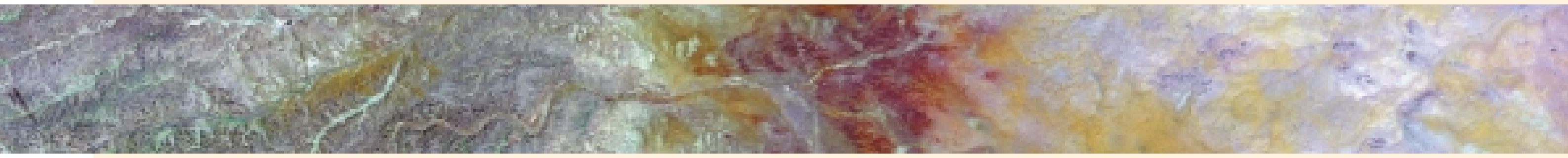
# CONTENTS



# CHAIRMAN'S STATEMENT

In the period under review, Petrel has made significant progress toward the goal of becoming an Iraqi oil producer. We have submitted tenders to develop significant oil fields in the Kirkuk area of Northern Iraq and in the Hamrin area of Central Iraq. The final tender, to redevelop and refurbish the Subba and Luhais fields in Southern Iraq was submitted in June. Each project envisages oil production in excess of 100,000 barrels a day.

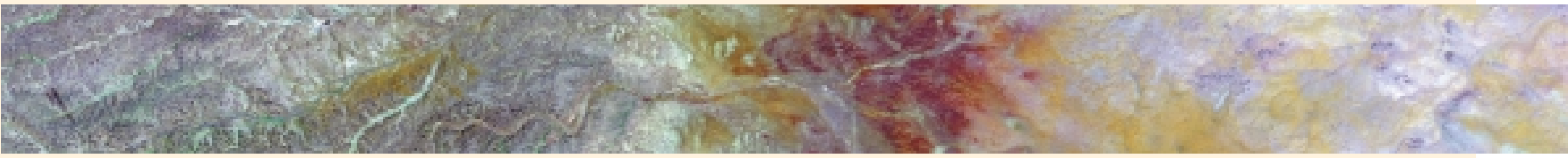
We have continued to analyse available data on our Block 6 exploration project. Block 6 is a 10,000 sq km block in the Western Desert between Baghdad and Jordan. Petrel has an agreed work program with the Oil Ministry in Baghdad and awaits final approval to commence fieldwork. All of this has been achieved in the midst of almost total chaos and at significant personal risk to our directors, David Horgan and Guy Delbes, who travel to Baghdad on a frequent basis. Two senior geological consultants to Petrel, Munim Al-Rawi and David Naylor, have also visited Iraq a number of times during the period under review. Through the war and the aftermath we have maintained a strong technical presence in Baghdad.

Let me put our operation in the context of developments in Iraq and the oil industry.

**IRAQ**

The outcome of the invasion of Iraq was predictable. There may be a greater longer-term geo-political strategy but Iraq and its people are paying a high price. Wrecking the infrastructure and dissolving the entire bureaucracy of soldiers, police and civil servants could only have one outcome – chaos. So it has turned out. Who was going to run the country? Who was going to fix the water, power, medical and transport systems? Recent months have seen the re-employment of bureaucrats. The process will continue. Experienced administrators, trained police and army personnel will bring some semblance of order. The lights will come back on, roads will re-open and hospitals will get supplies. The financial situation is, and will remain, in crisis. Oil revenue from 2 million barrels a day is not adequate to fund the current needs of the country, to repair and expand infrastructure, to service more than $100 US billion in external debt and to develop the only productive asset in the country – oil. The external debt will have to be written off and massive aid injected to kick start the rehabilitation process.

Social and economic progress requires a stable political structure. It is hoped that the provisional government taking power in July can establish a constitution and a forum acceptable to the differing views in the country. Iraq is a beautiful country, the cradle of civilisation. The people are sophisticated, educated and cultured befitting a civilisation with thousands of years of history. The country has a pivotal role to play in the development of world oil and in the political evolution of the Middle East.



**OIL**

In recent years even a casual observer of world oil would have noted the coming crunch in supply. Why is the world so surprised at high oil prices? If demand is strong and supply weak, prices rise. US and Chinese demand, the principal driving forces, are expected to continue to grow. World supply is tight. Difficulties in major producers such as Nigeria and Venezuela add to short-term pressures but the longer-term picture should be of concern to the Western world. Production has peaked and is already declining in most of the world's oil provinces yet demand continues to grow. New sources in the Caspian and Offshore West Africa are not sufficient to offset the decline. At $40 US a barrel a range of alternative supplies become profitable, shale oil, marginal fields in the North Sea, mothballed projects in the Gulf of Mexico, among other sources. None of these sources can compete with the economics of Middle East oil that has lifting costs of $1 a barrel. Therein lies the opportunity and the risk. Over time, Iraq can contribute up to 6 million extra barrels a day. Other Middle East countries can also expand production. But one attack on the big 4m barrel a day Saudi Arabian oil refinery can plunge the oil market into crisis and threaten the world economy.

Petrel committed to Iraq in 1998. We have maintained this commitment through sanctions, the war, its aftermath and more importantly, we have remained steadfast in the face of shareholder and investor disbelief. This is now changing. Our share has been one of the best performing on AIM in the last 18 months – rising 10 fold in price. Financial institutions and multinational oil companies now request an audience. Our tenders have involvement from a number of large companies.

Shareholders, investors and oil industry competitors realise that we are one of the few, if not the only Western oil company, to have maintained an ongoing dialogue with the Iraq Oil Ministry. Over the years we have not only developed a good working relationship with officials but we have also learned a great deal about Iraqi oil. Simply put, we believe that Iraq is the best oil province in the world. Known resources of 115 billion barrels are only a fraction of what might be there. Much of the country remains unexplored at surface and at depth. The three oil fields, for which we have prepared tenders, may contain in excess of 2 billion barrels. Each of the projects will have daily production in excess of 100,000 barrels with low operating costs. Capital costs are roughly $2,000 US per daily barrel. Our current proposals are to act as a contractor. We will develop and operate the projects in return for a cost plus fee. Our remit has recently been extended to seek out the capital to undertake the projects. Over the coming months we anticipate detailed discussions on the technical and financial aspects of each tender.

Iraq badly needs revenue to reconstruct. The only source is oil. Our three projects could be in production within 24 months. The sovereign government taking control from July 1st 2004 will have the authority to undertake oil field development as well as to grant exploration concessions. Petrel is well placed to be an early beneficiary of the new regime.

## OTHER PROJECTS

While Petrel is acutely focused on Iraq, we have kept a weather eye on other areas. We continue to maintain an interest in Sudanese oil. Sudan is a large country. The main political problem is being slowly resolved, though this initiative sparked new problems in Darfur. Our interest has moved from a block in the East to a large concession in the North-West. Our activities in Iraq have not gone unnoticed in the Arab world. We are at an early stage in looking at oil/gas projects in other Middle East Countries.

## FINANCE

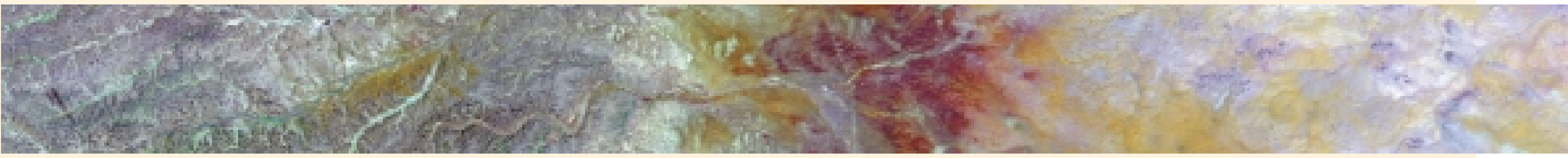
We have adequate finance to continue in our present manner but one successful tender or the finalisation of the Western Desert exploration contract will see an immediate increase in work and expenditure. We believe that financing success in Iraq will not be a problem.

## FUTURE

After years in the desert, literally and metaphorically, our time is coming. The world needs more oil, Iraq has the oil. Political and social stability in Iraq now look possible. In the past 5 years we have invested substantial financial and human capital into maintaining a presence in the country. A growing oil industry will be the engine of Iraqi development. I fully expect Petrel to participate in this development.

John J. Teeling
Chairman

23 June 2004



# MANAGING DIRECTOR'S REPORT

Petrel concentrates on the Iraqi oil opportunity. We are committed to participate as fully as possible in the development of existing oil fields as well as the exploitation and development of new fields in close cooperation with the proper Iraqi authorities.

## UNINTERRUPTED PROGRESS

Our work continued uninterrupted through recent challenges. We were in Baghdad shortly before the war. Our Iraqi staff remained in place during the conflict. We were the first foreign company to return to Baghdad soon after the war. Petrel was the first company to return to the Ministry copies of their data which had been destroyed. I have been to Baghdad nine times since January 2003, most recently in May 2004. I and other Petrel staff have spent time in the western desert, visited the oilfields under tender in the north and centre of the country and travelled extensively building relationships with people throughout Iraq. We are deeply entrenched in, and fully committed to Iraq, notwithstanding current challenges.

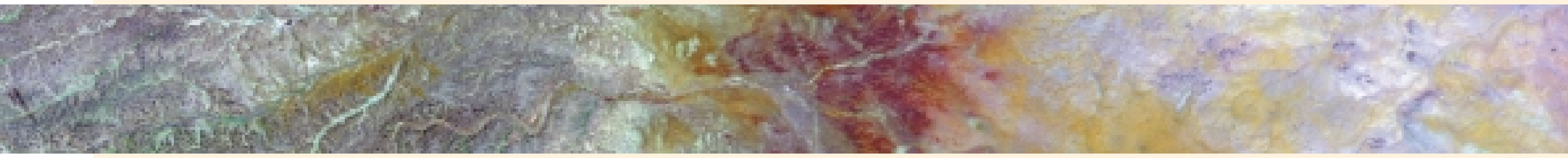
## WHY IRAQ?

Iraq is critical to the world's energy future. Iraq is the second largest oil province worldwide, with 115 billion barrels of proven reserves and up to 300 billion barrels of possible reserves. The industry suffered from severe under-investment during the past 24 years. Post-war production collapsed to less than 2 million barrels daily, despite the lifting of United Nations sanctions, but may rise to 9 million barrels within a decade. This will require extensive international investment and transfer of technology. Typical Iraqi operating costs are about $1 per barrel. Oil finding costs have typically been the same.

## PETREL HAS ENCOUNTERED NO HOSTILITY

Throughout the last year we have been warmly received by Iraqi people of all sects, political views and positions. We have no enemies, no non-commercial agenda and will continue to work irrespective of how current developments pan out. We do not know what the ultimate political arrangements will be, nor does it matter to us as partners and investors. We work closely with professional technocrats and managers in the Iraqi Ministry of Oil and international partners.

In particular, the Ministry's State Company for Oil Projects (SCOP) and Oil Exploration Company have encouraged, guided and helped us throughout the past year. Without their professional direction and support our work in recent months would have been more difficult and dangerous. We are finalising arrangements for joint training arrangements in Iraq and elsewhere over the coming months and look forward to working closely with the Ministry on the many exciting projects they are determined to bring to early development.



East Baghdad Oil Fields

International analysts under-estimate the skills, patriotism and commitment of Iraqi public servants. We have close relationships based on friendship and trust throughout the industry and entrust our efforts and safety to their guidance. Life is sometimes hazardous for civilians in Iraq, but neither our employees nor consultants have experienced unwelcome attention because of their work with Petrel. So far we have experienced no insuperable problems and enjoy consistent courtesy and hospitality throughout Iraq. The difficulties experienced by military contractors have not impacted us materially.

Petrel was pre-qualified and encouraged to tender for three existing oilfields, each with dozens of shut-in wells and over a billion barrels of proven reserves. The Iraqi Ministry of Oil's cash funding for the first stages of these projects is already in place; this covers necessary expenditure during 2004 and well into 2005. The remainder of the funding is expected to be released from frozen UN accounts in due course. In the absence of a recognised government the contracts awarded will be cash contracts.

Given the size of the opportunity and resources needed, we hope and expect that agreements concluded may evolve, in the course of the roughly three year development time, into risk-sharing contracts. Such hydrocarbon law reforms must take into account the sensitivities of oil and foreign investment given historical Iraqi experiences. Soon after the 2003 conflict there was some lobbying by US corporations and officials for reforms to bring Iraq into line with current Texan practice. This would permit international oil groups to book reserves on their balance sheets. Petrel does not believe that such measures will be democratically acceptable in Iraq or elsewhere in the Middle East. We would welcome such terms but expect that the future model is more likely to reflect Iraqi aspirations and traditions.

The most likely outcome is for implementation of the Iraqi Model Contract developed during the 1990's; this is the basis of the agreement Petrel concluded with the Oil Exploration Company of the Ministry of Oil in March 2002 for the exploration and development of Western Desert block 6. The contract envisages an Internal Rate of Return of circa 20%. In addition there is a bonus arrangement which may increase the IRR up to a ceiling of approximately 40%. The international contractor recovers cost oil after which oil is available for profit. A portion of the extra barrels added to reserves by the contractor is available to the contractor at a specified discount for a prescribed period. These terms adequately reflect the risks and uncertainties of the business and offer fair incentives to international investors.

*David Horgan & US Soliders in Baghdad*

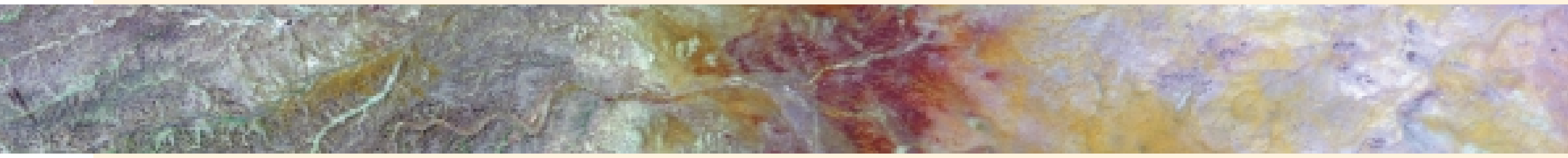
The details of our tenders to develop the existing oil fields are:

***Khurmala dome, Kirkuk, northern Iraq***

The first project tendered, in April 2004, was for the Khurmala dome of the giant Kirkuk oilfield. Four domes of the Kirkuk structure have been delineated, of which two are currently available for production. Kirkuk was discovered in 1929 and has been producing continually since the 1930's at a typical pre-war production rate of 900,000 barrels daily. In the main, and relatively shallow, reservoirs about 1,000 foot of oil pay remain out of an original 3,000 foot oil column. Such statistics do not occur often in the petroleum world. Though not part of the existing tender, there are substantial exploration targets at depth. The geology of the area is well understood: there are multiple source rocks, excellent reservoirs and seals. Oil and gas seepages in the area were observed from ancient times. Topography is hilly.

Effectively Khurmala lies in a green field site, with many pre-drilled wells, some of which flowed at exceptional rates. The Ministry of Oil's objective is now to develop these reserves. Though there is pipeline infrastructure around Kirkuk, there is no existing production or infrastructure on Khurmala itself.

Khurmala is Kurdish speaking and local people and security staff received us warmly. Kirkuk is in Iraqi Kurdistan but it is not in the Kurdish autonomous areas. They are keen to push on with work to develop the area. The Ministry performed considerable technical definition work during the UN sanctions period, which we have integrated in our proposals.



The specified production level is 120,000 barrels daily and 80 million cubic feet daily of gas. Crude oil treatment includes degassing, heating, dehydration and desalting. Produced water treatment and injection is 60,000 barrels daily. Gas compression is by three gas turbine driven compression trains (each of three stages). Crude oil storage is 60,000 barrels.

The project includes utilities and safety equipment, including water disposal, chemicals for process stabilisation, open and closed drainage systems as well as plant and potable water, instrument and plant air, fuel gas and diesel.

The safety and environmental systems includes gas and fire detection, de-oiling of produced water, emergency shutdowns as well as fire-fighting systems with pumps, tanks, ring main, hydrants, monitors and foam generators. There are also local extinguishers and CO2 suppression systems.



The power generation plant is designed for a peak plant load of 5MW at the South Central Station. There will be a 33 kV ring main (elevated lines) distributing electricity to the three degassing stations. We will use gas turbines for compression.

There will be a stand-alone distributed process control system as well as an emergency shutdown system at each station. There will also be automatic fire and gas detection systems. We propose an extensive microwave system for in-field communication and integration with four existing fields. The PABX is 300 lines.

All export pipelines will be mill-coated, provided with cathodic protection and buried. The tender includes 44km of 20 inch oil export pipe, 39km of 20 inch gas export pipe and 47km of water supply pipe. There will be 377km of line pipe, including in-field flowlines and transfer lines.

***Hamrin field, central Iraq***

The second tender, for Hamrin, was submitted in May 2004. Specified production is for 100,000 barrels daily and 60 million cubic feet daily of gas. Like Khurmala, Hamrin is a greenfield project, with little infrastructure in the surrounding area – though dozens of shut-in wells, many of them drilled by our local manager when he worked for the North Oil Company. There is considerable exploration potential both for oil and gas at greater depth. As with Khurmala, dozens of relatively shallow wells have proven up the reserves. These wells are capped and the field has never produced, but geological risk is negligible. No surface engineering is present. Hamrin is in a predominantly Sunni Arab region north west of Baghdad. There is substantial unemployment in the area and local citizens are keen to develop their resources.

Ministry officials conducted considerable technical definition during the sanctions period. Some of this work can be enhanced with latest techniques to optimise the


*Ministry of Oil Baghdad*

materials balance. Such efforts should cut capital and operating cost as well as boost production and improve safety.

As with Khurmala, the project scope includes engineering / design and specifications as well as requisitioning. The contractor must manage the procurement and supply of equipment to site. We have investigated the port facilities at Basra, which have suffered from recent conflict and sanctions. Some of the gantry and other handling equipment available at Basra may delay delivery or damage equipment. Accordingly we are working with partners to transport materials from the Jordanian port of Aqaba, overland across the western desert (where we have existing relationships because of our exploration work) and to site. So far we have had little need for overt security, relying instead on the goodwill and assistance of Ministry officials and local people. Should it prove necessary, international security firms can provide helicopter lift and security. We are reluctant to employ foreign security contractors both for reasons of cost and the danger of misinterpretation, but there are many options available to transport sensitive equipment should it prove necessary. Our approach is to maximise the pre-fabrication of units at the factory, so as to minimise the linking up work and fine-tuning necessary at site. This is quicker, safer and cheaper. Accordingly we rely on standardised, skid-mounted units and packages where possible.

Equipment and materials supplied are for all the facilities downstream of the production well heads including the tie-in to existing North Oil Company infrastructure, whether process / export station or strategic pipelines. Materials supply excludes civil construction materials better sourced locally. Petrel shares the Ministry's desire to use local labour and materials wherever practical.

Hamrin crude oil treatment includes degassing, heating, dehydration, sweetening and stabilisation. Crude oil storage is 75,000 barrels. Gas compression is designed to be 60 million cubic feet daily including 17.3 million feet of lift gas, and will be driven by three electric motor-driven trains as well as one stripping column off a gas compressor. Produced water treatment and injection is 30,000 barrels daily.

*Oil Processing Facilities*

Electricity will be brought from the nearby Ajyil central treatment plant via a new 33 kV ring main (approximately 14 MW). There will be an 11 kV in-field ring main (high-lines) distributing power around the four degassing stations.

We propose a stand alone distributed control system and emergency shutdown at each station, as well as automatic fire and gas detection. There will be an extensive microwave in-field communications, integrating with two existing fields. There will be VHF radio and 150 PABX lines.

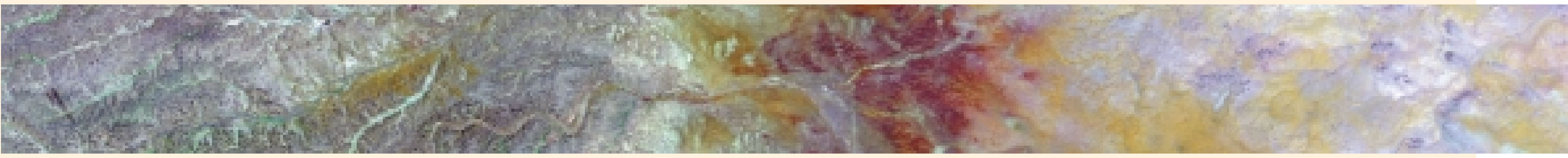
As with Khurmala, all export lines will be mill-coated, cathodically protected and buried: 8-inch water, 12 inch gas export and 16 inch oil export pipes. There will be 619km of line pipe including flowlines and transfer lines.

***Subba & Luhais joint field development, southern Iraq***

Unlike Khurmala and Hamrin, the Subba & Luhais joint field development, in southern Iraq, is a brown field site with existing operational facilities. The tender was submitted on 15th June 2004. The fields had produced during the 1980s but sustained some damage from the Iranian conflict. Production fell steadily as a result of sanctions and halted in 2003, but recently re-started at a modest level. There is surface engineering in place here, but it was extensively damaged in the 1980s Iranian war. At peak production these two fields produced approximately 80,000 barrels daily. Based on our year 2000 work, we believed that the targeted production of 120,000 barrels daily was undemanding and that there was substantial upside from shallow reservoirs. Seismic reveals additional substantial structures at greater depth. The present design rate is 200,000 barrels daily.

These fields are in a desert north west of Basra in southern Iraq, where the topography is flat. There has been little trouble post-war, though banditry is an issue in the region. Though damaged, infrastructure is reasonable, and export terminals relatively close.

Petrel studied the fields in the 1990s, and in August 2000 submitted a feasibility study and proposals to increase production in five stages under the UN-sponsored Oil-for-



Food Programme. Because of scepticism about the practicality of such developments under prevailing circumstances and associated complications, it was not possible to negotiate commercial terms while sanctions remained in place. Sanctions have been removed, so there is no longer any insuperable obstacle. Local people are Arab Shia tribesmen. The fields are close to the Saudi / Kuwaiti border and existing export infrastructure.

The general technical parameters are similar to the Hamrin field. The updated tender for the Subba & Luhais joint field development is to provide 200,000 barrels daily processing capacity and gas export. There is existing processing capacity of 50,000 barrels daily maximum, but the existing facilities have been damaged and operability compromised.

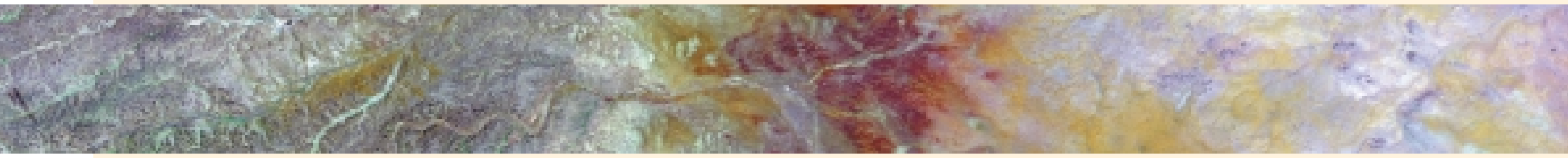
***Petrel is backed by a world class team of partners and suppliers***

In submitting tender proposals for the first of three oil field development projects to the Ministry, we are working with, among others, Hanover Group on major oil & gas processing equipment; Another household name has proposed to supply rotating equipment and pump units; Weatherford (part of Halliburton) on oil & gas processing equipment; Enereco on design of degassing stations, central treatment facilities and interface engineering; Solar Turbines (part of Caterpillar Group) for Turbines and Packages for Power Generation and Gas Compression Units; Pegasus Engineering for specialist pipeline design engineering; Tarpon Energy Services for integrated systems Fire & Gas and Communications systems; Nessco on telecommunications; as well as our in-house project management partner, Oilfield Development Resources. These partners offer the best engineering practice and technology available worldwide. Our Iraqi representative, Mahmoud Ahmed, is highly regarded throughout the industry. He formerly ran the North Oil Company of the Iraqi state-owned petroleum industry and is one of the most successful drillers worldwide, with some of the world's premier fields among his discoveries.

## EXPLORATION OF BLOCK 6, WESTERN DESERT

We push on with our work, though sensitive to the delicate security situation in the area. Petrel has concluded a joint venture with the Jordanian Natural Resources Authority that has allowed us access to the Jordanian part of the western desert for geological sampling as well as access to the extensive NRA database of well core and other priceless samples. Apatite Fission Track Analysis on these samples is currently being conducted by a specialist agency in Australia.

Soon after June 2003, we gained access for the first time to extensive databanks that had previously been confidential to state departments of the Iraqi government: large scale maps including geological maps and detailed back-up became available from the Iraqi Geological Survey. We integrated this with the existing data available from the Baghdad



Ministry of Oil, as well as interpreted Landsat and other satellite imagery as well as regional data we had collected from Syria, Jordan and Saudi Arabia. Much of the necessary preparatory work on structural analysis is now largely completed, enabling the development of a regional structural framework. Though much of this detailed work is sensitive, it has generally enhanced the prospectivity of Block 6 and surrounding areas. In particular we believe that the target levels may be oil-prone.

There are few more promising frontier areas anywhere than the Iraqi western desert. Mature oil and gas source rocks occur in the Silurian and Middle Ordovician sediments. There are proven plays in reservoirs of Carboniferous, Silurian and Ordovician age. There is 3,400 km of two-dimensional seismic in Block 6, but no wells. We have studied the Akkas wells to the north, as well as wells to the east including West Kifl.



Additionally there are stratigraphic plays in Block 6 – sourced from Silurian rock below and down-dip Mesozoic source to the east of the block in the Mesopotamian Basin. Further seismic and field work will delineate structures and fine-tune drilling locations.

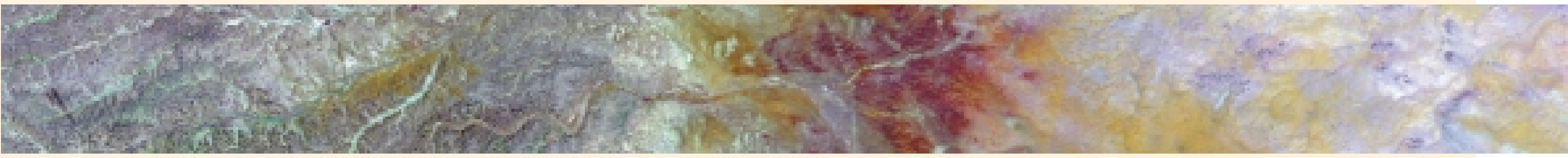
We plan a 5,000 metre well, when political circumstances permit, to test Block 6's structural and stratigraphic prospects. The combination of huge structures in an area of proven source rock and reservoir sands, we believe, makes Block 6 the most promising of the Western Desert blocks.

## SOME THOUGHTS ON THE GEOPOLITICS

Oil combines economics, science and politics together with sometimes hypocrisy and even blood. The shortcomings of recent international policy are apparent in the high oil price, and worries over supply reliability - apart from the human costs of sanctions, war and terrorism. The major oil exporters and location of oil reserves, Saudi Arabia, is under pressure.

It doesn't have to be this way. Though they disagree about many things, Iraqi officials are wholeheartedly committed to the lawful development of their oil resources. The task is too gigantic to achieve without huge foreign investment in capital, technology and people. Many excellent Iraqi officials have been purged or left the country. Uncertainty works against investment. No major western oil company is now active in Iraq. Contractors like Halliburton and Bechtel work on military contracts and are widely seen as an extension of the Coalition military. Recent excesses have exacerbated tensions and complicate the lives of Coalition nationals.

So far such concerns have had little impact on Petrel. We are blessed with excellent apolitical technical people in our staff and at the Ministry of Oil. This was true before, during and after the war. We returned to Baghdad as quickly as we could and are working more vigorously since.



The end of sanctions has opened up the oil opportunity. Yet the oil majors are standing off: The leading European group's representative is based in Dubai and has not visited Iraq since 2002. Another super-major oil company's representative turns out to be an ex-Army officer on secondment from a private security firm. This isn't the best way of dealing with current realities on the ground.

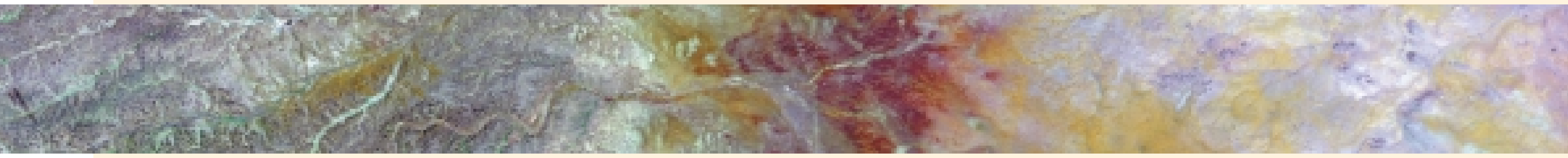
For legal reasons, immediate developments will be, at least initially, as contractor to the Ministry of Oil - the legitimate and recognized authority. Ongoing negotiations and technical work are justified in their own right but are also driven by the expectation that an elected Iraqi government will permit transition of such contracts to risk-sharing arrangements, whereby Petrel could earn a percentage of new oil discovered.

Meanwhile, Petrel advances its programme to explore and develop Block 6 in the Iraqi western desert. Petrel signed an exploration and development contract with the Iraqi Ministry of Oil in March 2002 (subject to Presidential signature). We believe that the proper authorities will stand over their commitments.

Funds raised in 2003 (nearly £1.0 m) are being used to complete the next phase of the exploration work and complete feasibility studies on oil field developments. We have had strong interest from institutional investors and will fund as necessary, so as to minimize dilution for existing shareholders.

David Horgan
Managing Director

23 June 2004



# DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

**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 €244,065 (2002 : loss after taxation €238,080).

The directors do not recommend that a dividend be declared for the year ended 31 December 2003.

**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.

## DIRECTORS' AND SECRETARY'S INTERESTS IN SHARES

The directors and secretary at 31 December 2003 held the following beneficial interest in the shares of the company:

| | 1/05/2004 Ordinary Shares of €0.0125 '000 | 1/05/2004 Options - Ordinary Shares of €0.0125 '000 | 31/12/2003 Ordinary Shares of €0.0125 '000 | 31/12/2003 Options - Ordinary Shares of €0.0125 '000 | 1/01/2003 Ordinary Shares of €0.0125 '000 | 1/01/2003 Options - Ordinary Shares of €0.0125 '000 |
|---|---|---|---|---|---|---|
| J. Teeling | 3,615 | 1,800 | 3,615 | 1,800 | 3,500 | 1,700 |
| D. Horgan | 2,715 | 1,500 | 2,715 | 1,500 | 2,600 | 1,400 |
| G. Delbes | 140 | 100 | 140 | 100 | 140 | 100 |
| J. Finn (Secretary) | 1,015 | 770 | 1,015 | 770 | 900 | 670 |
| S. Borghi | - | 60 | - | 60 | - | - |

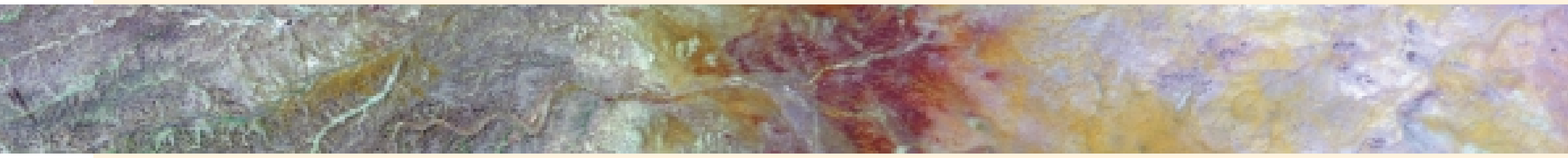
During the year, transactions with directors in respect of share options were as follows:

| | Share Options Issued | Issue Price | Share Options Exercised | Exercise Price |
|---|---|---|---|---|
| J. Teeling | 100,000 | €0.075 | - | - |
| D. Horgan | 100,000 | €0.075 | - | - |
| J. Finn (Secretary) | 100,000 | €0.075 | - | - |
| S. Borghi | 60,000 | €0.075 | - | - |

## 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 2004:

| | Number of Ordinary Shares | % |
|---|---|---|
| BNY (OCS) Nominees Limited | 3,580,000 | 6.14% |
| Citibank Nominees (Ireland) Limited (CLRLUX) | 3,520,620 | 6.04% |
| Bank of Ireland Nominees Limited (NRI) | 3,409,000 | 5.85% |
| HSBC Global Custody Nominee (UK) Limited | 2,119,286 | 3.63% |



**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.

**AUDITORS**

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

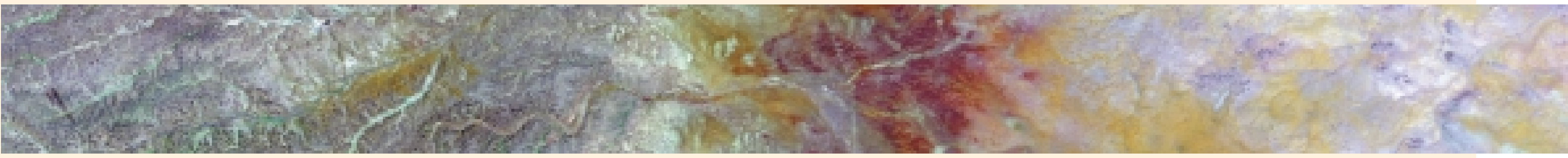
Signed on behalf of the Board :

John Teeling

David Horgan

DIRECTORS

23 June 2004



# 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 2003 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 17. 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 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 Directors' Report 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 €1,373,863 included in the consolidated and company balance sheets, 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 2003 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.

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 2003 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

23 June 2004

# 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 that 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 2003

| | Notes | 2003 € | 2002 € |
|---|---|---|---|
| Administrative expenses | | (244,638) | (238,080) |
| **LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST** | | (244,638) | (238,080) |
| Interest income | | 573 | - |
| **LOSS FOR THE YEAR BEFORE TAXATION** | 1 | (244,065) | (238,080) |
| Taxation | 2 | - | - |
| **LOSS FOR THE YEAR AFTER TAXATION** | | (244,065) | (238,080) |
| Profit and loss account : opening - (deficit) | | (1,856,424) | (1,618,344) |
| Profit and loss account : closing - (deficit) | | (2,100,489) | (1,856,424) |
| Loss per share - basic | 3 | (0.48c) | (0.54c) |
| Loss per share – fully diluted | 3 | (0.48c) | (0.54c) |

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 23 June 2004 and signed on its behalf by:

John Teeling
David Horgan
} DIRECTORS

# Consolidated Balance Sheet as at 31 December 2003

| | Notes | 2003 € | 2002 € |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Tangible assets | 4 | 3,011 | 5,426 |
| Intangible assets | 5 | 1,373,863 | 1,081,085 |
| Financial assets | 6 | - | - |
| | | 1,376,874 | 1,086,511 |
| **CURRENT ASSETS** | | | |
| Debtors | 7 | 50,281 | 27,260 |
| Cash at bank | | 958,308 | 6,645 |
| | | 1,008,589 | 33,905 |
| **CREDITORS** : (Amounts falling due within one year) | 8 | (183,140) | (152,826) |
| **NET CURRENT ASSETS / (LIABILITIES)** | | 825,449 | (118,921) |
| **TOTAL ASSETS LESS CURRENT ASSETS** | | 2,202,323 | 967,590 |
| **CAPITAL AND RESERVES** | | | |
| Called-up share capital | 9 | 727,690 | 601,055 |
| Capital conversion reserve fund | 10 | 7,694 | 7,694 |
| Share premium | 11 | 3,567,428 | 2,215,265 |
| Profit and loss account - (deficit) | | (2,100,489) | (1,856,424) |
| **EQUITY SHAREHOLDERS' FUNDS** | 12 | 2,202,323 | 967,590 |

The financial statements were approved by the Board of Directors on 23 June 2004 and signed on its behalf by:

John Teeling } DIRECTORS
David Horgan

# Company Balance Sheet as at 31 December 2003

| | Notes | 2003 € | 2002 € |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Tangible assets | 4 | 3,011 | 5,426 |
| Intangible assets | 5 | 1,373,863 | 1,081,085 |
| Financial assets | 6 | 3 | 3 |
| | | 1,376,877 | 1,086,514 |
| **CURRENT ASSETS** | | | |
| Debtors | 7 | 50,281 | 27,260 |
| Cash at bank | | 958,308 | 6,645 |
| | | 1,008,589 | 33,905 |
| **CREDITORS** : (Amounts falling due within one year) | 8 | (183,143) | (152,829) |
| **NET CURRENT ASSETS / (LIABILITIES)** | | 825,446 | (118,924) |
| **TOTAL ASSETS LESS CURRENT ASSETS** | | 2,202,323 | 967,590 |
| **CAPITAL AND RESERVES** | | | |
| Called-up share capital | 9 | 727,690 | 601,055 |
| Capital conversion reserve fund | 10 | 7,694 | 7,694 |
| Share premium | 11 | 3,567,428 | 2,215,265 |
| Profit and loss account - (deficit) | | (2,100,489) | (1,856,424) |
| **EQUITY SHAREHOLDERS' FUNDS** | 12 | 2,202,323 | 967,590 |

The financial statements were approved by the Board of Directors on 23 June 2004 and signed on its behalf by:

John Teeling

David Horgan

DIRECTORS

# Consolidated Cash Flow Statement as at 31 December 2003

| | Notes | 2003 € | 2002 € |
|---|---|---|---|
| **NET CASH OUTFLOW FROM OPERATING ACTIVITIES** | 14(a) | (68,811) | (406,812) |
| **RETURNS ON INVESTMENT AND SERVICING OF FINANCE** | | | |
| Interest received | | 573 | - |
| **NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE** | | 573 | - |
| **TAXATION** | | | |
| Corporation tax paid | | - | - |
| **CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT** | | | |
| Payments to acquire intangible fixed assets | | (292,778) | (168,273) |
| Payment to acquire tangible fixed asset | | - | (1,264) |
| **NET CASH OUTFLOW BEFORE FINANCING** | | (361,016) | (576,349) |
| **FINANCING** | | | |
| Issue of ordinary share capital | | 1,390,263 | 569,232 |
| Share issue expenses | | (77,584) | - |
| **NET CASH INFLOW FROM FINANCING** | | 1,312,679 | 569,232 |
| **INCREASE/(DECREASE) IN CASH** | 14(b) | 951,663 | (7,117) |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

## 1. LOSS BEFORE TAXATION

| | 2003 € | 2002 € |
|---|---|---|
| The loss before taxation is stated after charging the following items: | | |
| Depreciation | 2,415 | 2,414 |
| Directors' remuneration | | |
| - fees | 32,400 | 32,400 |
| - salary | 34,247 | 40,500 |
| Auditors' remuneration | 8,000 | 7,000 |
| Staff costs (excluding directors' renumeration) | | |
| – salaries | 32,100 | 18,500 |
| - payroll taxes | 3,624 | 1,851 |

The company had two employees during the year.

## 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 €103,650 (2002: €73,142) 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 year. 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):

| | 2003 € | 2002 € |
|---|---|---|
| **Numerator** | | |
| Numerator for basic EPS retained loss | (244,065) | (238,080) |
| **Denominator** | | |
| Denominator for basic EPS | 51,370,793 | 44,276,054 |
| Effect of diluted securities – options | - | - |
| Denominator for diluted EPS | 51,370,793 | 44,276,054 |
| Basic EPS | (0.48c) | (0.54c) |
| Diluted EPS | (0.48c) | (0.54c) |

Basic and diluted EPS are the same in respect of 2003 as the effect of outstanding options is anti-dilutive and therefore excluded.

## 4. TANGIBLE FIXED ASSETS

| | 2003 € |
|---|---|
| **Group and Company** | |
| **Office Equipment:** | |
| **Cost :** | |
| At 1 January 2003 and at 31 December 2003 | 12,074 |
| **Accumulated Depreciation** | |
| At 1 January 2003 | 6,648 |
| Charge for year | 2,415 |
| At 31 December 2003 | 9,063 |
| **Net book value :** | |
| At 31 December 2003 | 3,011 |
| At 31 December 2002 | 5,426 |

## 5. INTANGIBLE ASSETS

| | 2003 € |
|---|---|
| **Group and Company** | |
| **Deferred development expenditure:** | |
| **Cost :** | |
| At 1 January 2003 | 1,081,085 |
| Additions | 292,778 |
| At 31 December 2003 | 1,373,863 |
| **Net book value :** | |
| At 31 December 2003 | 1,373,863 |
| At 31 December 2002 | 1,081,085 |

**Intangible assets:**
Deferred development expenditure at 31 December 2003 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 2003, the directors are satisfied that the value of the intangible asset is not less than net book value.

## 6. FINANCIAL ASSETS

| | 2003 € | 2002 € |
|---|---|---|
| **Investment in subsidiary company** | | |
| **Parent company** | | |
| Shares at cost - unlisted: | | |
| Opening balance | 3 | 3 |
| Closing balance | 3 | 3 |

The group consisted of the parent company and the following wholly owned subsidiary as at 31 December 2003:

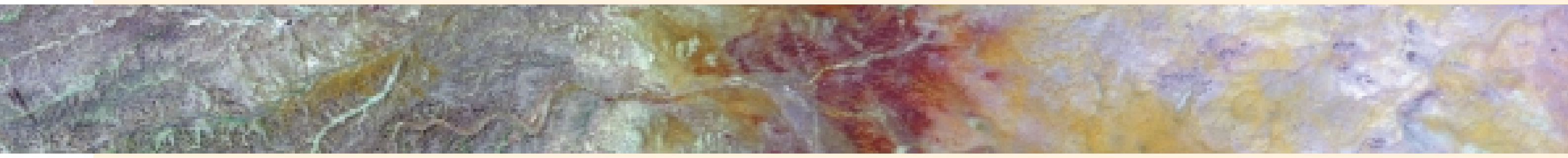
| Name | Registered Office | Group Share | Nature of Business |
|---|---|---|---|
| Petrel Industries Limited | 162 Clontarf Road, Dublin 3. | 100% | Dormant |

## 7. DEBTORS

| | Group and Company | |
|---|---|---|
| | 2003 € | 2002 € |
| Amounts falling due within one year: | | |
| VAT refund due | 11,578 | 5,889 |
| Sundry | 38,703 | 21,371 |
| | 50,281 | 27,260 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 € | 2002 € | 2003 € | 2002 € |
| Accruals | 183,140 | 152,826 | 183,140 | 152,826 |
| Amount due to group company | - | - | 3 | 3 |
| | 183,140 | 152,826 | 183,143 | 152,829 |





## 9. SHARE CAPITAL

| | 2003 € | 2002 € |
|---|---|---|
| **Authorised:** | | |
| 200,000,000 ordinary shares of € 0.0125 (2002: 200,000,000) | 2,500,000 | 2,500,000 |
| **Allotted, Called-Up and Fully Paid:** | | |
| Opening 48,084,388 shares of € 0.0125 each (2002: 38,984,388) | 601,055 | 487,305 |
| **Issued:** | | |
| 10,130,762 shares of €0.0125 each (2002: 9,100,000) | 126,635 | 113,750 |
| Closing 58,215,150 shares of € 0.0125 each (2002: 48,084,388) | 727,690 | 601,055 |

The total number of options outstanding at 31 December 2003, including to directors was 5,440,000 (2002: 4,640,000) shares. The options are exercisable at prices between €0.0127 and €0.90 in accordance with the option agreement.

During the year, 856,153 ordinary shares were issued at Stg£0.13 (€0.194) each in full settlement of outstanding fees of €166,119 in respect of corporate and development costs in Iraq, including 115,384 ordinary shares to each of J. Teeling, D. Horgan and J. Finn in settlement of outstanding fees totalling €68,100.

On 13 March 2003, 2,750,000 ordinary shares were issued at Stg£0.0525 (€0.08) to raise cash to fund ongoing corporate and development costs in Iraq.

On 25 July 2003, 7,380,762 ordinary shares were issued at Stg£0.13 (€0.194) to raise cash to fund ongoing corporate and developments costs in Iraq.

## 10. CAPITAL CONVERSION RESERVE FUND

| | 2003 € | 2002 € |
|---|---|---|
| Opening and closing balance | 7,694 | 7,694 |

## 11. SHARE PREMIUM

| | Group and Company 2003 € | 2002 € |
|---|---|---|
| Opening balance | 2,215,265 | 1,759,783 |
| Arising on shares issued during the year | 1,429,747 | 455,482 |
| Less shares expenses | (77,584) | - |
| Closing balance | 3,567,428 | 2,215,265 |

## 12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | 2003 € | 2002 € |
|---|---|---|
| Opening shareholders' funds | 967,590 | 636,438 |
| Loss for the year | (244,065) | (238,080) |
| Issue of shares: | | |
| - at par | 126,635 | 113,750 |
| - share premium (net of costs) | 1,352,163 | 455,482 |
| Closing shareholders' funds | 2,202,323 | 967,590 |

## 13. LOSS ATTRIBUTABLE TO PETREL RESOURCES PLC

The loss after taxation in the parent company amounted to €244,065 (2002 loss : €238,080).

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

| | 2003 € | 2002 € |
|---|---|---|
| Operating loss | (244,638) | (238,080) |
| Increase/(decrease)in creditors | 196,433 | (148,838) |
| (Increase) in debtors | (23,021) | (22,308) |
| Depreciation | 2,415 | 2,414 |
| Net cash outflow from operating activities | (68,811) | (406,812) |

### (b) Analysis of net funds

| | At 1 January 2003 | Cash flow | At 31 December 2003 |
|---|---|---|---|
| Cash in bank and in hand | 6,645 | 951,663 | 958,308 |

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

| | 2003 € | 2002 € |
|---|---|---|
| Increase in cash in the year | 951,663 | (7,117) |
| Change in net funds resulting from cash flows | 951,663 | (7,117) |
| Movement in net funds in the year | 951,663 | (7,117) |
| Net funds at start of year | 6,645 | 13,762 |
| Net funds at end of year | 958,308 | 6,645 |

## 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 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 2003, the group held €981,279 in sterling denominated bank accounts (2002: Nil) and held no other significant currency monetary assets or liabilities.

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

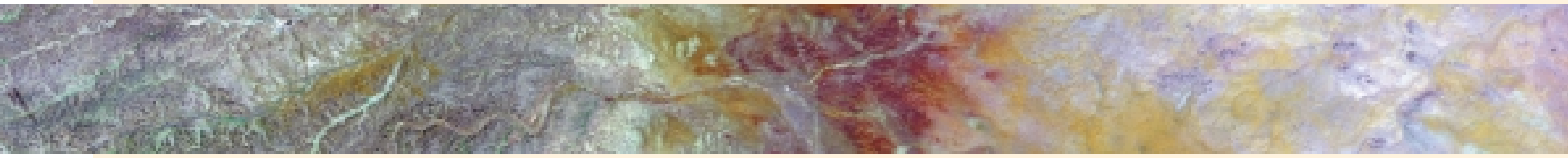
The group does not presently utilise swaps or forward contracts to manage its currency exposures, although such facilities are considered and be may used where appropriate in the future.

## 16. RELATED PARTY TRANSACTIONS

During the year the company paid consultancy fees to Guy Delbes amounting to €29,136. 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.





# Notice of Meeting

Notice is hereby given that the annual general meeting of the members of Petrel Resources plc will be held on 28 July 2004 in the Shelbourne Hotel, Dublin 2 at 2 pm for the following purposes:

1. To receive the Report of the Directors and audited financial statement for the year ended December 31, 2003.

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

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

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

**Special Business**

5. To consider, and if thought fit, pass the following special resolution:
That the directors are hereby generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities within the meaning of Section 20 of the Companies (Amendment) Act 1983. The maximum amount of the relevant securities which may be allotted under the authority hereby conferred shall be the authorised but unissued Ordinary Shares in the capital of the company. The authority hereby conferred shall expire on 28 July 2009, unless and to the extent that such authority is renewed, revoked or extended prior to such date. The company may, before such expiry, make an offer or arrangement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement, notwithstanding that the authority hereby conferred had expired.

6. To consider, and, if thought fit, pass the following special resolution:
That the directors are hereby empowered pursuant to sections 23 and 24 (1) of the Companies (Amendment) Act 1983 to allot within the meaning of said section 23 for cash as if section 23 (1) of the said Act did not apply to any such allotment, provided that this power shall expire on 28 July 2009 unless and to the extent that such authority is renewed, revoked or extended prior to such date, save that the company may before such expiry make an offer or arrangement which would or might require securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred by this paragraph has not expired.

By order of the Board
James Finn
Secretary

23 June 2004

# 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 28 July, 2004 in the Shelbourne Hotel, Dublin 2 at 2 pm 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 J. Teeling | ☐ | ☐ |
| Remuneration of Auditors | ☐ | ☐ |
| Directors Power to allot securities pursuant to section 20 of Companies (Amemdment)Act 1983 | ☐ | ☐ |
| Directors Power to allot equity pursuant to section 24 of Companies (Amemdment)Act 1983 | ☐ | ☐ |

Signature.............................................................................................................................................

Dated the ..................................................................day of ........................................................................2004

\# 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

FOLD 3
(then turn in)

The Secretary
Petrel Resources Plc
162 Clontarf Road
Dublin 3
Ireland