Contents

Chairman's Statement

Petrel is a company with a specific objective of becoming an Iraqi oil producer. We have had a presence in Baghdad for years and have negotiated with the Iraqi Oil Ministry on both exploration and development contracts. Despite the uncertainties and difficulties in Iraq we have continued to make progress on both our exploration proposal, Block 6 in the Western Desert, and on our tenders to develop oil fields. Three tenders were submitted in 2004 and the latest one, Kormor, was submitted in April 2005. Shareholders will understand that much of what we do in the current circumstances must remain confidential.

I can understand that in a period of $50 a barrel oil with proposals submitted to develop very large oil deposits that investors want quick action. We, as a board, have said very little about our ongoing activities in Iraq. This is a deliberate strategy as any statements could compromise our hard earned position in the country. Indeed uninformed media speculation in the latter half of 2004 upset officials in Baghdad. Oil in Iraq is a matter of the highest priority for the country. Decisions on oil development proposals can only and should only be announced by the government. All announcements will come from an official source.

In this context, I can state that in the past year Petrel has received no official announcements relating to either their oil field development proposals or to the exploration proposals for Block 6 in the desert West of Baghdad. Let me try to explain. Petrel deals with the Oil Ministry in Baghdad. This organisation has numerous subsidiaries which cover activities such as exploration, drilling, marketing and developments as well as a number of production entities. All negotiations take place between Petrel and the relevant subsidiaries. The three 2004 development tenders were submitted to The State Company for Oil Projects (SCOP). The Block 6 exploration proposal was negotiated with The Oil Exploration Company.

Once the Oil Ministry finalised negotiations on the three oil field development tenders they made recommendations to the government which in turn passed the recommendations to the oil committee of the cabinet. Decisions made in this committee are approved or not by the cabinet and the government. An official announcement will then be made by a government office.

The status of our three development proposals remain unclear. We tendered for Khurmala in the north, Hamrin in the centre and Subba / Luhais in the south. Each of our three submissions faced critical technical and commercial evalutions by teams of experts from the Oil Ministry. We passed all evaluations.

In late 2004 media reports indicated that Khurmala had been awarded to an Arab / Turkish group. In Spring 2005 it was reported that Hamrin had been awarded to an Arab / Canadian group. The tender prices reported in the media, if true, were substantially below our bids on these projects. To this day we have not received official notification and we are not aware that field work has started. Political uncertainty continued right through 2004 and it is only in recent weeks, after the 2005 elections, that a stable government has come into power.

The third tender, to develop the Subba and Luhais fields, is the one Petrel knows best. In 2000 we first submitted a tender to develop the fields. This tender was updated and refined for the 2004 submission. We are confident that our technical and commercial specifications are as good as those of other interested parties.

We continue to be encouraged by the Oil Ministry to submit tenders for new projects. In April 2005, we submitted a multi volume tender to develop the Kormor field in Kirkuk.

While awaiting decisions on our tenders we have been active in refining our knowledge and understanding of Block 6 – the 10,000 sq km exploration block in the Western Desert. We have identified very large structures on the block which need to be drilled. We are ready to commence geochemical and seismic programmes once the go ahead is given.

Where we have made real progress is in Jordan. Our initial interest in the Jordanian acreage was to improve our knowledge of the Western Desert but the more we looked at the data the more prospective the project became. We now believe that there are drillable plays on the block. Petrel holds a Memorandum of Understanding on an area covering 8,750 sq kms west of the Risha gas field. We are completing structural studies as well as re-interpreting 4,350 km of seismic. It is likely that the concession will be upgraded to an Exploration and Production Sharing agreement.

Finance

In March 2005 we raised just over £1 million at 43p a share to fund our ongoing activities in Iraq and now Jordan. This funding covers our immediate needs as well as financing the preparation of additional Iraqi tenders.

Chairman's Statement

Staffing

On your behalf I want to extend thanks and praise to our staff. For years now we have had a presence in Baghdad. When it became too dangerous to work in our office our people worked from home. We are one of the very few organisations which has continued to operate in Baghdad.

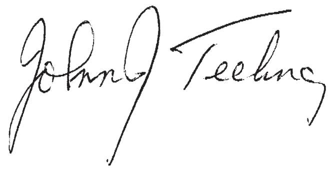
Our non Iraqi staff also deserve praise. Our Managing Director, David Horgan, is a frequent visitor to Baghdad and is ready to go again when the call comes. The staff who carry the tender documents from Amman, Jordan to Baghdad are thanked.

We are blessed with a group of experienced oil men who share our vision and who are not only prepared to put in long hours compensated by shares but are, when required, prepared to take physical risks.

Future

Our future lies in the Middle East. Iraq will play a central role in the growth of an oil supply desperately needed to fuel the world economic machine. The new Iraq is having a difficult birth but progress is being made. There is now a government and the rule of law is returning at least to certain parts of the country. A stable prosperous future for Iraq mandates the development of their vast oil resources.

Petrel, by maintaining a presence in Iraq, by continuing to submit tenders and through ongoing work on the exploration potential of Block 6 is showing our commitment to the country. Every passing year tightens the oil supply / demand balance making development of Iraqi oil more critical for world consumers. We remain confident that we will have a role to play in this development.



John J. Teeling
Chairman

21st June 2005

Managing Director's Report

This is an exciting time to be working in the Iraqi oil industry. It is a time of danger and opportunity. There is limited competition, as oil majors are effectively deterred by security hazards and lack of policy certainty. It is the right time for Petrel, but it is not a time for faint hearts.

Petrel is exploring the western desert and tendering for oil field development contracts. Exploration and Development Contracts signed pre-war have effectively been suspended until an elected Iraqi government clarifies policy. In the meantime, fruitful work is underway through studies and training arrangements.

Petrel is applying state-of-the-art techniques to data available on the Arabian Desert, from not just Iraq but neighbouring countries. We have met with senior players in all neighbouring countries and have developed an especially rewarding relationship with the excellent staff of the Jordanian Natural Resources Authority.

The immediate priority for the Iraqi oil industry is to boost production. For the past year our main focus in Iraq was on the oil field development services tenders for the project division (SCOP) of the Ministry of Oil.

As of writing (June 2005) Petrel has submitted tenders, amendments and clarifications for all three projects of the first phase oil field development service contracts (between March 2004 and January 2005).

The first tender of the second phase of oil field development service contracts, on the Kormor Gas Field Development Project in northern Iraq, was submitted in April 2005.

We await formal notification of the outcome of these tenders. It is unlikely that any one contractor will receive more than one project in each phase.

Petrel's priority has long been the Subba & Luhais joint oil field development – the largest of the projects tendered to date. The Subba & Luhais joint oil field development is to provide 200,000 barrels of oil daily processing capacity and gas export. There exists processing capacity of up to 50,000 barrels of oil daily but these facilities have been damaged and the operability compromised.

We have worked on this project since 1999. The fields are favourably located on flat terrain in southern Iraq northwest of Basra port facilities. There is good pipeline, road and power infrastructure. Security issues remain manageable. There appear to be few serious tensions in the immediate area. We believe that there is considerable exploration upside at greater depths. The current tenders are for cash contracts to develop existing reservoirs. We hope to submit proposals for Petrel to undertake exploration risk by drilling greater depths below the existing producing fields when this is legally possible.

Petrel is backed by world-class suppliers of oil & gas processing equipment, power generation facilities and support services. The Ministry's budgets are approved and the funding for the first phases of the work already in place. These funds are for cash contracts, though a future government may convert them to risk-sharing arrangements.

We expect that further tenders will be submitted during 2005.

Petrel bid on the four development projects tendered to date at the suggestion of the Iraqi Ministry of Oil. We will continue to be guided by the Ministry of Oil, pursuing any opportunity which fits with shareholder objectives and makes economic sense.

When Petrel was launched, we committed ourselves to participate in the long-term development of the Iraqi oil industry. When we first started working in Baghdad in 1999, there were severe sanctions but there was administrative stability and personal security for visiting business people was not problematic. Now the situation is reversed.

Though delays are frustrating, Petrel has encountered no insuperable problems. The ability of non-Arabs to move around Iraq is now constrained. We are pragmatic about getting work done and listen carefully to local advice with our middle ear. Ministry of Oil officials are committed and professional but they are over-stretched and must operate in challenging circumstances.

Iraq offers opportunity for investors prepared to take a long-term perspective. The past year has featured breakthroughs and setbacks. There has been armed conflict as well as policy and decision-making uncertainty resulting from fitful restoration of Iraqi sovereignty, involving elections in January 2005 and lengthy negotiations leading to the formation of a government only in May 2005.

International creditors have agreed in principle on future management of pre-2003 debt, though details remain to be finalised. Such developments temporarily increase uncertainty and delay decision-making.

Managing Director's Report

Implications for publicly quoted companies
The evolving macro situation, combined with a volatile stock market for resource shares, led to share price fluctuations. Our starting preference was to be as transparent as possible. At the request of the Iraqi authorities Petrel curtailed its public updates after September 2004. This has the disadvantage of less prompt and clear communications - which exposed nervous stockholders to false reports.

This is what you should expect when potential meets danger. If you are the sort of person who might be susceptible to such rumours, you should not invest in resource shares. Exploration shares are risky; their business involves geological, economic and environmental risks. Iraq involves less geological and financial risk – but with physical and legal security concerns.

Share price movements are driven by the marginal buyer and seller. They swing between euphoria and depression depending on the latest media reports or market sentiment – which may be manipulated by speculators. Hot stocks invite ramping and criticism. Short sellers appear. That's how markets work.
Petrel will not be deflected by euphoria or depression. Petrel is participating in the development of Iraqi oil. We aim to keep the market reasonably informed – but this must be within the rules and subject to the sensitivities of the authorities. Management's duty is to state facts. The market's job is to react and assess.

Petrel's management and long-term shareholders are not overly sensitive to short term share price movements. We have excellent institutional support and do not anticipate problems funding either exploration or oil field developments. Our preference is to remain independent so as to build on our strategy to become an Iraq-centred oil independent. But there is no shortage of potential suitors interested in Iraqi exposure without the inconvenience of working in a conflict zone.

Doubtless there will be new challenges in the years to come. If shareholders are risk averse they should exit forthwith. If they share our vision and are ready to ride the inevitable waves we promise them an exciting journey. The opportunity is clear and competition from majors muted.

The past year has been challenging for participants in the Iraqi oil industry. The transition to an elected administration has also disrupted decision-making. Production and exports have stagnated. Security is a challenge even for those with deep roots in Iraq. We maintain an office and staff in Baghdad.

Delays and hazards are frustrating, but they also offer opportunity. So far major companies have limited their involvement to provision of generalised training courses and studies conducted from western countries.

Petrel has taken a pragmatic approach, conducting what work is possible within the constraints.

Oil Industry Background
Worldwide the commodities boom continues, with acceptance of a new oil price range between $35 and $55 now mainstream. In mature regions like the USA or the North Sea, it is becoming harder to find commercial oil – despite improved technology and established infrastructure.

Meanwhile there is strong demand growth from rapidly rising per capita consumption in developing countries like China and India – but also growing energy demand in developed countries like the USA.

Limited supply of conventional oil and diminishing discoveries drive the rising oil price – exacerbated by political risks in the key producing areas of the Middle East.

The key role that Iraq and surrounding areas must play in supplying conventional oil is undeniable. Every passing year increases Iraq's long-term importance. The oil industry and consumers urgently need Iraq's exports.

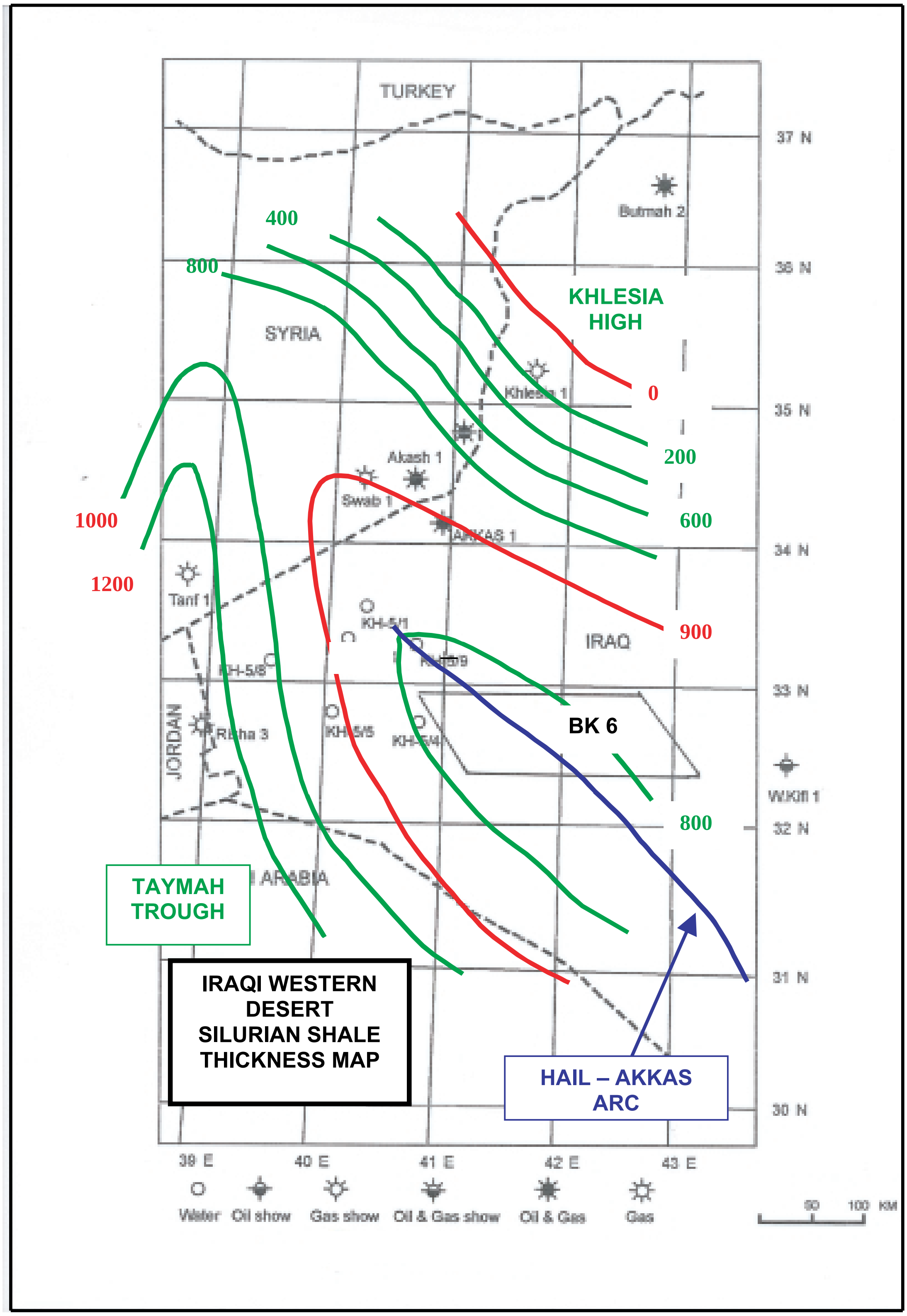
The irony of recent events is that few companies are prepared to work in Iraq under prevailing circumstances. Petrel sees the challenges as an opportunity.

Western Desert Exploration - Summary

Though the Ministry's priority is boosting early production, Petrel also pushes ahead with longer-term exploration in the Arabian Western Desert:

Our exploration priority is Block 6 in the relatively unexplored Paleozoic Basin of western Iraq. Work is underway on mapping, seismic interpretation, satellite imaging and geological sampling. Four major prospects have been identified from seismic lines in Block 6. This combination of huge structures in an area of proven source rock and reservoir sands makes Block 6 the most promising of the Iraqi western desert blocks.

Managing Director's Report

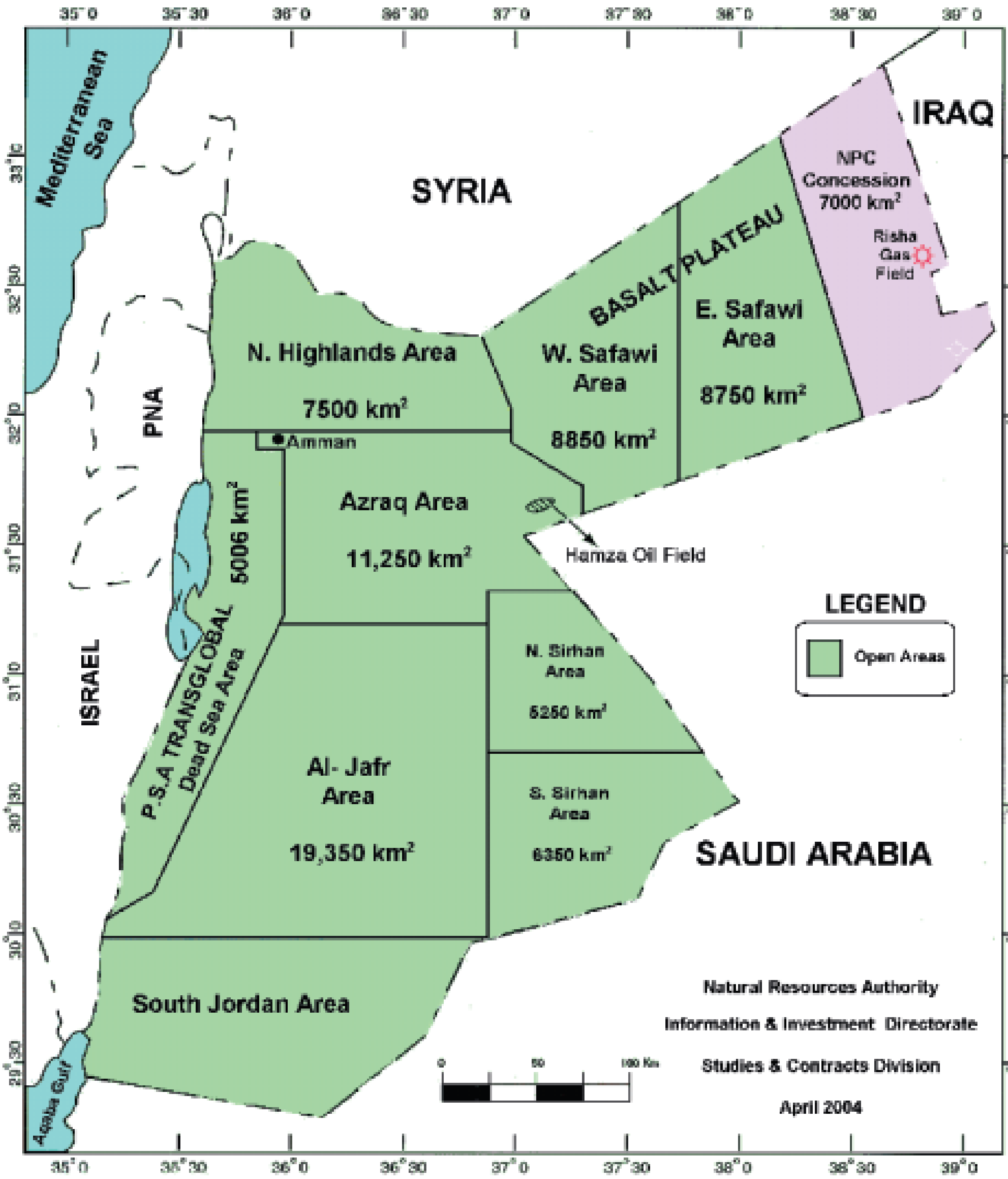


Block 6, Iraqi Western Desert

Managing Director's Report

In the Iraqi Western Desert we have developed a regional model, focusing on Block 6. Though the Western Desert remains a frontier area until wells are drilled, the existence of large structures and scope for stratigraphic traps makes this area one of the most interesting worldwide.

Petrel has also signed a Memorandum of Understanding with the Jordanian government's Natural Resources Authority to re-process seismic and conduct other exploration work on the 8,750 km² East Safawi Block on the Jordanian Basalt Plateau of the Arabian Desert close to the Iraq border. Petrel has the right to opt for a Production Sharing Agreement. The work programme, which includes seismic reprocessing and core sample analysis, started immediately and progressed smoothly. Our technical staff is completing their work as of June 2005. We hope to be able to exercise our option to convert to a Production Sharing Agreement in July.



Map of Jordanian Blocks

Managing Director's Report

A general Western Desert geological sampling programme is underway. Petrel's relationship with the Jordanian Natural Resources Authority gives us access to priceless well core samples and data, as well as the ability to extensively sample key outcropping rocks in the Arabian Western Desert, encompassing plays in Iraq, Jordan and Saudi Arabia. Seismic interpretation, mapping and evaluating satellite imagery is ongoing.

Oil Field Development Service Contracts – Operations Review

During 2004 there was intense interaction with Ministry officials, suppliers and sub-contractors on the first three oil field development tenders. Initial and final tenders were submitted from April to December 2004, with final clarifications in November 2004 to January 2005. The Kormor tender was submitted in April 2005.

In October 2004, Petrel's management and technical team were called to technical and clarification meetings in Amman, Jordan with Iraqi Ministry of Oil officials – including the State Company for Oil Projects (SCOP), the Northern Oil Company (NOC) and Southern Oil Company (SOC) representatives to discuss and clarify our submissions for the following projects:

- Khurmala Dome Project, Kirkuk, northern Iraq / Kurdistan
- Hamrin Field Project, central Iraq, and
- Luhais & Subba Development Project, southern Iraq

During the first quarter of 2005, further clarifications continued and resulted in the submission of updated tenders for all of the three Projects.

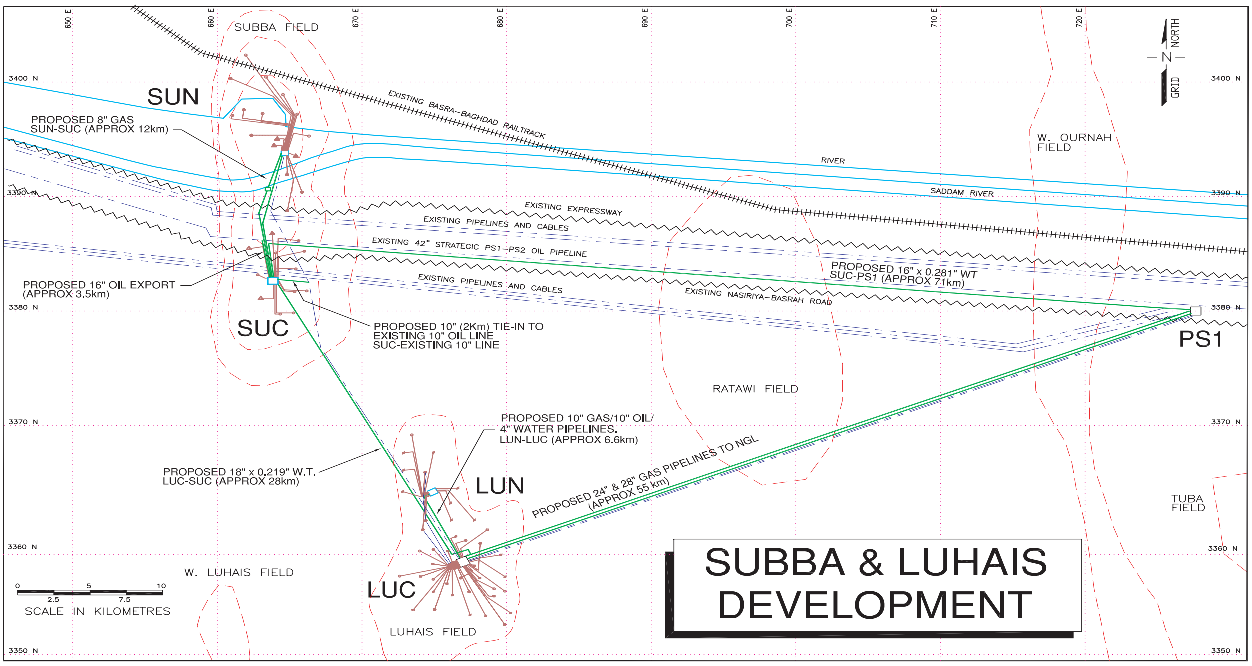
Petrel was also encouraged to submit a tender for the Kormor Gas producing field (80kms south east of Kirkuk city) operated by the Ministry of Oil's North Oil Company. We duly presented our tender submission for that project in April 2005. We anticipate discussions to continue into the 3rd Quarter 2005.

As of the date of writing (June 2005) we understand that SCOP has completed its review and made recommendations to higher authority for the first three major oil projects and they are now in the process of ratification and formal award.

During all of our submissions and discussions with SCOP/NOC/SOC, Petrel demonstrated its commitment and capability to complete the projects to SCOP's requirements. SCOP has effectively agreed to our project execution plan and contracting strategy for the Projects. We have also jointly confirmed with SCOP a recommended supplier listing for the Projects. Petrel also entered into Frame Agreements and Memoranda of Understandings with our major contractors and suppliers (including General Electric, Hanover and Enereco Engineering) to ensure technical quality and to secure commercial terms and conditions.

The Kormor Project is at an early stage of evaluation within SCOP/NOC.

An overview of the Luhais and Subba Project in the Basra area operated by the SOC and the Kormor Project in the Kirkuk area operated by the NOC, is illustrated and described below:



Managing Director's Report

Luhais and Subba Project

The two oil fields, which have already been partly developed, are located in southern Iraq. The Luhais oil field is located approximately 120 km west of Basra city and 60 km west of the existing Rumaila oil field. Subba oil field is located approximately 105 km south east of Nassirya city and 30 km north west of Luhais oil field.

The extensive and challenging work programme requires the existing oil processing capability at Luhais and Subba, operated by the Ministry's South Oil Company, to be increased from under 50,000 barrels of oil daily (bopd) to over 200,000 bopd from both fields within a 3 year schedule.

Gas production from the fields is also important and vital to the future economy of the country as the gas processing and export facilities will provide up to an additional 100,000 million cubic feet (MMscfd) of gas (15,000 bopd equivalent). Flared gas offers scope to yield liquids as well as generate power.

The existing field facilities require a major overhaul and new oil and gas processing trains are to be installed at the four field locations along with a major construction program for the infield and export oil and gas pipelines.

An illustration of the present facilities is shown below (taken during our field survey) along with an example of a proposed processing unit that we would provide.

The new and upgraded facilities at the Luhais and Subba areas would be designed, supplied and installed to International codes, standards and specifications.

Luhais Existing Separator Units

Managing Director's Report

Proposed Heat Treating Unit

Kormor Project

The Kormor project, to be operated by the Ministry's North Oil Company, will be a new facility processing 220 million cubic feet (MMscfd) of gas and 27,000 barrels daily (bpd) of condensate to be routed to the existing operational North Gas Site (NGP) that is located approximately 15km from Kirkuk.

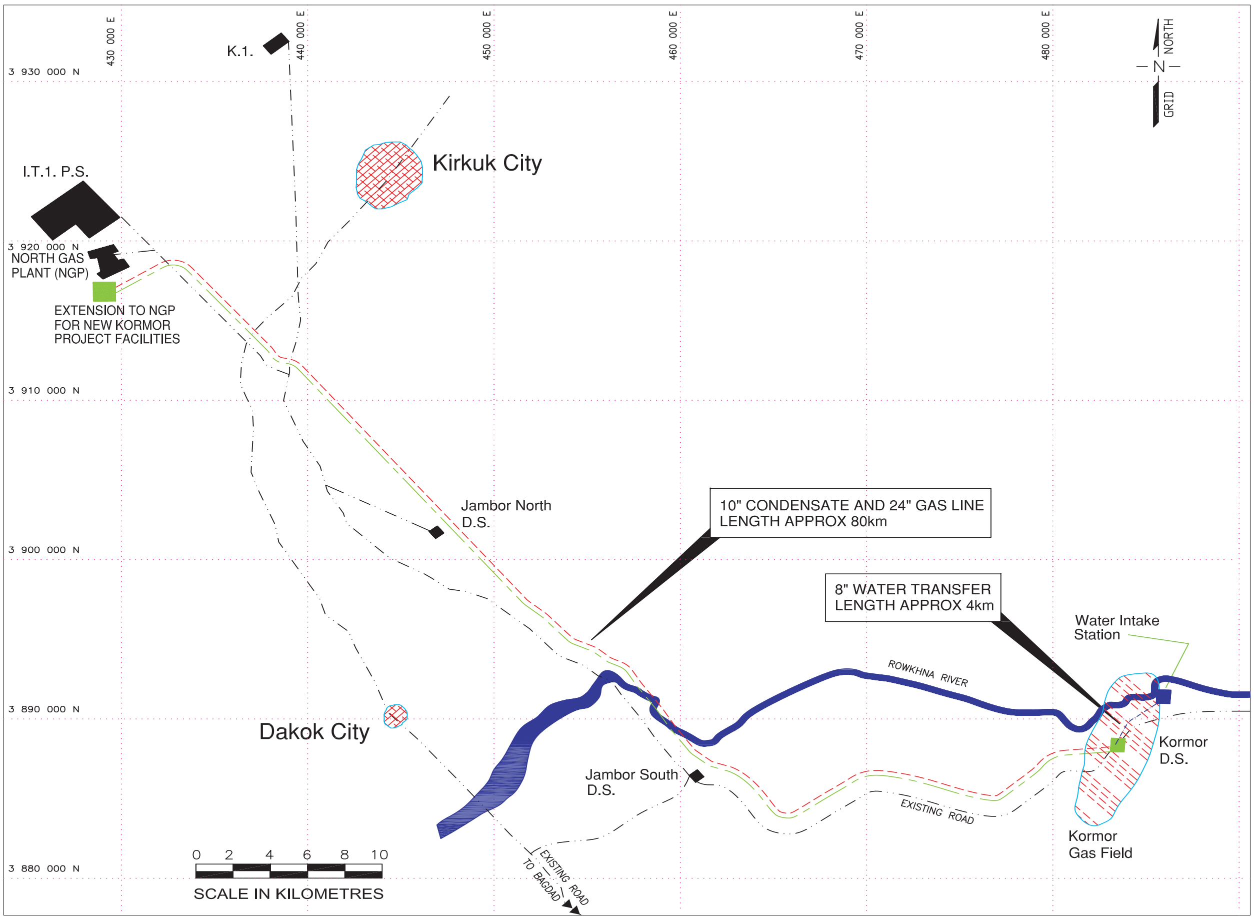
The project requires the installation of a new 2nd Process plant at Kormor, 80km south east of NGP, to collect production from a new gas and condensate production area. The 220 MMscfd processed gas and condensate is then routed via 24 inch and 10 inch pipelines to the NGP site where further upgrades are required to allow commingling of the gas and further condensate recovery for subsequent export to the strategic pipeline systems.

Additional gas production of over 220 million feet (MMscfd) and 30,000 barrels daily (bpd) of condensate will be realised by the field development plan work programme.

The domestic and industrial consumption of gas in Iraq is increasing and the Kormor field development project will be an important step in expanding Iraq's gas production capability – an area of interest for Petrel.

Organisational structure for Oil Field Development (SCOP) tenders

Petrel prepared and submitted its SCOP tenders with input from a group of companies and sub-contractors with a deep and broad experience in the development of Oil and Gas field facilities,



Kormor Field Proposal

infrastructure and export systems. They all have worked extensively in the Middle East, North Africa and elsewhere.

In the year 2000 Petrel had developed and submitted a Tender for the additional development of the Luhais and Subba project. We have since expanded our activities and working associations with manufacturers, vendors and major sub-contracting companies. We have their full support in our ongoing international work, and also specifically on our efforts to progress our involvement in the development of our business in Iraq.

Petrel's Project Management team was handpicked to bring together the skills necessary to prepare the Engineering definition and Field Development Planning, Tender preparation and submissions, and the follow on engineering for all of the SCOP Tenders and for our work in Iraq and the Middle East generally. Our resource base now consists not only of our people but also qualified and experienced personnel presently active in other oil and gas field developments.

We have also established relationships with Principal Suppliers who have fully supported our Tender scope and definition and have the relevant experience and attributes to fully commit their resources to our tendering efforts and ongoing work.

The relevant experience and roles within our Project organizational structure are as follows:

(ODR) - A Project Management Group headed by our Project Director with activities in the Middle East, North Africa, West Africa, Britain and the Far East. ODR is now fully integrated into the Petrel organisation to support us in all our oil and gas field development projects.

ODR is also a major shareholder in Petrel and has supported our corporate proposals over the last six years, including Petrel's year 2000 submission for the Luhais and Subba Project. At present the group is involved in Projects for the rehabilitation of producing Oilfield Facilities and new build concepts. Historically the group has managed Projects, on behalf of Operators, from Conceptual Definition through the design and construction phases into operational handover in areas such as Europe, Middle East and North Africa, South Africa and the Far East.

Managing Director's Report

Summary Information of our Associates and our Principal Suppliers.

Enereco Engineering and Consulting – An Italian based Company with representation in Europe, Africa and the Middle East. Enereco has demonstrated their expertise and commitment in the Engineering area for International Projects. The company has direct working experience in Iraq and in Libya for example and has worked with ODR on comparable sized projects.

Hanover (formerly Maloney Industries) - A major international supplier of Oilfield Processing and Treatment Equipment with bases in Britain and the Middle East and North America. Hanover has the total capability to manufacture and supply the whole range of equipment and packages for the Projects tendered. Their British offices have fully participated in the technical definition of the main equipment packages and treatment systems. Historically they have provided equipment to the Iraqi oil industry.

GSI Weatherford - A manufacturer and supplier of process packages and machinery units. Weatherford's main manufacturing and assembly facilities are in Singapore and they have the experience and capability for the delivery of processing systems to meet the specifications and requirements for the Project. Weatherford has also provided support to our Tender for the Gas processing systems and are able to supply the extensive range of equipment required for the Project.

Nova-Pignone (General Electric group) – A major international manufacturer and supplier of Turbines, Compressors, pumps and associated equipment and systems. We have obtained technical and commercial proposals for the supply of API compliant equipment, as per the SCOP requirements.

Solar Turbines (Caterpillar Group) – A major International Supplier of Turbines and Packages for Power Generation and Gas Compression Units. Solar have participated in the Tenders for Petrel in Iraq, and have demonstrated their capability to meet fast track and challenging schedules and budgets as well as complying with the quality and specification requirements.

Nessco – A UK based specialist supplier of Telecommunications systems who have extensive experience in the North Sea (Offshore Platforms/Onshore communications) and have extended their supplies to International markets both offshore and onshore.

Pegasus Engineering – An International Company, with offices in Britain, the Far East and North America, specialising in pipeline analysis and design, survey analysis, crossings and the associated work for procurement and installation. Pegasus has performed analysis and support work for other projects that our engineers have managed.

HIMRIN Petroleum Services - Petrel's local company associate in Baghdad, run by Mahmoud Hameed Ahmed, who worked for many years at a senior level with the North Oil Company of the Iraqi Ministry of Oil. His extensive experience includes drilling circa 1,000 wells during his career – the great majority of which produced oil and gas. Mahmoud drilled a discovery well on the Khurmala Dome, as well as administering operations on the Kirkuk oilfield generally. Petrel and Himrin have worked closely together since 1999. Mahmoud displayed courage and management judgment by maintaining our presence in Iraq during recent months.

Other Suppliers and Sub-Contractors – While we have progressed and developed our Tender with input from our associates and the suppliers above we have also maintained contact and received proposals from other suppliers to ensure commerciality and quality. Our supplier database includes companies from a worldwide basis.

Western Desert Exploration Operations Review

Iraq's untapped potential

There is little doubt that Iraq, due to its difficult history over the past 50 years and despite having the second largest proven reserves in the world (115 billion barrels), remains under-explored.

Broadly, Iraq comprises three geological elements – the Zagros Mountains in the east, the broad central area of the Mesopotamian Basin and the Arabian Platform (Western Desert) in the west. Most of the known hydrocarbon reserves lie within the Mesopotamian Basin, extending from Mosul to Basra, and in the foothills of the Zagros Mountains.

These reserves occur within thick younger (Mesozoic-Tertiary) rock sequences that thin rapidly westwards onto the Arabian Platform. With initial exploration success in the Mesopotamian Basin little attention was paid to the relatively thin Mesozoic-Tertiary sequences on the Platform, or to the deeper older rock sequences accessible to the drill in this western region. The Western Desert, including parts of Saudi Arabia, eastern Jordan, western Iraq and southern Syria, remains under-explored.

Managing Director's Report

However, the Risha gas field at the Iraqi-Jordanian border and the Akkas gas-condensate discovery near the Iraqi-Syrian border demonstrate that viable petroleum systems have functioned in this western region.

Events in recent years have presented Petrel with opportunities in two areas: firstly to cooperate with the Iraqi Oil Ministry in the development and upgrading of existing oilfields within the Mesopotamian Basin (see oil field development section). These are currently structured as oil field development service contracts, but we are keen to undertake exploration risk when this is legally possible.

While the basinal area has further potential outside the known fields, the short to medium term thrust is to improve the existing fields and discoveries.

The second opportunity has been to pursue the exploration potential of the Iraqi Western Desert, especially Block 6.

Technical projects on the Block, initiated in 2003, were concluded. A detailed structural study in and around Block 6, using satellite data, was integrated with an interpretation of seismic lines obtained from the Ministry of Oil, and with regionally compiled stratigraphic data. These results were presented to Ministry of Oil personnel in Baghdad. Ongoing security constraints has limited access to ground-truth geological data in the field. As part of the company's ongoing cooperation with the Ministry of Oil, three Iraqi geologists were hosted in Ireland for a 3–week training course comprising workshops and field visits. We will expand training and joint study activities in the second half of 2005 and subsequently.

Regional studies supporting the Western Desert Block 6 project had involved a joint venture with the Jordanian Natural Resource Authority, which included source rock maturation studies and apatite fission track analysis (AFTA) of wells from the Risha gas field and of samples from the target reservoir rocks, exposed in southern Jordan. The results of these

Petrel Geologists In The Field January 2005

studies convinced Petrel technical personnel that the hydrocarbon potential of the Iraq sector of the Western Desert extends into Jordan and Saudi Arabia. Particularly encouraging was the excellent working arrangement established with the Jordanian Natural Resources Authority and the encouraging working environment in the country.

Petrel signed a 6-month Memorandum of Understanding (MOU) with the NRA in January 2005 over an area covering 8,750 sq. km. immediately west of the Risha Block, which contains the Risha producing gas field operated by the Jordanian National Petroleum Company. The MOU may be converted, at Petrel's option, to a negotiated Exploration & Production Sharing Agreement.

Petrel is interpreting 4,350km of existing seismic data on the block, after upgrading the data to workstation format.

Detailed structural studies are also ongoing using both satellite interpretation results and field data collected on the Block.

Jordanian well data, provided by the NRA, are being integrated into the company's regional compilation. Maturation studies and apatite fission track analysis are being carried out on samples from a deep well in the south of the block (RH-19), drilled by the NRA in 1990. The company is encouraged by the work to date and is hopeful of defining hydrocarbon plays, not only in reservoirs equivalent to the producing levels in the Risha field, but also in stratigraphically younger and shallower beds.

Building foundations for future work

A practical way of driving forward during 2004 was through running training courses for senior Iraqi Ministry of Oil officials. Following conflicts and sanctions after 1990, the technical staff of the Ministry of Oil needed to focus on day-to-day priorities and were constrained in access to developing techniques. This shortcoming is now being addressed.

Petrel is delighted to have this opportunity to cooperate with the Oil Exploration Company and will conduct training courses and studies on exploration areas in Iraq during the coming year.

David Horgan
Managing Director

21st June 2005

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

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 €350,295 (2003 : loss after taxation €244,065).

The directors do not recommend that a dividend be declared for the year ended 31 December 2004.

BOOKS OF ACCOUNT

To ensure that proper books and accounting records are kept in accordance with Section 202 of the Companies Act, 1990, the directors have employed appropriately qualified accounting personnel and have maintained appropriate computerised accounting systems. The books of account are located at the company's office at 162 Clontarf Road, Dublin 3.

DIRECTORS

The current directors are set out on the inside back cover.

There were no changes in directors or secretary during the year.

SUBSTANTIAL SHAREHOLDINGS

The share register records that, in addition to the directors, the following shareholders held 3% or more of the issued share capital as at 30 April 2005:

	Number of Ordinary Shares	%
BNY (OCS) Nominees Limited	4,193,610	6.74%
Citibank Nominees (Ireland) Limited (CLRLUX)	3,216,300	5.17%
HSBC Global Custody Nominee	3,050,000	4.90%
L R Nominees Limited	2,614,715	4.20%
TD Waterhouse Nominee (Europe) Limited	2,119,433	3.41%
Barclayshare Nominees Limited	1,943,277	3.12%

DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES

The directors and secretary at 31 December 2004 held the following beneficial interest in the shares of the company:

	1/04/2005 Ordinary Shares of €0.0125 '000	1/04/2005 Options - Ordinary Shares of €0.0125 '000	31/12/2004 Ordinary Shares of €0.0125 '000	31/12/2004 Options - Ordinary Shares of €0.0125 '000	1/01/2004 Ordinary Shares of €0.0125 '000	1/01/2004 Options - Ordinary Shares of €0.0125 '000
J. Teeling	3,615	1,900	3,615	1,800	3,615	1,800
D. Horgan	2,715	1,650	2,715	1,500	2,715	1,500
G. Delbes	140	100	140	100	140	100
J. Finn (Secretary)	1,015	870	1,015	770	1,015	770
S. Borghi	-	60	-	60	-	60

On 5 March 2005, Share Options were issued to the Directors as follows:

	Share Options Issued	Issue Price £	Share Options Exercised
J. Teeling	100,000	£0.43	-
D. Horgan	150,000	£0.43	-
J. Finn (Secretary)	100,000	£0.43	-

Report of the Directors

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.

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 6 to the financial statements.

EVENTS AFTER THE YEAR END

On 4 March 2005 the company issued 2,501,000 Shares at 0.43p each to meet Group Working Capital requirements.

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

21st June, 2005

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 2003 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.

Independent Auditors' Report to the Members of Petrel Resources Plc

We have audited the financial statements of Petrel Resources Plc for the year ended 31 December 2004 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement, the Statement of Accounting Policies and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the company's members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as set out in the Statement of Directors' Responsibilities, the preparation of the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, Auditing Standards as promulgated by the Auditing Practices Board in Ireland 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 2003 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.

We read the Chairman's Statement, the Managing Director's Report and the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatement within it. Our responsibilities do not extend to other information.

Basis of audit opinion

We conducted our audit in accordance with the 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 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 €2,218,409 (2003: €1,373,863) included in the consolidated balance sheet and of the intangible and financial assets of €2,229,646 (2003: €1,373,866) included in the company balance sheet, is dependent on the successful development of economic reserves including the ability to raise sufficient finance to develop the projects. We draw attention to further details given in Note 5. 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 31 December, 2004 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 2003 and the European Communities (Companies: Group Accounts) Regulations, 1992.

We have obtained all the information and explanations we considered necessary for the purpose 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.

Independent Auditors' Report to the Members of Petrel Resources Plc

In our opinion the information given in the directors' report is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet of the company are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2004 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
21st June 2005

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, the relevant Statements of Recognised Practice for the oil and gas industry, other applicable accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2003 and the European Communities (Companies: Group Accounts) Regulations, 1992.

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

Exploration costs are capitalised until the results of the projects, which are based in geographic areas, are known. 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 Euro 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.

DEFERRED TAXATION

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Deferred tax assets are only recognised to the extent that they are regarded as recoverable. They are regarded as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Consolidated Profit and Loss Account

for the year ended 31 December 2004

	Notes	2004	2003
		€	**€**
Administrative expenses		**(358,916)**	(244,638)
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST		**(358,916)**	(244,638)
Interest income		**8,621**	573
LOSS FOR THE YEAR BEFORE TAXATION	1	**(350,295)**	(244,065)
Taxation	2	**-**	-
LOSS FOR THE YEAR AFTER TAXATION		**(350,295)**	(244,065)
Profit and loss account : opening - (deficit)		**(2,100,489)**	(1,856,424)
Profit and loss account : closing - (deficit)		**(2,450,784)**	(2,100,489)
Loss per share - basic	3	**(0.60c)**	(0.48c)
Loss per share – fully diluted	3	**(0.60c)**	(0.48c)

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 21st June 2005 and signed on its behalf by:

John Teeling
David Horgan } DIRECTORS

Consolidated Balance Sheet

at 31 December 2004

	Notes	Group 2004 €	Group 2003 €
FIXED ASSETS			
Tangible assets	4	**596**	3,011
Intangible assets	5	**2,218,409**	1,373,863
		2,219,005	1,376,874
CURRENT ASSETS			
Debtors	7	**142,907**	50,281
Cash at bank		**3,182**	958,308
		146,089	1,008,589
CREDITORS : (Amounts falling due within one year)	8	**(256,959)**	(183,140)
NET CURRENT (LIABILITIES)/ASSETS		**(110,870)**	825,449
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,108,135**	2,202,323
CAPITAL AND RESERVES			
Called-up share capital	9	**746,565**	727,690
Capital conversion reserve fund	10	**7,694**	7,694
Share premium	11	**3,804,660**	3,567,428
Profit and loss account - (deficit)		**(2,450,784)**	(2,100,489)
EQUITY SHAREHOLDERS' FUNDS	12	**2,108,135**	2,202,323

The financial statements were approved by the Board of Directors on 21st June 2005 and signed on its behalf by:

John Teeling
David Horgan
} DIRECTORS

Company Balance Sheet

at 31 December 2004

	Notes	**Company 2004 €**	Company 2003 €
FIXED ASSETS			
Tangible assets	4	**596**	3,011
Intangible assets	5	**2,218,409**	1,362,629
Financial assets	6	**11,237**	11,237
		2,230,242	1,376,877
CURRENT ASSETS			
Debtors	7	**142,907**	50,281
Cash at bank		**3,182**	958,308
		146,089	1,008,589
CREDITORS : (Amounts falling due within one year)	8	**(256,962)**	(183,143)
NET CURRENT (LIABILITIES)/ASSETS		**(110,873)**	825,446
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,119,369**	2,202,323
CAPITAL AND RESERVES			
Called-up share capital	9	**746,565**	727,690
Capital conversion reserve fund	10	**7,694**	7,694
Share premium	11	**3,804,660**	3,567,428
Profit and loss account - (deficit)		**(2,439,550)**	(2,100,489)
EQUITY SHAREHOLDERS' FUNDS	12	**2,119,369**	2,202,323

The financial statements were approved by the Board of Directors on 21st June 2005 and signed on its behalf by:

John Teeling
David Horgan
} DIRECTORS

Consolidated Cash Flow Statement

at 31 December 2004

	Notes	2004	2003
		€	€
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	14(a)	**(380,803)**	(68,811)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		**8,621**	573
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**8,621**	573
TAXATION			
Corporation tax paid		**-**	-
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire intangible fixed assets		**(844,546)**	(292,778)
Payment to acquire tangible fixed asset		**-**	-
NET CASH OUTFLOW BEFORE FINANCING		**(1,216,728)**	(361,018)
FINANCING			
Issue of ordinary share capital		**261,086**	1,390,263
Share issue expenses		**(4,979)**	(77,584)
NET CASH INFLOW FROM FINANCING		**256,107**	1,312,679
(DECREASE)/INCREASE IN CASH	14(b)	**(960,621)**	951,663

Notes to the Financial Statements

for the year ended 31 December 2004

1. LOSS BEFORE TAXATION

	2004	2003
	€	€
The loss before taxation is stated after charging the following items:		
Depreciation	**2,415**	2,414
Directors' remuneration		
- fees	**39,000**	32,400
- salary	**141,528**	34,247
Auditors' remuneration	**9,000**	8,000
Staff costs – salaries	**18,725**	32,100
- payroll taxes	**1,563**	3,624

The company had an average of one employee during the year.
All the group's assets, liabilities and expenditure relate to development projects in Iraq but arise in the Republic of Ireland. A segmental analysis is therefore not presented.

2. TAXATION

No charge to taxation arises in the current year as the company has availed of available loss relief. No deferred tax asset has been recognised on accumulated tax losses as the recoverability of any assets is not likely in the foreseeable future. At the year end deferred tax assets totalling €147,134 (2003: €103,650) were not recognised.

3. LOSS PER SHARE

Basic earnings per share is computed by dividing the 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 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):

	2004	2003
	€	€
Numerator		
Numerator for basic EPS retained loss	**(350,295)**	(244,065)
Denominator		
Denominator for basic EPS	**58,660,465**	51,370,793
Effect of diluted securities – options	-	-
Denominator for diluted EPS	**58,660,465**	51,370,793
Basic EPS	**(0.60c)**	(0.48c)
Diluted EPS	**(0.60c)**	(0.48c)

Basic and diluted EPS are the same in respect of 2004 as the effect of outstanding options is anti-dilutive and therefore excluded.

Notes to the Financial Statements

for the year ended 31 December 2004

4. TANGIBLE FIXED ASSETS

Group and Company

	Office Equipment
	€
Cost :	
At 1 January 2004 and at 31 December 2004	**12,074**
Accumulated Depreciation	
At 1 January 2004	**9,063**
Charge for year	**2,415**
At 31 December 2004	**11,478**
Net book value :	
At 31 December 2004	**596**
At 31 December 2003	**3,011**

5. INTANGIBLE ASSETS

	Group 2004	Company 2004
	€	€
Deferred development expenditure:		
Cost :		
At 1 January 2004	**1,373,863**	**1,362,629**
Additions	**844,546**	**855,780**
At 31 December 2004	**2,218,409**	**2,218,409**
Net book value :		
At 31 December 2004	**2,218,409**	**2,218,409**
At 31 December 2003	**1,373,863**	**1,362,629**

Notes to the Financial Statements

for the year ended 31 December 2004

5. INTANGIBLE ASSETS (Continued)

Intangible assets:

Deferred development expenditure at 31 December 2004 represents exploration and related expenditure in respect of projects in Iraq.

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. In addition, the current economic and political situation in Iraq, is uncertain. Having reviewed the deferred development expenditure at 31 December 2004, the directors are satisfied that the value of the intangible asset is not less than net book value.

6. FINANCIAL ASSETS

	2004	2003
	€	€
Investment in subsidiary company		
Parent company		
Shares at cost - unlisted:		
Opening balance	**11,237**	11,237
Closing balance	**11,237**	11,237

The group consisted of the parent company and the following wholly owned subsidiary as at 31 December 2004:

Name	**Registered Office**	**Group Share**	**Nature of Business**
Petrel Industries Limited	162 Clontarf Road, Dublin 3, Ireland	100%	Dormant
Petrel Resources of the Middle East Offshore S.A.L.	Damascus Street, Beirut, Lebanon	100%	Dormant

7. DEBTORS

	Group and Company	
	2004	2003
	€	€
Amounts falling due within one year:		
VAT refund due	**18,144**	11,578
Sundry	**124,763**	38,703
	142,907	50,281

Notes to the Financial Statements

for the year ended 31 December 2004

8.	**CREDITORS :** (Amounts falling due within one year)		Group		Company
		2004	2003	**2004**	2003
		€	€	**€**	€
	Accruals	**251,464**	183,140	**251,464**	183,140
	Amount due to group company	-	-	**3**	3
	Bank overdraft	**5,495**	-	**5,495**	-
		256,959	183,140	**256,962**	183,143

9.	**SHARE CAPITAL**	**2004**	2003
		€	€
	Authorised:		
	200,000,000 ordinary shares of € 0.0125	**2,500,000**	2,500,000
	Allotted, Called-Up and Fully Paid:		
	Opening 58,215,150 shares of € 0.0125 each	**727,690**	601,055
	Issued:		
	1,510,000 shares of €0.0125 each	**18,875**	126,635
	Closing 59,725,150 shares of € 0.0125 each	**746,565**	727,690

The total number of options outstanding at 31 December 2004, including to directors was 4,580,000. (2003: 5,440,000) shares. The options are exercisable at prices between €0.0127 and €0.61 in accordance with the option agreement.

During the year, 1,110,000 ordinary shares were issued at prices ranging from Stg£0.05 (€0.07) to Stg£0.40 (€0.56) to raise cash to fund ongoing corporate and development costs in Iraq.

On 30 September 2004, 400,000 ordinary shares were issued at Stg£0.20 (€0.28) each in full settlement of consulting fees of Stg£80,000 in respect of development costs in Iraq.

Notes to the Financial Statements

for the year ended 31 December 2004

10. CAPITAL CONVERSION RESERVE FUND

	2004	2003
	€	€
Opening and closing balance	**7,694**	7,694

11. SHARE PREMIUM

	Group and Company	
	2004	2003
	€	€
Opening balance	**3,567,428**	2,215,265
Arising on shares issued during the year	**242,213**	1,429,750
Less shares issue expenses	**(4,981)**	(77,584)
Closing balance	**3,804,660**	3,567,428

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2004	2003
	€	€
Opening shareholders' funds	**2,202,323**	967,590
Loss for the year	**(350,295)**	(244,065)
Issue of shares:		
- at par	**18,875**	126,635
- share premium (net of costs)	**237,232**	1,352,163
Closing shareholders' funds	**2,108,135**	2,202,323

13. LOSS ATTRIBUTABLE TO PETREL RESOURCES PLC

The loss after taxation in the parent company amounted to (€339,061) (2003 loss : €244,065).

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 31 December 2004

14. CASH FLOW STATEMENT

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

	2004	2003
	€	€
Operating loss	**(358,916)**	(244,638)
Increase/(decrease)in creditors	**68,324**	196,433
(Increase) in debtors	**(92,626)**	(23,021)
Depreciation	**2,415**	2,415
Net cash outflow from operating activities	**(380,803)**	(68,811)

(b) Analysis of net funds

	At 1 January 2004	Cash flow	At 31 December 2004
	€	€	€
Cash in bank and in hand	**958,308**	(955,126)	**3,182**
Bank overdraft	**-**	(5,495)	**(5,495)**
	958,308	(960,621)	**(2,313)**

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

	2004	2003
	€	€
(Decrease)/Increase in cash in the year	**(960,621)**	951,663
Change in net funds resulting from cash flows	**(960,621)**	951,663
Movement in net funds in the year	**(960,621)**	951,663
Net funds at start of year	**958,308**	6,645
Net (debt)/funds at end of year	**(2,313)**	958,308

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 liquidity risk.

15. RISK MANAGEMENT (continued)

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. At 31 December 2004, the group held €3,181 in sterling denominated bank accounts (2003: 981,279) and held no significant other 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 TRANSACTIONS

During the year the company paid consultancy fees to Guy Delbes amounting to €40,050. Guy Delbes is a director of the company.

17. NON-CASH TRANSACTIONS

Details of non-cash transactions during the year are set out in Note 9.

18. POST BALANCE SHEET EVENT

Further to the announcement on 14 December 2004, Petrel Resources has signed a Memorandum of Understanding with the Jordanian authorities on 10 January 2005. This covers the East Safawi block in the Arabian desert, near the Iraqi frontier. This is convertible to an exploration and development licence after six months.

On 4 March 2005 the company issued 2,501,000 shares at Stg£0.43 each to meet Group working capital requirements.

Notice of Meeting

Notice is hereby given that the annual general meeting of the members of Petrel Resources plc will be held on 22nd July 2005 in the Westbury Hotel, Dublin 2 at noon for the following purposes:

1. To receive the Report of the Directors and audited financial statement for the year ended December 31, 2004.

2. To re- appoint director: G. Delbes 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.

By order of the Board
James Finn
Secretary

21st June 2005

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 22nd July, 2005 in the Westbury Hotel, Dublin 2 at 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 G. Delbes	☐	☐
Remuneration of Auditors	☐	☐

Signature ....

Dated this ....day of...2005

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 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 member in respect of such holding.

FOLD 1

FOLD 2

The Company Registrar,
Computershare Services (Ireland) Ltd,
Heron House,
Corrig Road,
Sandyford Industrial Estate,
Dublin 18.

FOLD 3
(then turn in)