



CONTENTS

| | PAGE |
|--|-------------------|
| CHAIRMAN'S STATEMENT | 2 |
| OPERATIONS REVIEW | 5 |
| REPORT OF THE DIRECTORS | 10 |
| STATEMENT OF DIRECTORS' RESPONSIBILITIES | 12 |
| REPORT OF THE AUDITORS | 13 |
| STATEMENT OF ACCOUNTING POLICIES | 15 |
| CONSOLIDATED PROFIT AND LOSS ACCOUNT | 16 |
| CONSOLIDATED AND COMPANY BALANCE SHEET | 17 |
| CONSOLIDATED CASH FLOW STATEMENT | 18 |
| NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | 19 |
| NOTICE OF MEETING | 26 |
| FORM OF PROXY | 27 |
| DIRECTOR'S AND OTHER INFORMATION | Inside Back Cover |



CHAIRMAN'S STATEMENT

The desert is cold at 5.30am, cold but very beautiful. Exiting Iraq involves a ten-hour drive across the Western Desert from Baghdad to Amman. The sun rises as you leave a modern but run down city of 4 million people and drive into a scene reminiscent of biblical times; poor people leaving ramshackle homes to tend herds of sheep. You drive along a modern six-lane highway. The highway, like much of the infrastructure in Iraq, was built with the petro dollars, which enriched the country in the 1970s. Subsequently, war followed by UN sanctions, impoverished the people. The population of Iraq suffer and die and their national infrastructure crumbles while much of the worlds oil lies below ground. In the truck, as the hours go by and you watch the harsh arid desert stretch to infinity, you cannot but question the failure of diplomacy which results in poverty and deprivation for 20 million people while the rest of the world suffers from the effects of scarce oil.

When relations between Iraq and the wider international community are normalised, as they must be, Petrel will be in Iraq ready to cooperate and participate in the rejuvenation and development of a major world energy source. We had to demonstrate to the Iraqi authorities that we were serious in our intentions. We did this by chartering a small private plane, filling it with medicines and flying from Dublin to Baghdad. We were the first private plane in ten years to land in Baghdad. It took tenacity to succeed. We were frustrated at every stop but we persisted.

Petrel finished the period under review as a well traded AIM-listed company focused on Iraq. During the year we moved to AIM from the OFEX trading facility, added over 500 new shareholders, disposed of non-core assets and brought our Iraqi projects closer to fruition.

In Iraq, we are pursuing three distinct opportunities. We are negotiating the acquisition of an exploration block covering 10,000 square kms in the Western Desert between Baghdad and Amman in Jordan. Petrel has submitted a tender for an oil field development and refurbishment project to bring into production two existing oil fields in the South of Iraq. We have established a trading house to work within the "Oil for Food" programme being operated by the UN.

Significant and substantial activity has taken place on all three projects but in particular on the oil exploration project.

Most of Iraq is unexplored, yet despite this the country holds in excess of 115 billion barrels of oil reserves. These reserves are located in the fertile valley between the Tigris and Euphrates rivers but substantial exploration opportunities exist throughout Iraq. The authorities put nine exploration blocks up for offer in 1998. Since that time Petrel has worked to develop and present a project to explore one of the blocks. Available seismic data was examined and extensive discussions undertaken with experts of the oil ministry in Baghdad. Once an acceptable technical and geological proposal was agreed commercial terms were



CHAIRMAN'S STATEMENT (Continued)

negotiated. The proposal involves significant seismic reinterpretation, new seismic and drilling commitments. I believe that our proposal is at a final stage and awaits approval and ratification by the various authorities. Until we finalise any agreements I can say little about the exploration acreage. Suffice it to say that the structures already identified on the block are large.

Our second project is in oil development. In August 2000, Petrel resubmitted a detailed feasibility study to develop a 200,000-barrel a day oil field on the site of two former oil producers. Since then our consultants have been in negotiation with the authorities on the detail and the verification of the tender. Part of the tender involves a joint venture with a major international engineering firm. The final thrust of our activities is as a trading house. Twenty years of deprivation means that Iraq has many needs. Iraqi imports are regulated by the UN under the "Oil for Food" programme. The way in which bureaucrats have interpreted the UN rules means that many basic items are in short supply. Healthcare is one area where the medicines and equipment being used are years out of date. The oil industry is an area of substantial opportunity for supplies and spare parts. Petrel has created a team to exploit trading opportunities.

IRAQ, OIL AND SANCTIONS

Iraq is certain to be a key hydrocarbon region in the coming decades. Largely unexplored, the country has 115 billion barrels of oil in reserve. Daily production, currently 3 million barrels, can grow to 10 million barrels at a production cost of less than \$1 a barrel. The world needs Iraqi oil. Current world oil output is expected to decline over time while demand will grow. Stresses and strains are already appearing with brown outs in California and shortages in Brazil. Capacity can be increased, but often at great cost in such places as offshore Angola and the deepwater of the Atlantic. Alternatives such as non-fossil fuels are very expensive while the nuclear option is currently not fashionable. What of demand? As the world grows in wealth the demand for energy grows even faster. Who will tell billions of people around the world that they cannot have cars, refrigerators, TVs and the internet? Middle East hydrocarbons principally Iraqi, are the pivotal source of supply to meet new needs.

But what is happening? Instead of increasing; Iraqi output is declining. The reason is simple. UN sanctions have made it impossible to import parts and other essential equipment to maintain output. Restrictions on the investment of capital and technology have effectively halted new field development.

I have concentrated above on the importance of Iraq to the world economy and on the deleterious economic effects of UN sanctions but I must also comment on the humanitarian aspects of the current UN policy. UN sanctions are causing genuine suffering to the ordinary people. I am sure that the members of the UN council do not intend this but it is happening.



CHAIRMAN'S STATEMENT (Continued)

Bureaucrats in the UN in New York are interpreting the rules in such ways as to delay or prevent the importation of products such as medicines and plastic piping used to provide clean water. I welcome the current dialogue on the role of sanctions and hope that solutions acceptable to all parties are close.

FINANCE

A highlight of the year was our admission to the AIM exchange in London in August 2000. The impact was immediate with over 500 new shareholders acquiring shares. Petrel is a comparatively liquid share for a company of its size, regularly trading in excess of 100,000 shares a day through four market makers.

During the period under review we raised almost £1 million in cash by disposing of our Ugandan assets for £500,000 and by having a small private placing prior to listing on AIM. The funds are being used to advance our Iraqi projects.

FUTURE

I believe that we are well placed to participate in the development of one of the world's greatest sources of oil. It is clear that a workable solution must be found to enable Iraq to develop its oil resources. Petrel is one of the few Western companies active in the country. We expect Petrel to be an active participant in the expansion of the industry.

A handwritten signature in black ink, reading "John J. Teeling". The signature is written in a cursive, flowing style.

John J. Teeling
Chairman

June 25, 2001



OPERATIONS REVIEW

Iraq offers oil independents the opportunity of a lifetime.

We aim to be part of the development of Iraq's hydrocarbon reserves, in accordance with applicable laws, in the interests of our shareholders, Iraq and world energy consumers.

Petrel is in negotiations with the Iraqi Ministry of Oil on three main business opportunities:

1. An exploration and development contract in the western desert;
2. Oil field developments close to existing infrastructure in the south of Iraq;
3. Oil export contracts and energy industry procurement contracts.

In the course of our work we have been shown commercially sensitive information by the Ministry of Oil and our partners. We are bound by confidentiality requirements not to reveal information that is not already in the public domain. These restrictions are identical to those applying to all applicants.

Accordingly this Operations Review cannot give details of the progress we have made on working up prospects in the western desert or specific proposals to increase production at existing oil fields. Any breach would be detrimental to the interests of Petrel shareholders.

We can, however, speak generally of the oil opportunity in Iraq and the general geological and other characteristics of the western desert.

ENERGY INDUSTRY BACKGROUND

The world oil industry is mature. There are few opportunities for spectacular returns. Increasingly explorers target smallish or complex oil structures in well-understood areas like the Gulf of Mexico or the North Sea. There are virgin opportunities in gas and heavy oil but these are capital intensive and long term. Infrastructural economics drive equity returns down.

Only Iraq offers vast upside with low geological risk and a reasonable timeframe: on almost any commercial measure Iraq ranks one or two worldwide. Finding and production costs each average around a dollar a barrel, the best available. The historic hit rate is the highest worldwide, at over 70% given current oil prices.

And Iraq is largely unexplored. Only the Tigris and Euphrates river valleys have been reasonably investigated though there remain many untested plays. About 40 major fields are shut in.

Oil field development agreements on shut-in fields close to infrastructure in the south of Iraq offer the best opportunity in the energy world today. The reservoirs are near ideal. Much of the crude is light, for which there's strong demand. You can negotiate a good return, with negligible geological risk.

Petrel believes that it is possible to conduct early exploration work under the UN rules and national laws currently applicable. We expect to see a steady unravelling of the embargo both for humanitarian reasons and because western economies require the early development of Iraqi oil. The embargo is now counter-productive.



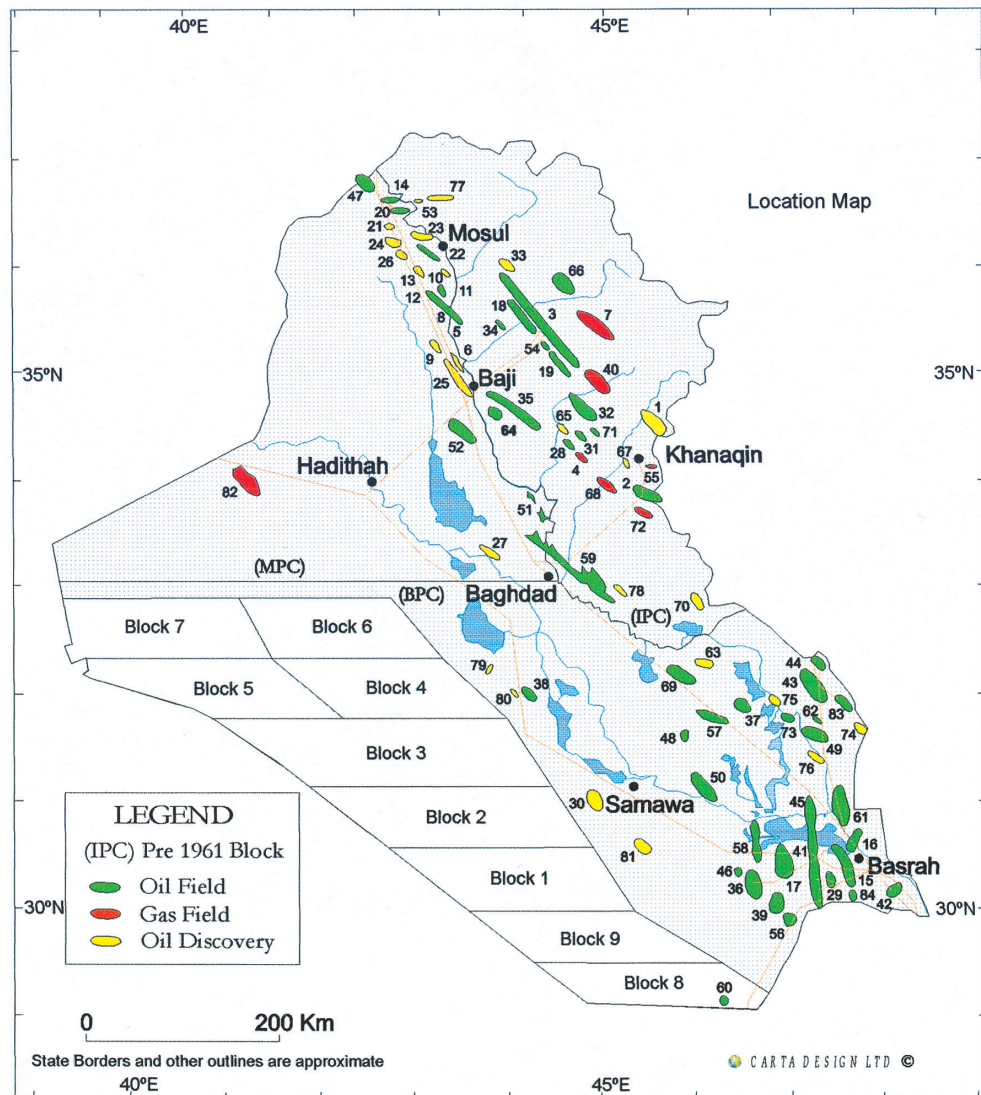
OPERATIONS REVIEW (Continued)

Exploration

Of over 530 identified oil plays, fewer than half have been investigated. Large areas of the country remain unexplored. We think there are excellent exploration opportunities in the north west, though these are not open to international investors.

Wide stretches of the western desert are open. Nine blocks of roughly one million hectares each are on offer (see map).

OIL & GAS FIELDS OF IRAQ





OPERATIONS REVIEW (Continued)

Index Table of Oil & Gas Fields of Iraq
(See Location Map)

| | | | |
|-------------------|-----------------|------------------|--------------------------|
| 1. Chia Surkh | 2. Naft Khaneh | 3. Kirkuk | 4. Khashm Al Ahmar |
| 5. Qaiyarah | 6. Khanuqah | 7. Chemchemal | 8. Najmah |
| 9. Sadid | 10. Qalian | 11. Qasab | 12. Jawan |
| 13. Adaiyah | 14. Ain Zalah | 15. Zubair | 16. Bin 'Umar (Nahr Umr) |
| 17. Ratawi | 18. Bai Hassan | 19. Jambur | 20. Butmah |
| 21. Gusair | 22. Atshan | 23. Alan | 24. Sarjoon (Sasan) |
| 25. Makhul | 26. Ibrahim | 27. Falluja | 28. Injana |
| 29. Tuba | 30. Samawa | 31. Gilabat | 32. Pulkhana |
| 33. Demir Dagh | 34. Qara Chauq | 35. Hamrin | 36. Luhais |
| 37. Dujaila | 38. Kifl | 39. Rachi | 40. Anfal (Kor Mor) |
| 41. Rumaila N & S | 42. Siba | 43. Buzurgan | 44. Abu Ghirab |
| 45. West Qurna | 46. West Luhais | 47. Sufaiyah | 48. Gharraf |
| 49. Halfayah | 50. Nasiriya | 51. Balad | 52. Tikrit |
| 53. Raffan | 54. Khabbaz | 55. Jaria Pika | 56. Jraishan |
| 57. Rafidain | 58. Subba | 59. East Baghdad | 60. Abu Khema |
| 61. Majnoon | 62. Noor | 63. Dhufriya | 64. Saddam |
| 65. Judaida | 66. Taq Taq | 67. Nau Doman | 68. Mansuriyah |
| 69. Ahdab | 70. Badra | 71. Qamar | 72. Tel Ghazal |
| 73. Amara | 74. Huwaiza | 75. Kumait | 76. Rifaae |
| 77. Jabal Kand | 78. Nahrawan | 79. Merjan | 80. West Kifl |
| 81. Diwan | 82. Akkas | 83. Jabal Fauqi | 84. Safwan (S. Zubair) |

Generally Petrel prefers the easterly blocks, as closest to existing discoveries and pipelines. There's also evidence that plays become more gas prone as you approach Jordan. There is a discovery and additional identified plays on block 8 where the Indian state oil company ONGC has just signed an exploration and production agreement. The contract appears to be a hybrid services contract allowing a specified return. While it is not a conventional Production Sharing Agreement, most oil companies covet such concessions.

Many expect more state-owned oil companies from friendly Asian states to sign further such agreements soon. It's likely that at least one Russian company will succeed. We hope that Petrel will be awarded an exploration and development licence and believe that we are as advanced in our negotiations as any western company. The French majors are in a strong position though their primary interest, as with the Chinese and Russians, is in oil field development.

Economics

For reasons of confidentiality we cannot provide economic specifics. The terms are fair by world standards. The basic model is a contractor's arrangement whereby the international oil company provides skills and capital, recovering its money with an Internal Rate of Return. It is similar to the Iranian model, though much improved and more pro-business. Companies are unlikely to negotiate a deal giving title to reserves; this will cause problems for majors who want reserves on their balance sheets. More entrepreneurial groups are able to explain economic value to financial markets. Petrel is interested in creating shareholder wealth rather than accounting treatment. Potential returns are attractive given the reasonable probability of finding large structures. Concessionaires may also receive a substantial bonus for outstanding performance and a proportion of the oil discovered as guaranteed uplifts for an extended period following payout and transfer of operatorship.



OPERATIONS REVIEW (Continued)

Geology

Petrel has mapped possible structures on the block we have applied for including one very large structure (with potential for 500 million barrels recoverable) for which there is surface expression.

We believe that there are excellent Paleozoic and Mesozoic plays in the western desert. Towards the south seismic suggests that the Paleozoic is deep and probably thin by Middle Eastern standards, but this does not seem problematic elsewhere. The prospectivity has steadily improved as Petrel accesses and studies new information.

Logistics

The terrain is straightforward for development, with extensive infrastructure such as roads and pipelines either already in place or planned. The area under study is solid limestone, without shifting sands. There are 7,000 to 8,000 metres of sediments from ancient times but in recent times sediment has moved through the area rather than been deposited. Flora and fauna are limited to brush and small creatures. There is little permanent human habitation. The entire block, with the possible exception of some wadis (dry river beds) in the south west is accessible by four wheel drive vehicles. This is not a Sahara or jungle type challenge for explorers or developers.

Unlike many emerging countries there is no appreciable security problem. Local people are mostly bedouins, with a tradition of hospitality. We are not budgeting any security expense other than that standard in traditional onshore areas.

Working with the Ministry of Oil is straightforward. Almost everyone you negotiate with is western trained, often from top schools like Imperial College, London. Everyone is fluent in English, which is their first technical language, and often French. The Iraqis are highly sophisticated, gracious hosts, and technically driven. Senior managers and negotiators are engineers by training and take a personal interest in geological modelling.

We have negotiated contracts all over the world but have not found negotiators as sophisticated as those in Iraq. In many countries governments have unrealistic expectations of the equity premium required by international financial markets. Not so in Baghdad. The Ministry of Oil is pro-business, with extraordinary commitment given the difficulties under which they now operate.

Nonetheless, every government has multiple decision-making layers, so progress is often slower than in the private sector. We are pushing ahead with our work programme in the hope of finalising a contract shortly.

Iraqi Western Desert Technical Overview

The Western Desert covers almost one third of national territory. It stretches from south of Khlaisia block in the northwest to the Kuwaiti and Saudi borders in the south.

Geologically, the Western Desert lies in the under-explored Paleozoic Basin of North Arabia, along with the other parts of the desert in Jordan, Saudi Arabia and Syria. The eastern part of Western Desert lies in the flanks of the Arabian Platform of the Mesopotamian Basin, which also covers Central and Southern Iraq.



OPERATIONS REVIEW (Continued)

Proven Paleozoic petroleum systems and plays with rich source rocks are found in the Paleozoic Basin of North Arabia, which include the producing Risha gas field in Jordan, the recent Akkas oil, gas and condensate discovery in Western Iraq, and the Kahf gas and condensate discovery in Northern Saudi Arabia. In addition there are other wells petroleum shows in the basin. The Western Desert of Iraq also includes proven Mesozoic systems and plays in number of deep wells drilled in Western Iraq. Preliminary geological reserve potential of the Paleozoic part of the Western Desert in Iraq in an area of 2,000 square km between Akkas and Khlaisia wells is around 16 billion barrels oil.

The Western Desert is surrounded by existing strategic pipeline along the Euphrates River in western and southern Iraq. Crude oil and liquified gas could be exported from southern ports, and even (international relations permitting) currently shut-in outlets in Saudi Arabia and Kuwait. With the planning of the new Iraq to Jordan and Iraq to Syria pipelines, hydrocarbons could reach markets throughout the Middle East, and ultimately further afield.

The Western Desert is accessible by world class highway (comparable to Autobahn or Interstate) from the Jordanian border to Baghdad, and via several access roads across the desert. There are many roads from western and southern Iraqi cities to Kuwait and Saudi Arabia crossing the desert.

The entire area is accessible by standard four wheel drive and off-road equipment.

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended December 31, 2000.

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 profit for the year after taxation was IR£38,367 (1999 : loss IR£105,101).

The directors do not recommend that a dividend be declared for the year ended December 31, 2000.

DIRECTORS

The current directors are set out on inside back cover.

On 3 July 2000, T. Buckingham resigned as a director and G. Delbes was appointed a director.

DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES

The directors and secretary at December 31, 2000 held the following beneficial interest in the shares of the company:

| | <i>December 31, 2000 ordinary shares of IR1p</i> | <i>December 31, 2000 options – ordinary shares of IR1p</i> | <i>January 1, 2000 ordinary shares of IR1p</i> | <i>January 1, 2000 options – ordinary shares of IR1p</i> |
|---------------------|--|--|--|--|
| J. Teeling | 2,100,000 | 2,200,000 | 2,100,000 | 2,050,000 |
| D. Horgan | 1,100,000 | 2,200,000 | 1,100,000 | 2,050,000 |
| H. Wilson | — | 100,000 | — | — |
| G. Delbes | — | 100,000 | — | — |
| J. Finn (Secretary) | 100,000 | 770,000 | 100,000 | 620,000 |

SUBSTANTIAL SHAREHOLDING

The share register records that the following shareholders held 3% or more of the issued share capital as at 31 May 2001.

| | <i>Number of Ordinary Shares</i> | <i>%</i> |
|---|----------------------------------|----------|
| Courtfield Industries Limited | 3,250,000 | 8.34 |
| Direct Nominees Limited | 2,800,000 | 7.18 |
| Scoti Company Limited C06150 | 2,340,000 | 6.00 |
| Dave Naylor | 1,300,000 | 3.33 |
| BNY Gil Client Account (Nominees) Limited | 1,960,000 | 5.03 |
| RBSTB Nominees Limited | 1,540,000 | 3.95 |

REPORT OF THE DIRECTORS (Continued)

HEALTH AND SAFETY

The well-being of employees is safeguarded through strict adherence to health and safety standards and compliance with the requirements of the Safety, Health and Welfare at Work Act, 1989.

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

June 25, 2001

} Directors

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.

REPORT OF THE AUDITORS TO THE MEMBERS OF PETREL RESOURCES PLC

We have audited the financial statements on pages 15 to 25 which have been prepared under the accounting policies set out on page 15.

Respective responsibilities of directors and auditors

As described on page 12, 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£396,426 included in the consolidated and company balance sheets is 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, 2000 and of the profit 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.

REPORT OF THE AUDITORS TO THE MEMBERS OF PETREL RESOURCES PLC (Continued)

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 10 and 11 is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet on page 17 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 December 31, 2000 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
Earlsfort Terrace
Dublin 2

June 25, 2001



STATEMENT OF ACCOUNTING POLICIES

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

BASIS OF PREPARATION

The financial statements are prepared in accordance with the historical cost convention and the relevant Statements of Recognised Practice for the oil and gas industry and other applicable accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 1999

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, then 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, 2000

| | Notes | 2000 IR£ | 1999 IR£ |
|---|-------|--------------------|-------------|
| ADMINISTRATIVE EXPENSES | | | |
| – Cost of admission to A.I.M. | 1a | (107,186) | — |
| – Other | | (155,718) | (107,290) |
| | | (262,904) | (107,290) |
| EXCEPTIONAL ITEM | | | |
| Gain on disposal of asset | 1b | 294,177 | — |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST | | | |
| | | 31,273 | (107,290) |
| Interest income | | 8,868 | 2,707 |
| PROFIT/(LOSS) FOR THE YEAR BEFORE TAXATION | | | |
| | 2 | 40,141 | (104,583) |
| Taxation | 3 | (1,774) | (518) |
| PROFIT/(LOSS) FOR THE YEAR AFTER TAXATION | | | |
| | | 38,367 | (105,101) |
| Profit and loss account : opening – (deficit) | | (1,094,903) | (989,802) |
| Profit and loss account : closing – (deficit) | | (1,056,536) | (1,094,903) |
| Profit /(loss) per share – basic | 4 | 0.10p | (0.30p) |
| Profit/(loss) per share – fully diluted | 4 | 0.09p | (0.27p) |

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 25 June 2001 and signed on its behalf by:

John Teeling

David Horgan

} Directors

BALANCE SHEETS AS AT DECEMBER 31, 2000

| | Notes | Group 2000 IR£ | Company 2000 IR£ | Group 1999 IR£ | Company 1999 IR£ |
|---|-------|----------------------|------------------------|----------------------|------------------------|
| FIXED ASSETS | | | | | |
| Tangible assets | 5 | 3,254 | 3,254 | 3,050 | 3,050 |
| Intangible assets | 6 | 396,426 | 396,426 | 235,406 | 235,406 |
| Financial assets | 7 | — | 2 | — | 2 |
| | | <u>399,680</u> | <u>399,682</u> | <u>238,456</u> | <u>238,458</u> |
| CURRENT ASSETS | | | | | |
| Debtors | 8 | 13,038 | 13,038 | 5,742 | 5,742 |
| Cash at bank | | 518,744 | 518,744 | 73,676 | 73,676 |
| | | <u>531,782</u> | <u>531,782</u> | <u>79,418</u> | <u>79,418</u> |
| CREDITORS: (Amounts falling due within one year) | 9 | <u>(212,212)</u> | <u>(212,214)</u> | <u>(61,621)</u> | <u>(61,623)</u> |
| NET CURRENT ASSETS | | <u>319,570</u> | <u>319,568</u> | <u>17,797</u> | <u>17,795</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>719,250</u> | <u>719,250</u> | <u>256,253</u> | <u>256,253</u> |
| CAPITAL AND RESERVES | | | | | |
| Called-up share capital | 10 | 389,844 | 389,844 | 354,104 | 354,104 |
| Share premium | 11 | 1,385,942 | 1,385,942 | 997,052 | 997,052 |
| Profit and loss account - (deficit) | | <u>(1,056,536)</u> | <u>(1,056,536)</u> | <u>(1,094,903)</u> | <u>(1,094,903)</u> |
| EQUITY SHAREHOLDERS' FUNDS | 12 | <u>719,250</u> | <u>719,250</u> | <u>256,253</u> | <u>256,253</u> |

The financial statements were approved by the Board of Directors on 25 June 2001 and signed on its behalf by:

John Teeling

David Horgan

}

Directors

CONSOLIDATED CASH FLOW STATEMENT AT DECEMBER 31, 2000

| | Notes | 2000 IR£ | 1999 IR£ |
|---|-------|------------------|------------------|
| NET CASH OUTFLOW FROM OPERATING ACTIVITIES | 14(a) | (130,416) | (96,677) |
| RETURNS ON INVESTMENT AND SERVICING OF FINANCE | | | |
| Interest received | | 8,868 | 2,707 |
| NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | 8,868 | 2,707 |
| TAXATION | | | |
| Corporation tax paid | | (807) | (9,293) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Disposal of intangible fixed asset | | 537,736 | — |
| Payments to acquire intangible fixed assets | | (393,869) | (7,167) |
| Payment to acquire tangible fixed asset | | (1,074) | (3,812) |
| | | 142,793 | (10,979) |
| NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING | | 20,438 | (114,242) |
| FINANCING | | | |
| Issue of ordinary share capital | | 424,630 | — |
| NET CASH INFLOW FROM FINANCING | | 424,630 | — |
| INCREASE/(DECREASE) IN CASH | 14(b) | 445,068 | (114,242) |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2000

1. EXCEPTIONAL ITEM

- a) The exceptional charge represents the costs of the company being listed on the Alternative Investment Market.
b) The exceptional item represents the sale of the company's interest in a Ugandan oilfield.

| | IR£ |
|-----------------------|----------------|
| Sales proceeds | 537,736 |
| Cost of interest | (232,849) |
| Related selling costs | (10,710) |
| | <u>294,177</u> |

2. PROFIT/(LOSS) BEFORE TAXATION

| | 2000 IR£ | 1999 IR£ |
|---|-------------------|-------------------|
| The profit/(loss) before taxation is stated after charging the following items: | | |
| Depreciation | 870 | 762 |
| Directors' remuneration | | |
| – fees | 18,500 | 10,000 |
| – salary | 11,845 | - |
| Auditors' remuneration | 3,000 | 3,000 |
| Staff costs – salaries | 14,000 | 27,035 |
| | <u> </u> | <u> </u> |

The company had two employees during the year.

3. TAXATION

The charge to taxation in the current year arises on interest income earned at the rate of 25%. The company has availed of taxation losses forward.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2000 (Continued)

4. PROFIT/(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 year. 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):

| | 2000 IR£ | 1999 IR£ |
|--|-------------------|-------------|
| Numerator | | |
| Numerator for basic EPS retained profit/(loss) | 38,367 | (105,101) |
| Denominator | | |
| Denominator for basic EPS | 38,984,388 | 35,410,388 |
| Effect of diluted securities – options | 4,593,033 | 3,593,824 |
| Denominator for diluted EPS | 43,577,421 | 39,004,212 |
| Basic EPS | 0.10p | (0.30p) |
| Diluted EPS | 0.09p | (0.27p) |

5. TANGIBLE FIXED ASSETS

| | <i>Office Equipment</i> IR£ |
|---------------------------------|--------------------------------|
| Group and Company | |
| Cost: | |
| At January 1, 2000 | 3,812 |
| Additions | 1,074 |
| At December 31, 2000 | 4,886 |
| Accumulated Depreciation | |
| At January 1, 2000 | 762 |
| Charge for year | 870 |
| At December 31, 2000 | 1,632 |
| Net book value: | |
| At December 31, 2000 | 3,254 |
| At December 31, 1999 | 3,050 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2000 (Continued)

6. INTANGIBLE ASSETS

| | 2000 IR£ |
|-----------------------------------|-------------|
| Group and Company | |
| Deferred development expenditure: | |
| Cost: | |
| At January 1, 2000 | 235,406 |
| Additions | 393,869 |
| Disposals | (232,849) |
| | <hr/> |
| At December 31, 2000 | 396,426 |
| | <hr/> |
| Net book value: | |
| At December 31, 2000 | 396,426 |
| | <hr/> <hr/> |
| At December 31, 1999 | 235,406 |
| | <hr/> <hr/> |

Intangible assets

Deferred development expenditure at December 31, 2000 represents exploration and related expenditure in respect of projects in Iraq (IR£384,346) and Ireland (IR£12,080).

The realisation of this intangible asset is dependent on the development of economic reserves, including the ability to raise finance to develop the project. 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, 2000, the directors are satisfied that the value of the intangible asset is not less than net book value.

7. INVESTMENT IN SUBSIDIARY COMPANY

| | 2000 IR£ | 1999 IR£ |
|----------------------------|-------------|-------------|
| Parent company | | |
| Shares at cost - unlisted: | | |
| Opening balance | 2 | 2 |
| | <hr/> | <hr/> |
| Closing balance | 2 | 2 |
| | <hr/> <hr/> | <hr/> <hr/> |

The group consisted of the parent company and the following wholly owned subsidiary as at December 31, 2000:

| Name | Registered Office | Group Share | Nature of Business |
|---|---------------------------------|--------------------|---------------------------|
| Petrel Industries Limited (formerly Ireland Iraqi Trading Company) | 162 Clontarf Road, Dublin 3. | 100% | Dormant |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2000 (Continued)

8. DEBTORS

| | Group and Company | 1999 |
|----------------|--------------------------|-------------|
| | 2000 | IR£ |
| | IR£ | IR£ |
| VAT refund due | 13,038 | 5,742 |

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

| | Group | | Company | |
|-----------------------------|----------------|-------------|----------------|-------------|
| | 2000 | 1999 | 2000 | 1999 |
| | IR£ | IR£ | IR£ | IR£ |
| Accruals | 210,438 | 60,814 | 210,438 | 60,814 |
| Amount due to group company | — | — | 2 | 2 |
| Corporation tax | 1,774 | 807 | 1,774 | 807 |
| | 212,212 | 61,621 | 212,214 | 61,623 |

10. SHARE CAPITAL

| | 2000 | 1999 |
|--|------------------|-------------|
| | IR£ | IR£ |
| Authorised: | | |
| 200,000,000 ordinary shares of IR1p each (1999: 100,000,000 ordinary shares of IR1p each) | 2,000,000 | 1,000,000 |
| Allotted, Called-Up and Fully Paid: | | |
| Opening 35,410,388 shares of IR1p each (1999: 35,410,388 shares of IR1p each) | 354,104 | 354,104 |
| Issued: 3,574,000 (1999: Nil) shares of IR1p each | 35,740 | — |
| Closing 38,984,388 shares of IR1p each (1999: 35,410,388 shares of IR1p each) | 389,844 | 354,104 |

The total number of options outstanding at December 31, 2000, including to directors, was 6,045,000 (1999: 5,295,000) shares. The options are exercisable at price between IR1p and IR10p in accordance with the option agreement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2000 (Continued)

11. SHARE PREMIUM

| | <i>Group and Company</i> | |
|---|--------------------------|-------------|
| | 2000 | <i>1999</i> |
| | IR£ | <i>IR£</i> |
| Opening balance | 997,052 | 997,052 |
| Arising on shares issued during the year | 413,820 | — |
| Costs associated with shares issued during the year | (24,930) | — |
| | <hr/> | <hr/> |
| Closing balance | 1,385,942 | 997,052 |
| | <hr/> <hr/> | <hr/> <hr/> |

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | 2000 | <i>1999</i> |
|-----------------------------|----------------|-------------|
| | IR£ | <i>IR£</i> |
| Opening shareholders' funds | 256,253 | 361,354 |
| Profit/(loss) for the year | 38,367 | (105,101) |
| Issue of shares: | | |
| — at par | 35,740 | — |
| — share premium | 388,890 | — |
| | <hr/> | <hr/> |
| Closing shareholders' funds | 719,250 | 256,253 |
| | <hr/> <hr/> | <hr/> <hr/> |

13. LOSS ATTRIBUTABLE TO PETREL RESOURCES PLC

The profit after taxation in the parent company amounted to IR£38,367 (1999 loss: IR£105,101).

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2000 (Continued)

14. CASH FLOW STATEMENT

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

| | 2000 IR£ | 1999 IR£ |
|--|-------------------|-------------------|
| Operating profit/(loss) | 138,459 | (107,290) |
| Increase in creditors | 149,624 | 12,851 |
| Increase in debtors | (7,296) | (3,000) |
| Depreciation | 870 | 762 |
| Exceptional charge | (107,186) | — |
| Exceptional item Sale of Ugandan interest | (304,887) | — |
| | <u> </u> | <u> </u> |
| Net cash outflow from operating activities | <u>(130,416)</u> | <u>(96,677)</u> |

(b) Analysis of net funds

| | At 1 January 2000 | Cash flow | At 31 December 2000 |
|--------------------------|----------------------|-------------------|------------------------|
| Cash in bank and in hand | 73,676 | 445,068 | 518,744 |
| | <u> </u> | <u> </u> | <u> </u> |

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

| | 2000 IR£ | 1999 IR£ |
|---|-------------------|-------------------|
| Increase/(decrease) in cash in the year | 445,068 | (114,242) |
| | <u> </u> | <u> </u> |
| Change in net funds resulting from cash flows | 445,068 | (114,242) |
| | <u> </u> | <u> </u> |
| Movement in net funds in the year | 445,068 | (114,242) |
| | <u> </u> | <u> </u> |
| Net funds at start of year | 73,676 | 187,918 |
| | <u> </u> | <u> </u> |
| Net funds at end of year | <u>518,744</u> | <u>73,676</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2000 (Continued)

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 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 may be used where appropriate in the future.

16. RELATED PARTY TRANSACTION

During the year the company paid consultancy fees to Guy Delbes amounting to IR£49,696. Guy Delbes is a director of the company.

PETREL NOTICE OF MEETING

Notice is hereby given that the annual general meeting of the members of Petrel Resources plc will be held at Clontarf Castle Hotel, Castle Avenue, Clontarf, Dublin 3, on July 20, 2001 at 12 noon for the following purposes:

1. To receive the report of the directors and audited financial statements for the year ended December 31, 2000.
2. To re-appoint director: H.Wilson retires in accordance with article 95 and seeks re-election.
3. To re-appoint director: G. Delbes retires in accordance with article 101 and seeks re-election.
4. To authorise the directors to fix the remuneration of the auditors.
5. To transact any other ordinary business of an annual general meeting.

SPECIAL BUSINESS

6. To consider and if thought fit, pass the following resolution as an ordinary resolution.

In accordance with the Economic and Monetary Union Act, 1998 (the EMU Act), the authorised share capital of IR£2,000,000 divided into 200,000,000 Ordinary Shares of IR£0.01 each and the total issue share capital of 38,984,388 Ordinary shares divided into IR£0.01 each be and are hereby re-denominated into the Euro Unit (as defined in the EMU Act) at the conversion rate of €1.26974 per £1 and converted in accordance with Article 5 of the Council Regulation (EC) No. 1103/97 of the 17 June 1997, giving rise to a total authorised Share Capital of €2,539,480 divided into 200,000,000 Ordinary Shares of €0.0126974 each and a total issued Ordinary Share Capital of 38,984,388 Ordinary Shares of €0.0126974 each.

7. To consider and if thought fit, pass the following resolution as a special resolution.

The re-denominated nominal par value (calculated in accordance with Section 25(3) of the EMU Act) of each share, issued or unissued in the capital of the Company be and is hereby reduced to €0.0125, the total authorised share capital be and is hereby reduced accordingly to €2,500,000 divided into 200,000,000 Ordinary Shares of €0.0125 each and an amount equal to the aggregate amount of the reduction in the issued share capital of the Company resulting from the re-nominalisation be and is hereby transferred to the capital conversion reserve fund and that the provisions of the Company's Memorandum and Articles of Association be and are hereby altered accordingly.

By order of the Board
James Finn
Secretary

June 25, 2001

PETREL 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 20, 2001 at Clontarf Castle Hotel, Castle Avenue, Clontarf, Dublin 3 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 | <input type="checkbox"/> | <input type="checkbox"/> |
| Re-election of Director H.Wilson | <input type="checkbox"/> | <input type="checkbox"/> |
| Re-election of Director G. Delbes | <input type="checkbox"/> | <input type="checkbox"/> |
| Remuneration of Auditors | <input type="checkbox"/> | <input type="checkbox"/> |
| Conversion of Share Capital to the Euro | <input type="checkbox"/> | <input type="checkbox"/> |
| Re-nominalisation of Share Capital | <input type="checkbox"/> | <input type="checkbox"/> |

Signature.....

Dated the.....day of.....2001

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 in 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 of 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 member in respect of such holding.



FOLD 1

FOLD 2

**The Secretary
Petrel Resources Plc
162 Clontarf Road
Dublin 3
Ireland**

FOLD 3
(then turn in)