland though little has taken place in the past decade. It became obvious to us that substantial trade opportunities currently exist in Iraq even within UN restrictions. Petrel has set up the Ireland-Iraqi Trading Company to identify and exploit trade between the EU and Iraq. Clear opportunities exist in dairy and beef products, pharmaceuticals and certain types of machinery and supplies.

The three areas of potential outlined above namely oil development, oil exploration and trade, require management. We have established a presence in Baghdad and recruited local technical and legal assistance. We have European based technical consultants working on the oil projects. We are now in the process of recruiting a Dublin based chief executive for the Trading House.

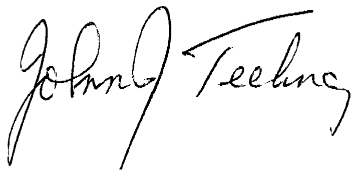
The focus on Iraq has meant a reduction in interest in the other areas where Petrel has a presence, Uganda, offshore Ireland and Namibia. In Uganda we hold a 10% interest in the Semliki oil concession in Western Uganda. Heritage Oil and Gas of Canada holds the remaining 90%. Seismic conducted by ourselves and Heritage has revealed two structures on the block. Efforts to recruit a partner to drill one or two holes are at an advanced stage. Petrel has been offered an attractive package to exit from this block. We will probably accept the offer.

Offshore Namibia and offshore Ireland has had no activity. We did not pursue our statement of interest in offshore Namibian blocks while no one has shown any interest in our extensive database on offshore Ireland. Petrel originally acquired the Namibian interest from Heritage. There has been a friendly dispute between the two companies over whether or not Petrel was entitled to a replacement project for the loss of the Namibian blocks. After some discussions Petrel has agreed to settle with Heritage by returning the Ugandan stake in return for a cash sum to be agreed. The sum will be in the region of £500,000.

The settlement agreed with Heritage will fund our ongoing activities in Iraq. When, and if, we sign an agreement to develop oil fields in Iraq further finance will be required but it is expected that such development would be fully financed by financial institutions.

I mentioned earlier that we are continuing a dialogue with an oil exploration and production company about areas of shared interest. It is possible that some joint activities might evolve from these discussions.

The OFEX trading facility is limiting the company. I am therefore exploring an AIM listing. I am confident that the future will bring substantial benefits for us all.



John Teeling
Chairman

Date: May 26, 2000

Iraq with a population of 20 million has a land area of 438,000 sq. kilometres. Roughly 70% of the population live in urban areas. Baghdad (4 million people), Basra (1.5 million) and Mosul (1.25 million) are the largest cities.

In ancient times the land area now known as modern Iraq was almost equivalent to Mesopotamia. The land between the two rivers Tigris and Euphrates was called the Fertile Crescent. This region is also known as the cradle of civilisation. Land was cultivated for the first time in this area. The alphabet was invented. Writing, mathematics, modern time keeping, banking and accounting were all developed in Iraq.

Geographically Iraq has four distinct geographic regions.

The north-eastern, mountainous region reaches to 2135m (7000 feet) near the Turkish border. Iraq's two highest points are Haji Ibrahim, which rises to 3600m (11,811 feet) and Mount Halgaurd (3728m: 12,230 feet). The land area between the Tigris and the Euphrates is an alluvial plain and is Iraq's most fertile region. In the south-east, adjacent to the Persian Gulf, is a low-lying swampy area, containing marshes, lakes and reedy waterways. To the west of the Euphrates is the desert region, where the land gradually rises to join the Syrian Desert. This desert area constitutes about 35% of Iraq's total land area.

The Tigris and the Euphrates, flow from north-west to south-east. They converge near Baghdad, then diverge and meet once again about 160km (100 miles) north of the Persian Gulf, to form the Shatt al-Arab River. This river flows through Basra and drains into the Gulf. Rich alluvial soil characterises the Tigris-Euphrates basin. A network of canals and irrigation ditches directs water from the Euphrates across the valley into the lower-lying Tigris, and provides some well-irrigated farmland. Although about 50% of Iraq's available land is arable, only about 13% is actually under cultivation.

Agricultural production includes wheat, barley, rice, figs and other such fruits such as apples, olives, grapes, pears, oranges and pomegranates. Iraq is the world's leading producer of dates and, before, recent wars and sanctions, was also the world's leading date exporter.

Economically, Iraq is still paying for the war with Iran in the 80s and the Gulf War of 1991. Iraqi assets were frozen by a worldwide boycott and these assets were seized by the UN Security Council after the war. Allied bombing has seriously damaged operations for oil exportation, and the economic blockade continues. As a result of these severe problems, unemployment is estimated at 50% and inflation as high as 100% annually.

Iraq's most valuable industry is the production of oil and gas. Foreign-owned companies controlled the industry in the early 70s, but they were nationalised by the government in the mid-70s. The industry is now operated by the Iraq National Oil Company and the Northern Petroleum Organisation.

Refineries are situated in Baghdad, Basra, al-Hadithah, Khanaqin, Kirkuk and Qayyarah.

Iraq has proven reserves of 113 billion barrels of oil and probable reserves of 350 billion barrels making it the second largest oil province in the world. With little exploration undertaken in many areas it is likely that Iraq will prove to have the greatest oil reserves in the world.

Iraq's reserves of 113 billion barrels are contained in some 80 oil fields. Of these, 7 have been fully developed, and another 7 to 8 only partially developed. The remaining 65 fields are totally undeveloped..

It should be noted, however, that there is a concentration of reserves in a few fields. The largest seven fields, Rumaila South and North, Kirkurk, East Baghdad, Majnoon, West Qurma and Zubair, contain two-thirds of the total proven reserves.

Almost every oil field has multi reservoirs. As a result, the drilling success rate in Iraq is almost 8 out of 10, and the discovery rate is 7 out of 10. The finding cost is less than 0.5 cents per barrel while production costs are less than $1.00 a barrel.

The first oil well drilled in the Middle East was Chia-Surkh, in 1903, which provided oil shows, but the second, two years later in the same field, proved oil flow, signifying the first discovery in Iraq. The first commercial discovery, however, was drilled in 1927 in Kirkuk field, near the “Eternal Fires”. The well was a gusher. The Kirkuk field still produces in excess of 700000 barrels per day. In 1933, export commenced from this field to the Mediterranean, at a rate of 1600 barrels per day through two 12î pipelines, then the largest of their kind.

Iraq’s production picked-up during the Iranian Revolution Crisis of 1950 to 1955. It reached 697,000 bpd from a production level of 50,600 bpd in 1950.

The nationalised industry expanded exploration and development activities fairly swiftly. The 1970s witnessed production reaching 3.5 mbpd. In the past two decades, production has fluctuated between 1.5 mbpd and 3.5 mbpd. War damage and an inability to import spares or new technology have restricted output. Refurbishment of existing fields and development of known deposits can double output within seven years. It is believed that output can grow to 10 mbpd without the need for additional discoveries.

In recent years Iraq has invited foreign companies to participate in developing the oil sector. Foreign companies can bring capital, innovation, technology and skill resources. UN sanctions have made developments difficult but Russian, Chinese and French companies have signed development agreements but to date little has been done.

The external commercial activities of Iraq are controlled by the UN under a Memorandum of Understanding (MOU). The current MOU operates in six month time periods whereby Iraq is allowed export oil, the proceeds are retained by the UN and used to pay for approved imports to Iraq. Every six months Iraq prepares an item by item list of required imports. If these items are approved by the UN importers can tender to supply. Each shipment must be approved prior to entering Iraq after which payment is made by the UN. The existing system is cumbersome, bureaucratic and for large projects such as the refurbishment of an oil field virtually unworkable. The UN officials can at any time reject any particular item. Pressure is building to relax or abolish the sanctions.

The directors present their annual report and the audited financial statements for the year ended December 31, 1999.

REVIEW OF ACTIVITIES AND FUTURE DEVELOPMENTS

The company is engaged in oil and gas exploration.

Further details of the group's activities and future developments are given in the chairman's statement.

RESULTS FOR THE YEAR

The consolidated loss for the year after taxation was IR£105,101 (1998 : loss after tax and exceptional item IR£799,202).

The directors do not recommend that a dividend be declared for the year ended December 31, 1999.

DIRECTORS

The current directors are set out on page 2

There were no changes to the board of directors or secretary during the year.

DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES

The directors and secretary at December 31, 1999 held the following beneficial interest in the shares of the company:

	December 31, 1999 ordinary shares of IR1p	December 31, 1999 options - ordinary shares of IR1p	January 1, 1999 ordinary shares of IR1p	January 1, 1999 options - ordinary shares of IR1p
J. Teeling	2,100,000	2,050,000	2,100,000	1,750,000
D. Horgan	1,100,000	2,050,000	1,100,000	1,750,000
T. Buckingham	*5,500,000	—	5,500,000	—
J. Finn	100,000	620,000	100,000	370,000
H. Wilson	—	—	—	—

* This represent shares held in Heritage Oil and Gas Limited in which T. Buckingham is the largest shareholder.

SUBSTANTIAL SHAREHOLDING

Details of notifications received by the date of this report in respect of holdings in the company's share capital are as follows:

	Number of Ordinary Shares	%
Trivo AG	2,800,000	7.9
Karim Henien	2,250,000	6.4
Dave Naylor	1,300,000	3.7

YEAR 2000 ISSUE

Following their initial review, the directors continue to be alert to the potential risks and uncertainties surrounding the year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise, which will affect the activities of the business; however, the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not expected to be significant.

EURO

The directors are considering the implications of the introduction of the euro. Whilst it is not possible to quantify the effect, at present the directors do not consider the cost will be significant to the company.

GOING CONCERN

The directors, having made the necessary enquiries, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The directors therefore propose the continued preparation of the financial statements on a going concern basis.

SUBSIDIARY

Details of the company's subsidiary are set out in Note 7 to the financial statements.

AUDITORS

Deloitte & Touche, Chartered Accountants, will continue in office as auditors in accordance with Section 160(2) of the Companies Act 1963.
Signed on behalf of the Board :

John Teeling
David Horgan
} DIRECTORS

Date: May 26, 2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and comply with Irish statute comprising the Companies Acts, 1963 to 1999 and the European Communities (Companies : Group Accounts) Regulations 1992. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We have audited the financial statements on pages 12 to 21 which have been prepared under the accounting policies set out on page 12.

Respective responsibilities of directors and auditors

As described on page 9, the company's directors are responsible for the preparation of financial statements which are required to be prepared in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 1999 and the European Communities (Companies: Group Accounts) Regulations, 1992. We also report to you whether in our opinion: Proper books of account have been kept by the company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the directors' report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the company's balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not given and, where practicable, include such information in our report.

Basis of audit opinion

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

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

Intangible fixed assets

In forming our opinion we have considered the adequacy of the disclosures made in the financial statements concerning the valuation of intangible fixed assets. The realisation of the intangible fixed assets of IR£235,406 included in the consolidated and company balance sheets are dependent on the successful development of economic reserves. We draw attention to further details given in Note 6. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at December 31, 1999 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 1999 and the European Communities (Companies: Group Accounts) Regulations, 1992.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The company's balance sheet is in agreement with the books of account.

In our opinion the information given in the directors' report on pages 7 and 8 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 14 are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 1999 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Deloitte & Touche House,
Earlsfort Terrace,
Dublin 2.

26 May 2000

The significant accounting policies adopted by the company are as follows:

ACCOUNTING CONVENTION

The financial statements are prepared in accordance with the historical cost convention and the relevant Statements of Recognised Practice-accounting for oil and gas exploration, development, production and decommissioning activities, and other applicable accounting standards.

CONSOLIDATION POLICY

The consolidated financial statements include the financial statements of the parent company and its subsidiary made up to the end of the financial year.

DEFERRED DEVELOPMENT EXPENDITURE

Mineral exploration costs are capitalised until the results of the projects, which are based in geographic areas, are known. Mineral exploration costs include an allocation of administration and salary costs as determined by management. If the project is successful, when the related exploration costs are written off over the life of the estimated ore reserve on a unit of production basis. Where a project is terminated, the related exploration costs are written off immediately.

TANGIBLE FIXED ASSETS

Depreciation is provided to write-off the cost less the estimated residual value of tangible assets by equal instalments over their useful economic lives as follows:

Office Equipment	5 years

FOREIGN CURRENCY

Monetary assets and liabilities denominated in foreign currencies are translated into Irish pounds at the rate of exchange prevailing at the balance sheet date. Transactions in foreign currencies are recorded at the rate of exchange prevailing at the date of the transactions.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 1999

	Notes	*1999*	*1998*
		IR£	*IR£*
OPERATING LOSS		(107,290)	(123,818)
Interest income		2,707	22,177
LOSS BEFORE EXCEPTIONAL ITEM		(104,583)	(101,641)
Exceptional item	1	—	(691,795)
LOSS FOR THE YEAR BEFORE TAXATION	2	(104,583)	(793,436)
Taxation	3	(518)	(5,766)
LOSS FOR THE YEAR AFTER TAXATION		(105,101)	(799,202)
Profit and loss account : opening - (deficit)		(989,802)	(190,600)
Profit and loss account : closing - (deficit)		(1,094,903)	(989,802)
Loss per share - basic	4	(0.30p)	(2.4p)
Loss per share - fully diluted	4	(0.27p)	(2.2p)

All gains and losses are dealt with through the profit and loss account. Results derive from continuing operations.

The financial statements were approved by the Board of Directors on 26 May 2000 and signed on its behalf by:

John Teeling
David Horgan
} DIRECTORS

BALANCE SHEET AS AT DECEMBER 31, 1999

	Notes	*Group 1999 IR£*	*Company 1999 IR£*	*Group 1998 IR£*	*Company 1998 IR£*
FIXED ASSETS					
Tangible assets	5	3,050	3,050	—	—
Intangible assets	6	235,406	235,406	228,239	228,239
Financial assets	7	—	2	—	2
		238,456	238,458	228,239	228,241
CURRENT ASSETS					
Debtors	8	5,742	5,742	2,742	2,742
Cash at bank		73,676	73,676	187,918	187,918
		79,418	79,418	190,660	190,660
CREDITORS :					
(Amounts falling due within one year)	9	(61,621)	(61,623)	(57,545)	(57,547)
NET CURRENT ASSETS		17,797	17,795	133,115	133,113
TOTAL ASSETS LESS CURRENT LIABILITIES		256,253	256,253	361,354	361,354
CAPITAL AND RESERVES					
Called-up share capital	10	354,104	354,104	354,104	354,104
Share premium	11	997,052	997,052	997,052	997,052
Profit and loss account - (deficit)		(1,094,903)	(1,094,903)	(989,802)	(989,802)
EQUITY SHAREHOLDERS' FUNDS	12	256,253	256,253	361,354	361,354

The financial statements were approved by the Board of Directors on 26 May 2000 and signed on its behalf by:

John Teeling
David Horgan } DIRECTORS

	Notes	*1999* *IR£*	*1998* *IR£*
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	14(a)	(96,677)	(109,737)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		2,707	22,177
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		2,707	22,177
TAXATION			
Corporation tax paid		(9,293)	—
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire intangible fixed assets		(7,167)	(895,954)
Payment to acquire tangible fixed asset		(3,812)	—
NET CASH OUTFLOW BEFORE FINANCING		(10,979)	(983,514)
FINANCING			
Issue of ordinary share capital		—	462,825
NET CASH INFLOW FROM FINANCING		—	462,825
DECREASE IN CASH	14(b)	(114,242)	(520,689)

1. EXCEPTIONAL ITEM

The exceptional charge in 1998 represents the write off of deferred exploration expenditure in Namibia due to the termination of the project during 1998 by the majority partner.

2. LOSS BEFORE TAXATION

The loss before taxation is stated after charging the following items :

	1999	*1998*
	IR£	*IR£*
Directors' remuneration - fees	10,000	20,000
- salary	23,735	—
Auditors' remuneration	3,000	3,000
Staff costs - non directors	3,300	—

The company had one employee during the year.

3. TAXATION

The charge to taxation in the current year arises on interest income earned.

4. LOSS PER SHARE

Basic earnings per share is computed by dividing the profit or loss after taxation for the year available to ordinary shareholders by the sum of the weighted average number of ordinary shares in issue and ranking for dividend during the period. Diluted earnings per share is computed by dividing the profit or loss after taxation for the year by the weighted average number of ordinary shares in issue, adjusted for the effect of all dilutive potential ordinary shares that were outstanding during the year.

The following table sets forth the computation for basic and diluted earnings per share (EPS):

	1999	*1998*
	IR£	*IR£*
Numerator		
Numerator for basic EPS retained loss	(105,101)	(799,202)
Denominator		
Denominator for basic EPS	35,410,388	33,347,887
Effect of diluted securities - options	3,593,824	3,249,742
Denominator for diluted EPS	39,004,212	36,597,629
Basic EPS	(0.30p)	(2.4p)
Diluted EPS	(0.27p)	(2.2p)

5. TANGIBLE FIXED ASSETS

Group and Company

	Office Equipment
	IR£
Cost :	
At January 1, 1999	—
Additions	3,812
At December 31, 1999	3,812
Accumulated Depreciation	
At January 1, 1999	—
Charge for year	762
At December 31, 1999	762
Net book value :	
At December 31, 1999	3,050
At December 31, 1998	—

6. INTANGIBLE ASSETS

Group and Company	*1999*
	IR£
Deferred development expenditure :	
Cost :	
At January 1, 1999	228,239
Additions	7,167
At December 31, 1999	235,406
Net book value :	
At December 31, 1999	235,406
At December 31, 1998	228,239

Intangible assets

Deferred development expenditure at December 31, 1999 represents exploration and related expenditure in respect of projects in Uganda and Ireland.

The realisation of this intangible asset is dependent on the development of economic reserves, including the ability to raise finance to develop the mine. Should this prove unsuccessful the value included in the balance sheet would be written off.

The directors are aware that by its nature there is an inherent uncertainty in such development expenditure as to the value of the asset. Having reviewed the deferred development expenditure at December 31, 1999, the directors are satisfied that the value of the intangible asset is not less than net book value.

7. INVESTMENT IN SUBSIDIARY COMPANY

	1999	*1998*
	IR£	*IR£*
Parent company		
Shares at cost - unlisted:	2	2

The group consisted of the parent company and the following wholly owned subsidiary as at December 31, 1999:

Name	**Registered Office**	**Group Share**	**Nature of Business**
The Ireland Iraqi Trading Company (formerly Roundcroft Enterprises Limited)	162 Clontarf Road, Dublin 3.	100%	Dormant

8. DEBTORS

	Group and Company	
	1999	*1998*
	IR£	*IR£*
Other debtors and prepayments	5,742	2,742

9. CREDITORS:
(Amounts falling due within one year)

	Group		*Company*	
	1999	*1998*	*1999*	*1998*
	IR£	*IR£*	*IR£*	*IR£*
Accruals	60,814	47,963	60,814	47,963
Amount due to group company	-	-	2	2
Corporation tax	807	9,582	807	9,582
	61,621	57,545	61,623	57,547

10. SHARE CAPITAL

	1999 IR£	1998 IR£
Authorised :		
100,000,000 ordinary shares of IR1p each	1,000,000	1,000,000
Allotted, Called-Up and Fully Paid :		
Opening 35,410,388 shares of IR1p each (1998 : 29,910,388 shares of IR1p each)	354,104	299,104
Issued : (1998 : 5,500,000) shares of IR1p each	—	55,000
Closing 35,410,388 shares of IR1p each (1998 : 35,410,388 shares of IR1p each)	354,104	354,104

The total number of options outstanding at December 31, 1999, including to directors, was 5,295,000 (1998 : 4,430,000) shares. The options are exercisable at price between IR1p and IR5p in accordance with the option agreement.

11. SHARE PREMIUM

	Group and Company 1999 IR£	1998 IR£
Opening balance	997,052	589,227
Arising on shares issued during 1998 net of capital duty of IR£4,675	—	407,825
Closing balance	997,052	997,052

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1999 IR£	1998 IR£
Opening shareholders' funds	361,354	697,731
Loss for the year	(105,101)	(799,202)
Issue of shares:		
- at par	—	55,000
- share premium	—	407,825
Closing shareholders' funds	256,253	361,354

13. LOSS ATTRIBUTABLE TO PETREL RESOURCES PLC

The loss after taxation in the parent company amounted to IR£105,101 (1998 loss : IR£799,202).

A separate profit and loss account for Petrel Resources plc (the company) has not been prepared because the company has complied with the conditions laid down in Section 43(2) of the European Communities (Companies : Group Accounts) Regulations 1992.

14. CASH FLOW STATEMENT

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

	1999 *IR£*	*1998* *IR£*
Operating loss	(107,290)	(123,818)
Increase in creditors	12,851	15,222
Increase in debtors	(3,000)	(1,141)
Depreciation	762	-
Net cash outflow from operating activities	(96,677)	(109,737)

(b) Analysis of net funds

	At 1 January 1999	*Cash flow*	*At 31 December 1999*
Cash in bank and in hand	187,918	(114,242)	73,676

(c) Reconciliation of net cash flow to movement in net funds

	1999 *IR£*	*1998* *IR£*
Decrease in cash in the period	(114,242)	(520,689)
Change in net funds resulting from cash flows	(114,242)	(520,689)
Movement in net funds in the period	(114,242)	(520,689)
Net funds at start of year	187,918	708,607
Net funds at end of year	73,676	187,918

15. RISK MANAGEMENT

The group's financial instruments comprise cash balances and various items such as trade debtors and trade creditors which arise directly from trading operations. The main purpose of these financial instruments is to provide working capital to finance group operations.

The group does not enter into any derivative transactions, and it is the group's policy that no trading in financial instruments shall be undertaken.

The main financial risk arising from the group's financial instruments is currency risk.

Interest Rate Risk

The group finances its operations through the issue of equity shares, and has no fixed interest rate agreements. The group has no significant exposures to interest rate risk.

Liquidity Risk

As regards liquidity, the group's exposure is confined to meeting obligations under short term trade creditor agreements. This exposure is not considered to be significant, and is fully financed from operating cashflow, or where this is insufficient during the development stage, through additional issues of ordinary equity shares.

Foreign Currency Risk

Although the group is based in the the Republic of Ireland, amounts held as deferred development expenditure were originally expended in currencies other than Euro aligned currencies. However, this expenditure is not considered to be a monetary asset, and has been translated to the reporting currency at the rates of exchange ruling at the dates of the original transactions. The group at present does not hold significant foreign currency monetary assets or liabilities.

The group also has transactional currency exposures. Such exposures arise from expenses incurred by the group in currencies other than the functional currency. It is expected that almost all future revenue will arise in US dollars. The group seeks to minimise its exposure to currency risk by closely monitoring exchange rates, and restricting the buying and selling of currencies to predetermined exchange rates within specified bands.

The group does not presently utilise swaps or forward contracts to manage its currency exposures, although such facilities are considered and be may used where appropriate in the future.

16. RELATED PARTY TRANSACTIONS

In accordance with the basis of an agreement, the company holds a 10% interest in the licence in Uganda with Heritage Oil and Gas Limited (Heritage) holding the remaining 90%. The company paid Heritage IR£7,167 (1998 : IR£145,121) representing its 10% share of exploration and related expenditure incurred during the year on the project.

A director of the company Mr. Tony Buckingham, is chairman and principal shareholder in Heritage.

17. COMMITMENTS

Under the terms of the agreements with Heritage Oil and Gas Limited in relation to the Ugandan licence the company is committed to paying 10% of the annual budgeted exploration costs.

The company's share of the budgeted costs for the 2000 exploration programme is US$20,000.

NOTICE OF MEETING

Notice is hereby given that the annual general meeting of the members of Petrel Resources plc will be held at Berkeley Court Hotel, Ballsbridge on July 3, 2000 at 12 noon for the following purposes:

1. To receive the report of the directors and audited financial statements for the year ended 31 December 1998.

2. To re-appoint director: T. Buckingham retires in accordance with article 95 and seeks re-election.

3. To authorise the directors to fix the remuneration of the auditors.

4. To transact any other ordinary business of an annual general meeting.

Special Business

5. To consider, and if thought fit, pass the following special resolution:

   That the authorised share capital of the company be increased from IR£1,000,000 to IR£2,000,000 by the creation of 100,000,000 new ordinary shares of 1p each.

6. To consider, and, if thought fit, pass the following special resolution that:

   "That the directors are hereby generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities within the meaning of Section 20 of the Companies (Amendment) Act 1983. The maximum amount of the relevant securities which may be allotted under the authority hereby conferred shall be the authorised but unissued Ordinary Shares in the capital of the company. The authority hereby conferred shall expire on July 3, 2005, unless and to the extent that such authority is renewed, revoked or extended prior to such date. The company may, before such expiry, make an offer or arrangement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement, notwithstanding that the authority hereby conferred had expired.

7. To consider, and, if thought fit, pass the following special resolution that:

   "That the directors are hereby empowered pursuant to sections 23 and 24 (1) of the Companies (Amendment) Act 1983 to allot equity within the meaning of said section 23 for cash as if section 23 (1) of the said Act did not apply to any such allotment, provided that this power shall expire on July 3, 2005 unless and to the extent that such authority is renewed, revoked or extended prior to such date, save that the company may before such expiry make an offer or arrangement which would or might require securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred by this paragraph has not expired.

By Order of the Board:

James Finn
Secretary

May 26, 2000

Designed and Printed by Circle Press

FORM OF PROXY

I/We ....
(BLOCK LETTERS)

of ....
being (an) ordinary shareholder(s) of Petrel Resources plc, hereby appoint the Chairman of the Meeting†

....

of ....
as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on July 3, 2000 at 12 noon and at any adjournment thereof.

I/We direct my/our proxy to vote on the resolutions set out in the Notice convening the Meeting as follows:

	For*	Against*
Reports and Accounts	☐	☐
Re-election of Director T. Buckingham:	☐	☐
Remuneration of Auditors	☐	☐
Increase in Authorised Share Capital	☐	☐
Directors power to allot securities pursuant to section 20 of Companies (Amendment) Act 1983	☐	☐
Directors power to allot equity pursuant to section 24 of Companies (Amendment) Act 1983	☐	☐

Signature...

Dated the .... day of ....2000.

† If it is desire. to appoint another person as proxy other than the Chairman of the Meeting the name and address of the proxy, who need not be a member of the Company, should be inserted, the words "the Chairman of the meeting" deleted and the alterations initialled.

* The manner in which the proxy is to vote should be indicated by inserting an "X" in the boxes provided. Proxies not marked as for or against will be regarded as giving the proxy authority to vote, or to abstain, at his/her discretion.

NOTES
1. In the case of a corporation this proxy must be under its common seal or under the hand of an officer or attorney duly authorised 1n writing.

2. To be effective this proxy must reach the address on the reverse hereof not less than 48 hours before the time of the meeting.

3. In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of members in respect of such holding.

FOLD 2

The Secretary
Petrel Resources Plc
162 Clontarf Road
Dublin 3
Ireland

FOLD 3
(then turn in)

FOLD 1