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CHAIRMAN'S STATEMENT

This has been a period of significant development for Petrel in Iraq. We have made progress on both oil field development and exploration while in Jordan we await parliamentary ratification of a Production Sharing Agreement on the East Safawi block.

SUBBA & LUHAIS OIL FIELD DEVELOPMENT

This project, located in Southern Iraq, is on schedule and due to be commissioned in 2009. The main features to date are:

a) First $20m advance payment received April 2006.
b) Significant construction, security and financial joint venture agreed with Makman, a major local Iraqi company.
c) Full project management team in place operating in the UK, Italy, Turkey and Iraq.
d) Engineering design and site/route work underway.

Our Iraqi partners provide local services including security. The security risks in Southern Iraq are manageable.

MERJAN OIL FIELD

In October 2005, Petrel signed an agreement with the Iraqi Oil Exploration Company to study the Merjan field located near to the city of Hillah and some 45 kms to the east of Block 6. This is a discovered field with an estimated 760 million barrels of light crude in place.

Technical Cooperation Agreements in Iraq give no formal rights but provide access to data on some of the world's best oil plays. Work done by Petrel in the Western Desert using modern techniques will give an improved understanding of the Merjan resource.

WESTERN DESERT BLOCK 6

This large block was awarded to Petrel in 2003 but the agreement was never ratified. In the past 3 years Petrel has continued work using available data and with modern techniques has identified a number of drill targets, two of which are structural and one stratigraphic. Ratification of our concessionary rights await the passing of a new hydrocarbon law.

EAST SAFAWI BLOCK JORDAN

While our very clear focus is on Iraq, the extensive regional work done by Petrel in the Western Desert identified opportunities in neighbouring countries, which share similar geology. In early 2005, Petrel signed a Memorandum of Understanding (MOU) with the Jordanian authorities on the 8,750 sq km. East Safawi Block which adjoins the producing Risha gas field, close to the Iraqi border. In May 2006, Petrel made formal application to convert the MOU to a Production Sharing Agreement. The identified plays on the block are gas in the Paleozoic and oil in the shallow Mesozoic strata.

STAFFING

This area is vital to our future success. Over the years in Iraq, we have built a team which can work in the country and in the oil industry. One of our main board directors is Arabic speaking, with decades of experience in the Middle East. Our Country Manager is a former senior executive

CHAIRMAN'S STATEMENT

of the Iraq National Oil Corporation. We have Arabic speaking, engineers working on Subba & Luhais and managers with many years experience in the oil industry and the Middle East region, supervising the project. Our joint venture with the Makman group brings additional in-country expertise with particular strength in construction. They will oversee security.

FINANCE

As the Subba & Luhais project develops cash outflow will increase. The first advance payment for work done on Subba & Luhais, $20 million, was received in April 2006.

As orders for piping steel and equipment are placed they will be financed by Letters of Credit from Iraq. There will be a need for working capital. We are in negotiation with international financial institutions to obtain any required finance.

Exploration needs equity. There is ongoing expenditure on Merjan, the Western Desert and East Safawi. We are at an advanced stage in agreeing a joint venture with a multinational oil company which will fund much of the exploration.

FUTURE PROSPECTS

The coming months will be busy for Petrel. We expect a new hydrocarbon law to be enacted in Iraq. This should lead to the ratification of our Block 6 exploration contract. The new law is also likely to provide for the negotiation of contracts to develop existing known discoveries. Petrel has targeted one such multi-billion barrel field and, in anticipation, is preparing a submission. Final engineering plans will be agreed on Subba & Luhais and equipment ordered in the next few months.

Almost no mineral has better economics than oil and in world oil Iraq is the lowest cost producer. Iraq is crucial to the world's energy future. The only questions are how and when the reserves will be developed. Political difficulties originally gave Petrel access to the opportunity but over the past nine years we have demonstrated our commitment to Iraq and have shown our technical abilities in exploration and now in oil field development.

Political stability and a new hydrocarbon law are the priorities for Iraq. The Iraqi people, and the world economy, need the development of Iraqi oil. Petrel will be part of this development.

John Teeling
Chairman
22 June 2006

MANAGING DIRECTOR'S REPORT

The Subba & Luhais oil field development services project is Petrel's main focus and is indeed the largest such project awarded to date by the new Iraqi authorities.

2005 was a breakthrough year for Petrel. The Iraqi authorities awarded Petrel, after 6 years of hard work and effort, the contract to develop the Subba & Luhais oilfields to a minimum capacity of 200,000 barrels of oil daily and 120 million cubic feet of associated gas. This $197 million development services contract was the largest awarded since 2003. Our mission is to ensure that all design work, supplies and services are delivered during the 1st Quarter of 2008. This will enable all construction and Petrel's commissioning activities to be complete for oil and gas production during 2009. We anticipate that we will also be supporting the Iraqi Ministry of Oil Project's Company (SCOP) during the construction phases of the project.

Our work is proceeding well and on schedule. Though political events complicate activity, the Subba & Luhais area is relatively calm and we have encountered no insuperable security problems when accessing the site.

Where feasible, we plan to maximise local content. Petrel has now fully established a Joint Venture arrangement with a major Iraqi company and continues to maintain relationships with reputable and experienced equipment suppliers. We have built up a team of experienced personnel -

Image 1 – Signing of the Subba & Luhais Contract

MANAGING DIRECTOR'S REPORT

complimented by the practical Iraqi experience of our Joint Venture partner – that will ensure that we are able to resolve any technical and logistical challenges in the prevailing circumstances and fluid environment in Iraq.

The project is now effectively fully staffed and all work is underway. The major events and activities to date are summarised below:

- Project Management team is mobilised (Europe, Turkey and Iraq).
- Joint Venture is established and fully active with a local partner.
- The necessary Bonds and Bank Guarantees have been provided to SCOP and the US$197m Letter of Credit from the Trade Bank of Iraq has been opened.
- We have received the circa US$20 million advance payment.
- Engineering design work is underway in Fano, Italy and on schedule. Technical discussions and meetings with SCOP have been highly productive.
- Process simulations and layouts have been developed for the Luhais and Subba design conditions and facilities, with reviews and approvals ongoing.
- A joint review of the Basic Design Package is being scheduled (3rd Quarter 2006) to provide for a second major milestone payment from SCOP.
- No insuperable security problems have been encountered. Logistical, offices and services and resources in country are being further expanded and developed.

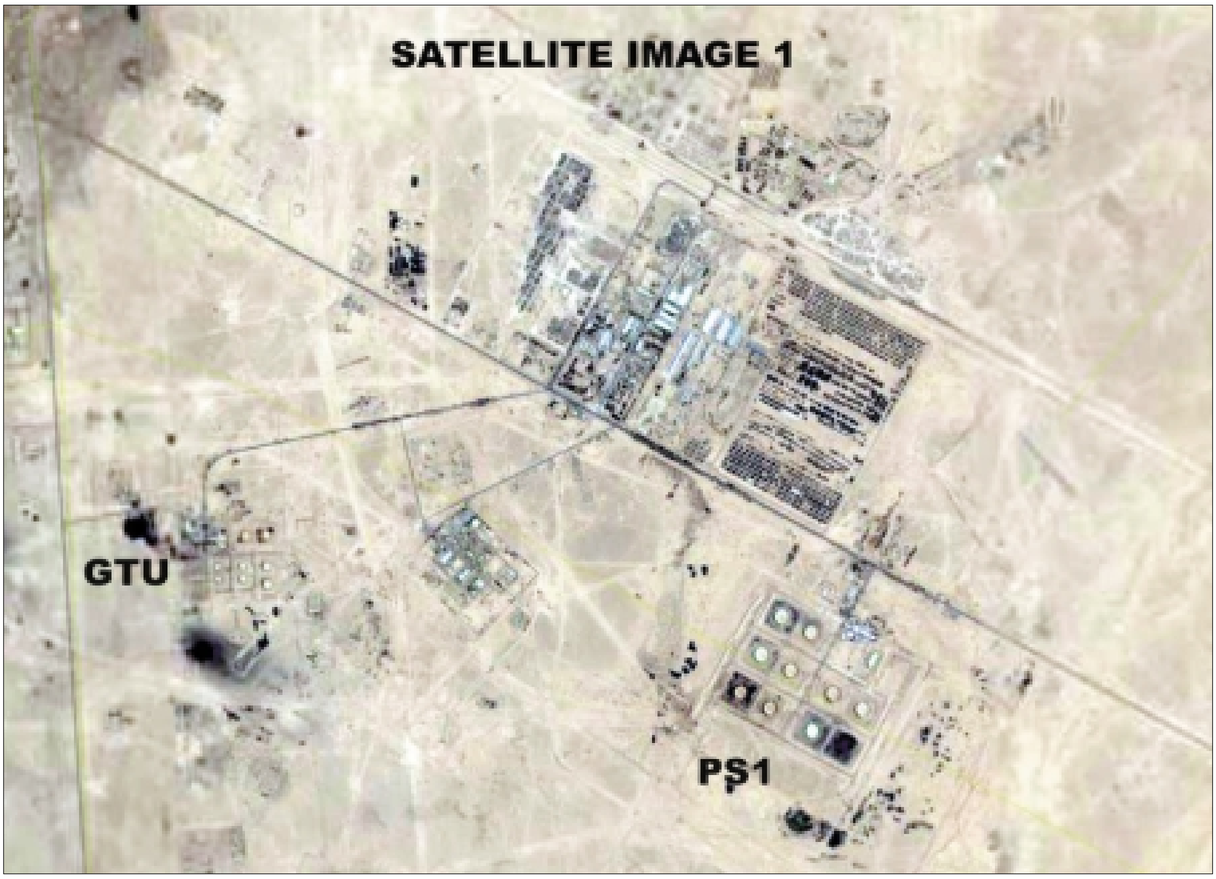

Image 2 – Satellite Image of Existing Subba & Luhais Infrastructure

MANAGING DIRECTOR’S REPORT

- Site and route survey scopes have been issued and will be implemented as soon as possible to allow for linepipe purchase orders (bills of quantities) to be established and supplied for construction activities.

PROJECT PERSONNEL MOBILISED AND ENGINEERING WORK UNDERWAY
During March 2006 Petrel and the JV partner held technical meetings with the Iraqi Ministry of Oil State Company for Oil Projects (SCOP) to present the design work performed to date and to review the processing options and our overall planned schedule.

Our early mobilisation of our Project Engineering Team had allowed Petrel to progress ahead of schedule and hence the major processing and design conditions were agreed with SCOP in the March meetings.

Prior involvement of major suppliers (such as for the Gas Compression Systems) further confirmed the technical and commercial basis of supply – compatible with the conditions on which we had originally tendered. We therefore now anticipate placing long lead orders during the 3rd quarter of 2006. Support from major suppliers has been excellent and we are now in the process of finalising the vendor list with SCOP taking account of suppliers experience and comparable commercial terms in the other oil field developments in the area.

In our technical discussions, SCOP also confirmed their desire to export the associated gas produced from the Luhais field at the earliest opportunity - rather than continue with the existing operating mode of flaring. Accordingly we have established a Work Group to prioritise and expedite gas export pipelines and gas dehydration system plant deliveries to achieve earlier gas export. This will also provide environmental and operational benefits, as well as an additional source of revenue to the fields. This confirms official confidence in our abilities and commitment to help develop the Luhais & Subba oil fields.

Our project focus to the year end 2006 is primarily:
- on design definition as part of the Basic Design Package and Front End Engineering Design (FEED) program for SCOP review and acceptance in the 3rd quarter of 2006 .
- in tendering, negotiating and securing equipment and material delivery conditions for the Long Lead items and pipeline material to specification and within budget.

The subsequent detailed design and manufacturing phases will continue until completion of supplies delivery in 2008.

Our project team is now developing the equipment lists and duties and associated specifications ready for issue and tender to the market place. In parallel we have developed field layouts for the Luhais & Subba processing stations and using satellite imagery also prepared preliminary route maps for the pipeline, power and communication systems.

Technical definition is continuing to identify preliminary material take-off’s for all of the piping and electrical bulks so that orders can be readily placed to achieve early delivery and generate the income stream.

MANAGING DIRECTOR'S REPORT

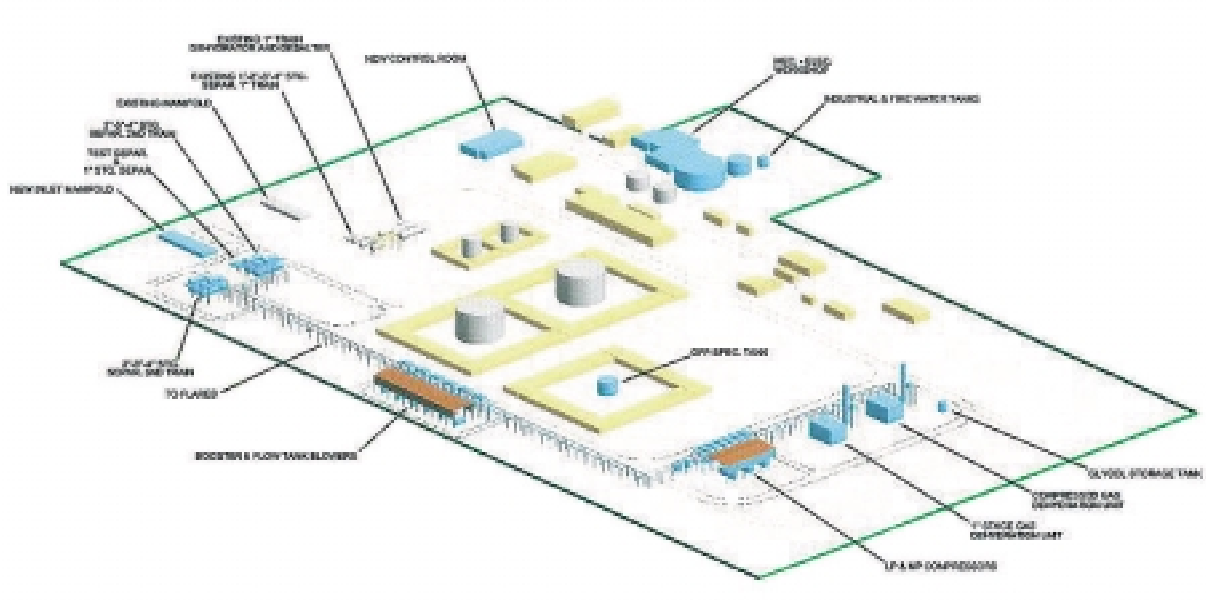

Image 3 – Modelled Luhais Layout

We have a challenging time ahead in 2006 to complete the design definition and expedite equipment orders in an overheated market. Industry supply capability is being challenged by an extraordinary demand situation. So far the project is well advanced due to our established relationships and experience. We can make decisions quickly and take opportunities in the supply chain.

LETTER OF CREDIT OPENED AND $20 MILLION CASH ADVANCE RECEIVED

In March 2006 we agreed with the Iraqi Ministry of Oil (SCOP) and the Trade Bank of Iraq (TBI) the final conditions and procedures for their receipt of our Guarantees and Bonds. Their issue of the Project Letter of Credit (LC) from the TBI has already provided us with the circa US$20 million advance payment. Our Joint Venture partner has submitted the necessary collateral for Performance Bonds and Bank Guarantees. We now have acceptable collateral for further payments from TBI and also to enable issuance of subsidiary Letters of Credit to our major suppliers.

We have also set up a trading account with the TBI to handle the necessary finances on behalf of the Ministry of Oil enabling a current account facility of circa $20 million with the TBI in April 2006.

JOINT VENTURE WITH LOCAL PARTNER PROGRESSING WELL

We are committed to working closely with the local community and Iraqi partners. In December 2005 Petrel established a joint venture with a major Iraqi group, Makman, to develop the Subba & Luhais project.

Together we have established structures and responsibilities within the Joint Venture Company. We have mobilised personnel to the Project offices in Baghdad, London, Italy and Istanbul with further support from our own corporate office and Makman's office in Erbil, northern Iraq.

MANAGING DIRECTOR'S REPORT

Image 4 – Signing of Makman Joint Venture

Our Iraqi partner brings both local contacts and experience. Makman's involvement in two other oil field projects in Iraq has provided them with a learning experience that we are able to benefit from. Detailed design has already commenced on these projects along with procurement, providing us with up to date pricing and delivery schedule data. We anticipate that this knowledge and experience will further identify and reduce our project risks and cost.

SECURITY

There are security risks but they are manageable. Petrel has accordingly expanded its presence in Baghdad and elsewhere in Iraq. The Subba & Luhais Project provides us with an infrastructure for advancing all our present and future activities in Iraq.

Subba & Luhais oil fields are located in the relatively calm region of southern Iraq north-west of Basra. We have experienced no difficulties with local people and expect to be able to continue working in the locality. Professional support services, including security, are available on reasonable terms from local people.

The site location is only about ninety minutes by good highways and roads from Basra, whose port facilities can also be supplemented, if necessary, by those in neighbouring Kuwait. This local

MANAGING DIRECTOR'S REPORT

infrastructure provides excellent staging points for transportation and deliveries and services to support our work program.

Support for the elected government in this area of Iraq is very high. It does not share the security challenges of central Iraq or the legal complications of the Kurdish-speaking area of Iraq. The area is flat desert, with good road and pipeline infrastructure. Though there was some looting in the area following the 2003 invasion, the current situation is comparable to similar projects elsewhere.

IRAQI EXPLORATION

We hope that there will soon be swift progress on clarifying the status of pre-war contracts and facilitating the negotiation of new exploration and development contracts.

The industry hopes that a new Hydrocarbon Law will clarify the situation. This may confirm the traditional pre-2003 Iraqi Model Contracts that were agreed or under negotiation, including Petrel's interest in Western Desert Block 6. Petrel has already identified targets and is ready to conduct field studies, acquire closely spaced seismic surveys to identify drill locations and drill wells as soon as legal title is confirmed.

The Subba & Luhais oil field development services contract does not include development or exploration drilling. However, there is substantial upside at greater depth in the Cretaceous and Jurassic horizons. Petrel is studying the geological potential and a possible expansion plan which we hope to propose to the Iraqi authorities when there is a legal framework for such work in place.

MERJAN OIL FIELD TECHNICAL COOPERATION AGREEMENT

In October 2005 Petrel signed a Framework of Case Study (Technical Cooperation Agreement) with the Iraqi Ministry of Oil's Oil Exploration Company (OEC) to study the Merjan Field Block between Kerbala and Western Desert Block 6. This undeveloped field was discovered in 1983 with circa 760 million barrels of 29.5° API oil in place.

Technical Cooperation Agreements give no formal rights, but provide confidential access to much-coveted data on some of the world's highest potential oil prospects.

The Merjan Oil Field Block in central Iraq is only 45km east of Block 6 and falls within the regional work Petrel has already conducted. But it is politically as well as geologically hot being close to the city of Hillah and just 50km west of the holy city of Karbala.

Our extensive work to date in the Western Desert shows that much can be learnt from the application of new techniques such as apatite fission track analysis (AFTA) and maturation studies, and by the integration of satellite and seismic interpretation datasets. However, transference of data relating to the Merjan area was delayed by senior level turnover in Iraq, national elections and lengthy negotiations to form a fully-sovereign properly elected government.

On 15th May 2006 the Ministry of Oil/Petrel Steering Group finally formally kicked off the work programme. Petrel had made use of the delay period to complete a first phase regional geological study and satellite interpretation of the wider Merjan region, together with a detailed structural

MANAGING DIRECTOR'S REPORT

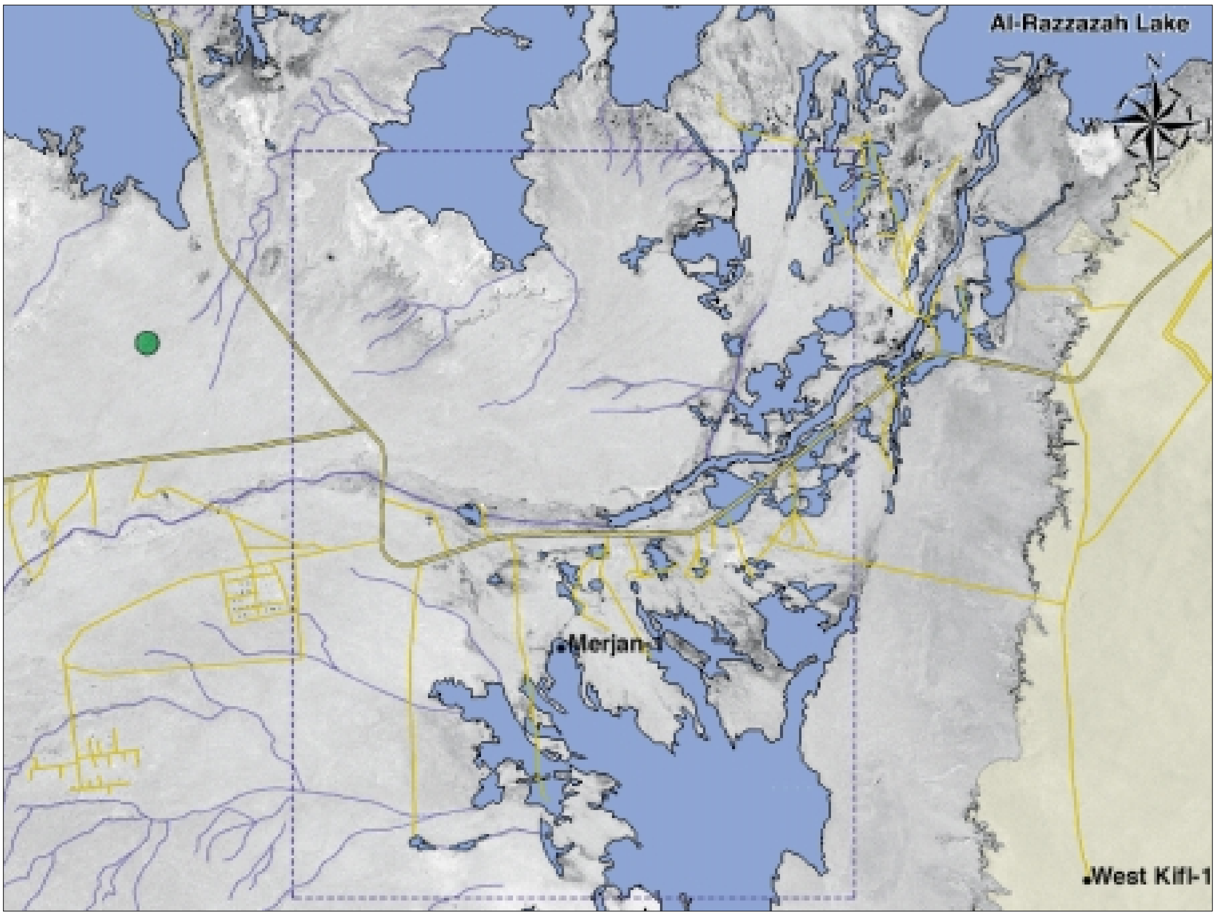

Image 5 – Merjan Landscape

analysis of the actual Merjan Block. The work to be carried out during the remainder of the Framework of Case study will be under the guidance of the Technical Committee comprising Petrel and Iraqi Ministry of Oil (OEC) personnel. Petrel will reprocess and reinterpret seismic data at the offices of Petrel's contractor, GSC, in Amman, and integrate the results with the completed regional geological and satellite studies. Of particular interest is the potential seen in the regional work for a structural trend extending to the southeast and incorporating the Kifl area. Detailed study of well logs and flow data, together with maturation and AFTA analysis of available well samples, will form part of the final report to the OEC on the potential and extent of the Merjan Field.

TECHNICAL AND FINANCIAL COOPERATION

Petrel has been involved in training and transfer of technology with the Ministry of Oil for several years. Technical courses have been run in Ireland and the Middle East. At the Ministry's request, in October 2005 Petrel provided training on possible legal and financial structures for future development of the Iraqi oil industry. The new oil minister has stated that developing a legal basis to attract friendly international investment and technology transfer is a priority of the new administration. During 2006 we expect to host detailed training exercises for senior staff integrating the latest thinking in geophysics and geology while applying international developments to Iraq's specific conditions.

MANAGING DIRECTOR'S REPORT

ELECTED, FULLY-SOVEREIGN GOVERNMENT PLANS TO DEVELOP ITS OIL PATRIMONY WITHOUT FURTHER DELAY

The Iraqi authorities continue to give encouragement and support. Formation of the fully-sovereign, national government following successful elections with a high participation rate opens the way for a new Hydrocarbon Law to provide, we expect, a legal basis for the participation of friendly and committed international companies to the development of Iraq's oil reserves.

Petrel's success came only after we had demonstrated our commitment for the long haul by investing time and money – as well as the willingness to put our investment and lives at risk.

The industry consensus was that such large, high profile contracts would go to large established groups close to the Coalition military. This was not the case. Petrel's model, of working with the legitimate governments on a technical and commercial level and staying free of political entanglements, has been vindicated.

Doing business at the edge brings opportunity as well as risk. We're at the edge in that few companies are really prepared to work on the ground in Iraq today. But we're also at the edge in terms of practical ways to get things done fast. You need to be able to tool up quickly when opportunities long in gestation suddenly mature. We have built up a number of close relationships with key suppliers and partners to rapidly and flexibly implement projects. We're able to handle the shifting priorities of local communities and we're at the edge of new geological thinking about the area.

Healthy scepticism over recent political events and the murky activities of some petroleum service companies shine a harsh light on those working in the sector. We need to be able to convince sceptics that we are part of the solution – rather than part of the problem. Petrel has been working in Iraq since 1999 and has made a decades-long commitment. As such we are not short term service-providers or carpet-baggers expecting a quick buck – we will develop our professional business for the long term.

In the course of such work shareholders should expect there will be sour grapes from disappointed competitors or would-be suppliers, and possibly nefarious antics by short-sellers. In the healthy oversight of sensitive areas, Non Governmental Organisations (NGOs) may have inconsistent or impractical objectives. Some media and pressure groups will misunderstand or misrepresent. Our task and objectives have been complicated by the need to limit public statements as the general security situation in the region deteriorated. Petrel also has to follow the confidentiality requirements of the Ministry of Oil and key suppliers, some of whom are more obvious targets than us. We do not wish to put ourselves or others in jeopardy.

Some tasks are more complex, time-consuming and tricky to achieve visible results than market players realise. It is generally believed that the Madrid conference ring-fenced pre-2003 Iraqi sovereign debt. This is only partly true. Considerable attention to detail is still required to ensure that associated Letters of Credit and financing arrangements are fully watertight. This can lead to delays and extra costs if not fully understood, discussed and negotiated. However, there is always a solution, or a reasonable way to limit cost and downside provided you are open-minded and patient. We have worked within this framework successfully.

MANAGING DIRECTOR'S REPORT

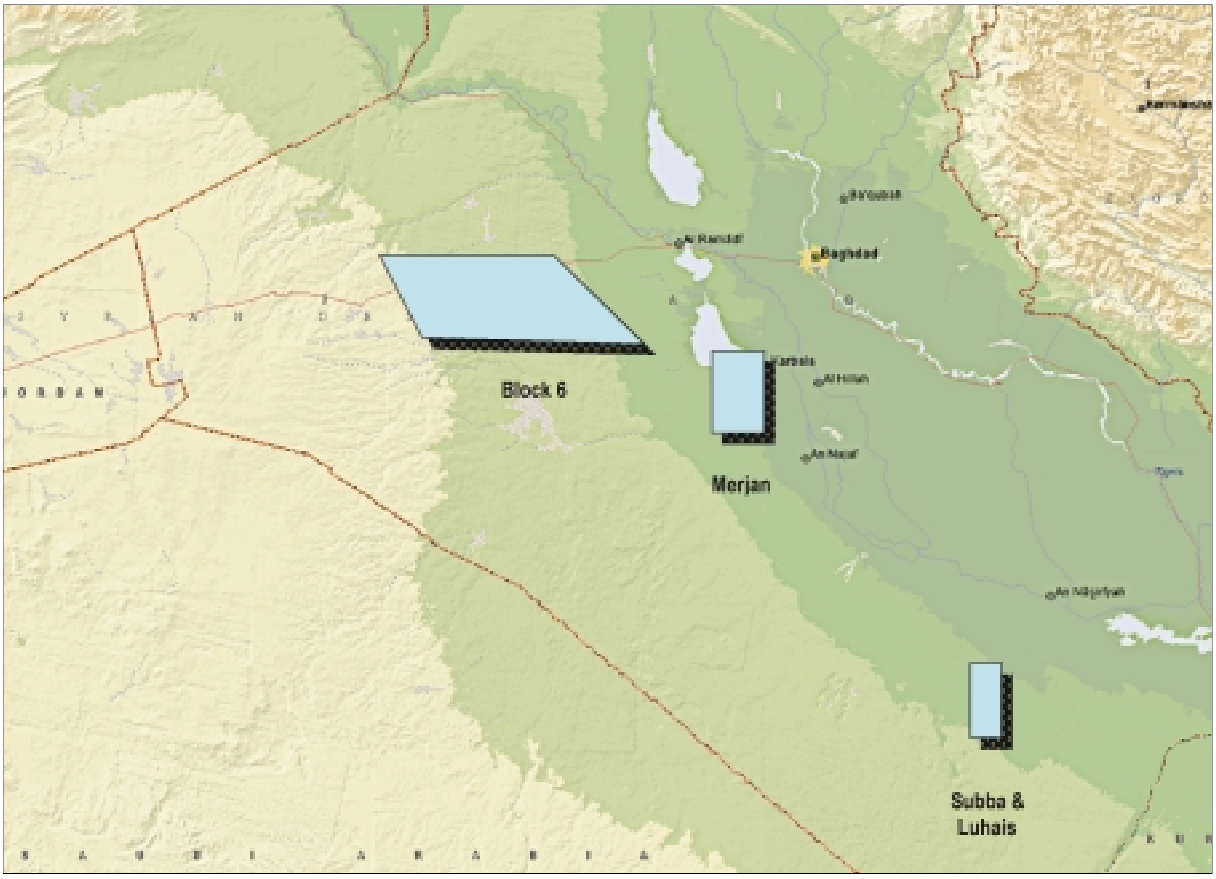

Image 6 – Map of Petrel's Interests in Iraq

Many believed that it would be impossible to obtain the Subba & Luhais contract, put up performance bonds and bank guarantees, get paid and complete the work. Yet the contract was signed in December 2005, the necessary bonds and guarantees have been arranged, and an experienced project team assembled and the work started and continues on schedule.

Petrel has received excellent technical and commercial support from some of the world's leading suppliers. There have been no insuperable security problems though the situation on the ground remains fluid and challenging.

There is still strong institutional and partner support for Petrel's business model. Many international players, including refiners, are keen to access Iraqi crude oil without the inconvenience of working there in the current challenging conditions.

The recent formation of a fully-sovereign elected government is a critical step in the removing of foreign military and restoration of legitimacy and security in the interests of all Iraqis, the region and world energy consumers.

Petrel only works with the explicit approval of the Iraqi Ministry of Oil. Some western companies have conducted early stage exploration without Baghdad's support in the Kurdish Autonomous

MANAGING DIRECTOR'S REPORT

Region. We wish them well and have the situation under review but believe that the only legitimate basis for Petrel to proceed is on the basis of approval from both central and regional authorities. We have been working in Iraq since 1999, through five administrations and have made a long-term commitment. We do not wish to jeopardise our reputation and position so painstakingly built-up.

EAST SAFAWI BLOCK, JORDAN
Petrel's work in the Iraqi part of the Arabian Desert opened opportunities in neighbouring countries.

Petrel signed a 6-month Memorandum of Understanding (MOU) with the Jordanian Natural Resources Authority (NRA) in January 2005. This covered an 8,750 sq. km. area, known as the East Safawi Block, in the Jordanian panhandle adjoining the Jordanian National Petroleum Company Risha Block, which contains the producing Risha gas field.

The regional geological studies within Jordan, initiated in 2004 as a joint venture with the NRA, were completed in early 2005 and added greatly to the company's overall geological understanding of the Western Desert region between East Safawi and Block 6, Iraq.

Approximately 5,000 line kms of seismic data were provided by the NRA for interpretation of the East Safawi Block and its surrounds. This data was converted to work station format and 900 km selected for reprocessing and upgrading. Data processing was carried out in the Geophysical Service Center (GSC) facilities in Amman, where Petrel personnel supervised the interpretation process. The results were integrated with Petrel's detailed satellite structural analysis and interpretation, and with the results of source rock maturation studies and apatite fission track analysis (AFTA) of rock chips and core sampled from the four widely-spaced wells drilled previously on the acreage by the NRA. Field studies on the block by Petrel staff in May 2005 aimed to ground truth the results emerging from the geological interpretation. A 4-volume report covering the Regional and East Safawi projects was presented to the NRA in September 2005.

Following detailed discussions with senior NRA personnel Petrel agreed, in December 2005, work programme terms for conversion of the East Safawi MOU to a Production Sharing Agreement (PSA). The main elements of the work programme are to carry out further reprocessing and maturation-AFTA studies, and then to shoot and interpret a new seismic programme within the first three years, prior to drilling.

Unfortunately, parliamentary concerns regarding petroleum matters unrelated to Petrel or East Safawi Block have delayed procedures. During 2005 there was a rigorous debate in the Jordanian Parliament on the Production Sharing Agreement negotiated with another company. Throughout the world, elected representatives are reassessing standard contractual terms. The oil share in particular seemed generous to many Jordanians – though this was partly balanced by more challenging terms to develop gas discovered. That debate now seems close to resolution on equitable terms and Petrel is keen to move to ratify its own PSA.

Accordingly, following meetings with the NRA Director General and the Minister of Energy and Mineral Resources during May 2006, Petrel applied formally for conversion to a PSA under the agreed terms, and this now awaits ratification.

MANAGING DIRECTOR'S REPORT

Petrel had initially been attracted to the Jordanian sector of the Western Desert by the deep Palaeozoic gas play, exemplified by the producing Risha gas field close to the Jordanian border with Iraq. Geologically this was a natural extension of the regional studies carried out on Block 6 in the Iraq Western Desert. Jordan is short of natural gas and is also an oil importer, for which it now pays market terms. Jordan needs gas, but the national need for domestic oil supplies is even more urgent.

As often occurs with petroleum exploration, the company's focus shifted whilst carrying out the East Safawi MOU. There is exploration potential to discover Palaeozoic gas on the block, but Petrel has identified a higher priority potential oil play in the shallower Mesozoic section and this will be the target of the initial exploration under the PSA. This strategy matches the Jordanian national policy of prioritising oil prospects.

While there were isolated incidents in late 2005, Jordan is a good business location with generally normal security issues. The excellent support provided by the NRA and the general stable and encouraging work environment make Jordan and attractive country in which to operate.

FINANCE

The small loss, circa €481k, is within projections and mainly due to investment in training and technical cooperation with the Iraqi Ministry of Oil. It does not include any revenue in connection with the Subba & Luhais contract, which was signed in December 2005 and the advance sum received in April 2006.

We continue to be supported by a range of institutions and are considering a dual listing in the Middle East when market circumstances are appropriate.

IRAQ IS NOT FOR THE SHORT-TERMIST OR EASILY INTIMIDATED

Petrel's commitment to Iraq, through sanctions, wars and turbulence, surprises many. There are challenges but they are balanced by lower geological risk. A new generation of engineering, legal and financial structures and tools are required to harness this opportunity.

Media fixation with accounting profits misunderstands what exploration and development companies are about and what we are building in Iraq. No one should get involved with Iraq or anywhere else in the region – for a quick buck. This is a decade long commitment.

But Iraq has the oil – particularly the conventional oil – that consumers crave. It is unexplored and has excellent prospects both at greater depth in existing field and in frontier areas like the upper Euphrates and western desert. Only 2,300 wells, including a very limited number of deep wells, have been drilled. Security risks, like potential, are high but geological risks are low compared to exploration prospects elsewhere.

Oil majors will not effectively operate in Iraq for years to come. They will conduct desk studies and training courses from western capitals but they will not conduct meaningful work to boost production. They are interested but not fully engaged. Salary men will not risk their lives. Boards fear litigation and adverse publicity. They prefer office politics to working out pragmatic solutions in challenging areas.

MANAGING DIRECTOR'S REPORT

So the Ministry must work with people who will work with it – under prevailing circumstances. There are always players but they are not numerous.

Between the elections in January 2005 and appointment of the oil minister in May 2005, only modest progress was made. Progress was also slow in the period between the December 2005 elections and formation of a permanent government in May 2006. But now decisions are being taken and progress made. Iraq faces the challenges but also similar opportunities of postwar Germany and Japan.

The Subba & Luhais contract confirms that Petrel is a player who can perform in current circumstances.

Petrel will aggressively expand and deepen its exploration and development activities in Iraq as quickly as possible.

David Horgan
Managing Director
Petrel Resources plc

22 June 2006

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

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 €481,535 (2004 : loss after taxation €350,295).

The directors do not recommend that a dividend be declared for the year ended 31 December 2005 (2004: €Nil).

PERFORMANCE REVIEW
The performance review is set out in the Chairman's Statement and Managing Director's Report.

RISKS AND UNCERTAINTIES
The risks and uncertainties facing the group including political and security uncertainties are outlined in the Managing Director's Report.

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.

REPORT OF THE DIRECTORS

DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES

The directors and secretary at 31 December 2005 held the following beneficial interest in the shares of the company:

	1/04/2006 Ordinary Shares of €0.0125 '000	1/04/2006 Options - Ordinary Shares of €0.0125 '000	31/12/2005 Ordinary Shares of €0.0125 '000	31/12/2005 Options - Ordinary Shares of €0.0125 '000	1/01/2005 Ordinary Shares of €0.0125 '000	1/01/2005 Options Ordinary Shares of €0.0125 '000
J. Teeling	3,615	1,900	3,615	1,900	3,615	1,800)
D. Horgan	2,715	1,650	2,715	1,650	2,715	1,500
G. Delbes	240	-	140	100	140	100
J. Finn (Secretary)	1,015	870	1,015	870	1,015	770
S. Borghi	155	250	55	310	-	60

During the year, share options were issued to the directors and secretary as follows:

	Date	Share Options Issued	Exercise Price	Share Options Exercised
J. Teeling	4/3/2005	100,000	Stg£0.43	-
D. Horgan	4/3/2005	150,000	Stg£0.43	-
J. Finn (secretary)	4/3/2005	100,000	Stg£0.43	-
S. Borghi	27/7/2005	250,000	Stg£0.335	-

On 9 February 2006, Mr Guy Delbes exercised options over 100,000 shares at Stg£0.025 each. On 6 March 2006 Stefano Borghi exercised options over 60,000 shares at Stg£0.05 each.

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 31 May 2006:

	Number of Ordinary Shares	%
BNY (OCS) Nominees Limited	4,058,000	6.01%
Citibank Nominees (Ireland) Limited (CLRLUX)	3,388,725	5.02%
HSBC Global Custody Nominee(915810)	3,340,000	4.95%
L R Nominees Limited	2,317,682	3.44%
TD Waterhouse Nominee (Europe) Limited	2,912,986	4.32%
Barclayshare Nominees Limited	2,042,960	3.03%
HSBC Global Custody Nominee (934567)	2,865,016	4.25%
HSBC Global Custody Nominee (813259)	2,228,739	3.3%

POST BALANCE SHEET EVENTS

Post Balance Sheet Events are discussed in Note 19 to the financial statements.

REPORT OF THE DIRECTORS

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.

SUBSIDIARIES
Details of the company's subsidiaries are set out in Note 6 to the financial statements.

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

Signed on behalf of the Board :

John Teeling

David Horgan

DIRECTORS

22 June 2006

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 the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies for the group and the parent company financial statements 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 2005 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 2005 which comprise the Statement of Accounting Policies, the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement, and the related notes 1 to 19. 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 financial statements, as set out in the Statement of Directors' Responsibilities, in accordance with applicable law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Our responsibility, as independent auditors, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2005, 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 Report of the Directors 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 disclosed 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 them. Our responsibilities do not extend to other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis,

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PETREL RESOURCES PLC

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 group's circumstances, 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.

FUNDAMENTAL UNCERTAINTY

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 €4,919,367 (2004: €2,218,409) included in the consolidated balance sheet and of the intangible and financial assets of €4,333,799 (2004: €2,229,646) 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, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the affairs of the company and the group as at 31 December 2005 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 2005 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.

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

The net assets of the company, as stated in the company balance sheet 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 2005 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
22 June 2006

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 2005 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 subsidiaries 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 oil 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.

SHARE ISSUE EXPENSES
Expenses arising on the issue of share capital are charged to the share premium account.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 €	2004 €
Administrative expenses		(521,255)	(358,916)
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST		(521,255)	(358,916)
Interest receivable and similar income		39,720	8,621
LOSS FOR THE YEAR BEFORE TAXATION	1	(481,535)	(350,295)
Taxation	2	-	-
LOSS FOR THE YEAR AFTER TAXATION	12	(481,535)	(350,295)
Loss per share - basic	3	(0.77c)	(0.60c)
Loss per share – fully diluted	3	(0.77c)	(0.60c)

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 22 June 2006 and signed on its behalf by:

John Teeling
David Horgan
} DIRECTORS

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Notes	2005 €	2004 €
FIXED ASSETS			
Tangible assets	4	-	596
Intangible assets	5	4,919,367	2,218,409
		4,919,367	2,219,005
CURRENT ASSETS			
Debtors	7	37,716	142,907
Cash at bank and in hand		3,729,121	3,182
		3,766,837	146,089
CREDITORS : (Amounts falling due within one year)	8	(1,718,353)	(256,959)
NET CURRENT ASSETS/(LIABILITIES)		2,048,484	(110,870)
NET ASSETS		6,967,851	2,108,135
CAPITAL AND RESERVES			
Called-up share capital	9	828,851	746,565
Capital conversion reserve fund	10	7,694	7,694
Share premium	11	9,063,625	3,804,660
Profit and loss account - (deficit)	12	(2,932,319)	(2,450,784)
EQUITY SHAREHOLDERS' FUNDS	12	6,967,851	2,108,135

The financial statements were approved by the Board of Directors on 22 June 2006 and signed on its behalf by:

John Teeling
David Horgan
} DIRECTORS

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2005

	Notes	Company 2005 €	Company 2004 €
FIXED ASSETS			
Tangible assets	4	-	596
Intangible assets	5	4,322,562	2,218,409
Financial assets	6	11,237	11,237
		4,333,799	2,230,242
CURRENT ASSETS			
Debtors	7	37,716	142,907
Cash at bank and in hand		3,729,121	3,182
		3,766,837	146,089
CREDITORS : (Amounts falling due within one year)	8	(1,132,785)	(256,962)
NET CURRENT ASSETS/(LIABILITIES)		2,634,052	(110,873)
NET ASSETS		6,967,851	2,119,369
CAPITAL AND RESERVES			
Called-up share capital	9	828,851	746,565
Capital conversion reserve fund	10	7,694	7,694
Share premium	11	9,063,625	3,804,660
Profit and loss account - (deficit)		(2,932,319)	(2,439,550)
EQUITY SHAREHOLDERS' FUNDS	13	6,967,851	2,119,369

The financial statements were approved by the Board of Directors on 22 June 2006 and signed on its behalf by:

John Teeling
David Horgan
} DIRECTORS

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 €	2004 €
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	14(a)	1,051,421	(380,803)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		39,720	8,621
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		39,720	8,621
TAXATION			
Corporation tax paid		-	-
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire intangible fixed assets		(2,700,958)	(844,546)
NET CASH OUTFLOW BEFORE FINANCING		(1,609,817)	(1,216,728)
FINANCING			
Issue of ordinary share capital		5,477,382	261,086
Share issue expenses		(136,131)	(4,979)
NET CASH INFLOW FROM FINANCING		5,341,251	256,107
INCREASE/(DECREASE) IN CASH	14(b)	3,731,434	(960,621)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

1. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The loss on ordinary activities before taxation is stated after charging/(crediting) the following items:

	2005	2004
	€	€
Depreciation	596	2,415
Directors' remuneration		
- fees	78,000	39,000
- salary	148,000	141,528
Auditors' remuneration	9,500	9,000
Staff costs – salaries	13,434	18,725
- payroll taxes	3,222	1,563
Foreign exchange loss/(gain)	57,798	(22,822)

The company had an average of one employee during the year.

All the groups assets, liabilities and expenditure relates to development projects in Iraq and Jordan but arises in the Republic of Ireland. A segmental analysis is therefore not presented.

2. TAXATION

	2005	2004
	€	€
Corporation tax	-	-

The tax assessed for the year differs from the standard rate of corporation tax in the Republic of Ireland.

The differences are explained below.

	2005	2004
	€	€
Loss for the year before taxation	(481,535)	(350,295)
Loss on ordinary activities multiplied by the standard rate of tax in the Republic of Ireland of 12.5% (2004: 12.5%)	(60,192)	(43,787)
Effects of:		
Loss Relief	60,192	43,787
Corporation tax payable	-	-

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 €210,515 (2004: €147,134) were not recognised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

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):

	2005	2004
	€	€
Numerator		
Numerator for basic and diluted EPS retained loss	(481,535)	(350,295)
Denominator		
Denominator for basic EPS	62,463,194	58,660,465
Effect of diluted securities – options	-	-
Denominator for diluted EPS	62,463,194	58,660,465
Basic EPS	(0.77c)	(0.60c)
Diluted EPS	(0.77c)	(0.60c)

Basic and diluted EPS are the same in respect of 2005 as the effect of outstanding options is anti-dilutive and therefore excluded.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

4. TANGIBLE FIXED ASSETS

	Office Equipment
	€
Group and Company	
Cost:	
At 1 January 2005 and at 31 December 2005	12,074
Disposals	(12,074)
At 31 December 2005	-
Accumulated Depreciation:	
At 1 January 2005	11,478
Charge for year	596
Disposals	(12,074)
At 31 December 2005	-
Net book value:	
At 31 December 2005	-
At 31 December 2004	596

5. INTANGIBLE ASSETS

	Group	Company
	2005	2005
	€	€
Deferred development expenditure:		
Cost:		
At 1 January 2005	2,218,409	2,218,409
Additions	2,700,958	2,104,153
At 31 December 2005	4,919,367	4,322,562
Net book value:		
At 31 December 2005	4,919,367	4,322,562
At 31 December 2004	2,218,409	2,218,409

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

5. INTANGIBLE ASSETS (continued)

Intangible assets:

Deferred development expenditure at 31 December 2005 represents exploration and related expenditure in respect of projects in Iraq and Jordan.

The realisation of these intangible assets is dependent on the development of economic reserves, including the ability to raise finance to develop the projects. 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 2005, the directors are satisfied that the value of the intangible asset is not less than net book value.

6. FINANCIAL ASSETS

	2005	2004
	€	€
Investment in subsidiary companies		
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 subsidiaries as at 31 December 2005:

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

7. DEBTORS

	Group and Company	
	2005	2004
	€	€
Amounts falling due within one year:		
VAT refund due	21,104	18,144
Other debtors	16,612	124,763
	37,716	142,907

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

	Group		Company	
	2005	2004	2005	2004
	€	€	€	€
Accruals	1,718,353	251,464	1,132,782	251,464
Amount due to group company	-	-	3	3
Bank overdraft	-	5,495	-	5,495
	1,718,353	256,959	1,132,785	256,962

9. SHARE CAPITAL

	Group and Company	
	2005	2004
	€	€
Authorised:		
200,000,000 ordinary shares of € 0.0125	2,500,000	2,500,000
Allotted, Called-Up and Fully Paid:		
Opening 59,725,150 (2004: 58,215,150) ordinary shares of € 0.0125 each	746,565	727,690
Issued:		
6,582,889 (2004:1,510,000) ordinary shares of €0.0125 each	82,286	18,875
Closing 66,308,039 (2004:59,725,150) ordinary shares of € 0.0125 each	828,851	746,565

The total number of options outstanding at 31 December 2005, including to directors was 4,830,000 (2004: 4,580,000) shares. The options are exercisable at prices ranging between €0.0127 and €0.61 in accordance with the option agreement.

During the year, 6,582,889 ordinary shares were issued at prices ranging from Stg£0.43 (€0.64) to Stg£0.65 (€0.95) to raise cash to fund ongoing corporate and development costs in Iraq.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

10. CAPITAL CONVERSION RESERVE FUND

	Group and Company	
	2005	**2004**
	€	**€**
Opening and closing balance	7,694	7,694

11. SHARE PREMIUM

	Group and Company	
	2005	**2004**
	€	**€**
Opening balance	3,804,660	3,567,428
Arising on shares issued during the year	5,395,096	242,213
Less shares issue expenses	(136,131)	(4,981)
Closing balance	9,063,625	3,804,660

12. (a) PROFIT AND LOSS ACCOUNT - (DEFICIT) - GROUP

	2005	**2004**
	€	**€**
Opening balance	(2,450,784)	(2,100,489)
Loss retained for the year	(481,535)	(350,295)
Closing balance	(2,932,319)	(2,450,784)

(b) RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS - GROUP

	2005	**2004**
	€	**€**
Opening shareholders' funds	2,108,135	2,202,323
Loss for the year	(481,535)	(350,295)
Issue of shares:		
- at par	82,286	18,875
- share premium (net of costs)	5,258,965	237,232
Closing shareholders' funds	6,967,851	2,108,135

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

13. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS - COMPANY

	2005	2004
	€	€
Opening shareholders' funds	2,119,369	2,202,323
Loss for the year	(492,769)	(339,061)
Issue of shares:		
- at par	82,286	18,875
- share premium (net of costs)	5,258,965	237,232
	6,967,851	2,119,369

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

14. CASH FLOW STATEMENT

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

	2005	2004
	€	€
Operating loss	(521,255)	(358,916)
Increase in creditors	1,466,889	68,324
Decrease/(increase) in debtors	105,191	(92,626)
Depreciation	596	2,415
Net cash inflow/(outflow) from operating activities	1,051,421	(380,803)

(b) Analysis of net funds

	At 1 January 2005	Cash flow	At 31 December 2005
	€	€	€
Cash at bank and in hand	3,182	3,725,939	3,729,121
Bank overdraft	(5,495)	5,495	-
	(2,313)	3,731,434	3,729,121

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

14. CASH FLOW STATEMENT (continued)

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

	2005 €	2004 €
Increase/(decrease) in cash in the year	3,731,434	(960,621)
Change in net funds resulting from cash flows	3,731,434	(960,621)
Movement in net funds in the year	3,731,434	(960,621)
Net (debt)/funds at start of year	(2,313)	958,308
Net funds/(debt) at end of year	3,729,121	(2,313)

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.

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 funds 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 2005, the group held €3,716,976 in sterling denominated bank accounts (2004: €3,181) and held no significant other currency monetary assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

15. RISK MANAGEMENT (continued)

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 €36,700 (2004 : €40,050.) Guy Delbes is a director of the company.

17. NON-CASH TRANSACTIONS

There were no material non-cash transactions other than that disclosed in Note 19.

18. SUBSTANTIAL TRANSACTIONS

In December 2005 the company entered into a Joint Venture agreement with Makman Oil & Gas, a company registered in Iraq. The Joint Venture covers the development of the Subba & Luhais Oil field service contract which was awarded to Petrel in September 2005.

19. POST BALANCE SHEET EVENT

On 10 February 2006, the company issued 1,000,000 shares at Stg£0.54 each to engineering consultants engaged by the company in lieu of fees for work done during the year. The costs were included in accruals in Note 8.

NOTICE OF MEETING

Notice is hereby given that the annual general meeting of the members of Petrel Resources plc will be held on 26 July 2006 in the Westbury Hotel, Dublin 2 at 12 noon for the following purposes:

1. To receive the Report of the Directors and audited financial statement for the year ended December 31, 2005.

2. To re- appoint director: S. Borghi 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

28 June 2006

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 26 July 2006 in the Westbury Hotel, Dublin 2 at 12 noon and at any adjournment thereof.

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

	FOR *	AGAINST *
Reports and Accounts	☐	☐
Re-election of Director S. Borghi	☐	☐
Remuneration of Auditors	☐	☐

Signature ....

Dated this ....day of 2006

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 2

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

FOLD 3
(then turn in)

FOLD 1