Imperial Energy Corporation PLC
Annual Report 2005

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Imperial Energy
Corporation PLC

Our Business

Imperial Energy Corporation is a company focused on oil exploration and production in the Commonwealth of Independent States (CIS) with the aim of creating value for shareholders through increasing production, capitalising on its substantial reserve base and further strategic acquisitions.

Tomsk Oblast region, Russia

Kazakhstan

"Imperial set itself the challenge in 2005 of combining exploration with assessment and appraisal, proving deliverable and recoverable oil with good flow rates. I am delighted to report that each one of these objectives has been achieved."

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Corporation PLC

Operational Highlights

Moved into first production:

- Production and oil sales now commenced from Western Siberia, and on track for 1,500–2,000 barrels of oil per day in May 2006
- Operational profitability expected in 2007
- Production of 20,000 barrels of oil targeted by end 2008

Successful exploration and appraisal drilling programme:

- Each of seven wells drilled or re-entered during 2005 found oil
- 16 well drilling programme for 2006 progressing on track with each of the four wells drilled this year successful with latest well, 139, Snezhnaya Field, Tomsk Region having net pay ahead of expectations
- New oil discovery on Block 69 from new very productive zone

Continued Development of Portfolio:

- Acquisition in October of 20% of Nord Imperial for US$22 million taking ownership to 100%
- Acquisition of 39.5% of Allianceneftegaz for US$17.83 million in August and remaining 9.5% for US$2.85 million in November giving 100% ownership
- *Acquisition in March 2006 of large, highly prospective* Block 80 in Tomsk Region with a number of structures. Official C1 and C2 reserves of 16 mmbo on one structure where oil already discovered
- Seismic obtained on Kazakhstan shows 14 leads

Strengthened Reserves:

- Significant asset base of 2P (P50) reserves of 250m barrels of oil on five fields
- Major exploration upside on the remainder of Imperial's acreage with anticipation of an increase in the proven reserve base
- New Block 80 adds to exploration upside. Imperial estimates recoverable reserves on that block could be in excess of 250 mmbo
- Net Present Value discounted at 10% of Imperial's five reported fields (ignoring value of all exploration prospects) now estimated to be in excess of US$1.2 billion at US$50 per barrel of oil

Financial Highlights

- Cash balances of £26 million at year end (2004: £14 million)
- Net assets of £81 million (2004: £20 million)
- Losses of £6 million (2004: £1 million)

"We view the future with great confidence and look forward to significant progress on both production and exploration. Our intention is to achieve operational profitability in 2007."

Chairman and Chief Executive's Statement

Introduction

2005 was a year of rapid and significant progress particularly taking into account that Imperial was only incorporated in February 2004 and commenced business in April of that year.

Imperial is now a producer with production and oil sales having now commenced. Production from Imperial's Block 77, the first of our Blocks to come on stream, is expected to be between 1,500 and 2,000 barrels of oil a day in May 2006, rising to 20,000 barrels a day by the end of 2008. The Group expects to achieve operational profitability next year. Oil is currently being sold into the local market at rates in line with expectations.

Imperial set itself the challenge in 2005 of combining exploration with assessment and appraisal, proving deliverable and recoverable oil with good flow rates. I am delighted to report that each one of these objectives has been achieved.

The first drilling season for Imperial in Western Siberia ended in mid 2005 with great success. Each one of the seven wells drilled or re-entered found oil. Whilst only five were able to be fully tested due to seasonal weather change, each well identified good quality oil with the potential for commercial flow rates, which we now have every reason to believe are achievable and sustainable.

The result of this programme was that Imperial was independently assessed in July 2005 to have reported 2P (P50) proven and probable oil reserves of 228 mmbo on just five fields. This represents a small proportion of Imperial's total acreage and excludes the many other prospects in Imperial's portfolio. In addition, Imperial has calculated further reserves of 22 mmbo arising from a very significant new Lower Cretaceous discovery on one of these five fields, thus giving total reported 2P (P50) oil reserves of 250 mmbo. Net Present Value discounted at 10% of the five fields reviewed by TRACS International on the basis of 2P reserves is now estimated in excess of US$1.2 billion at US$50 per barrel of oil.

On the newly acquired Block 80, Official Russian C1 and C2 reserves add a further 16 mmbo, with Imperial estimating the potential could exceed 250 mmbo. There also remains very significant upside exploration potential throughout Imperial's other acreage.

As a result of the successful first drilling season, an aggressive 16 well programme has been developed for 2006 which is progressing very well and in line with budget. Already four new appraisal wells at Snezhnaya have been successfully drilled, with each identifying oil. These will be artificially stimulated by hydraulic fraccing (fraccing) towards the latter part of April, then put on production.

Fraccing is a recognised, proven and widely used method of stimulating and enhancing oil flows from tighter reservoirs. It has been successfully used by Imperial and the other major oil companies operating in Western Siberia making a material difference to critical flow rates. Imperial is now investing in its own frac equipment as well as all terrain tracked transport vehicles and production rig generators to secure for the Group all year round production and exploration capability.

The Group has an intense programme ahead focused on increasing production and strengthening the reserve base through exploration. As well as production and exploration drilling, Imperial will be obtaining new seismic data, building production facilities and progressing the planning of its own

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1. Imperial's all-weather road to Snezhnaya 135–139 cluster.

2. A drilling rig at Snezhnaya 135–139 cluster.

3. The Maiskaya 393 well site.

pipelines to connect to the Transneft system. We are confident that further discoveries of oil will be identified in due course on the many prospects in Imperial's acreage yet to be explored and are planning accordingly.

The year 2005 also saw the very significant acquisitions of the outstanding minority interests of the Nord Imperial and Allianceneftegaz Blocks for a total of US$42.7 million in aggregate.

Financial Results

- **Losses of £6 million (2004: £1 million)**
- **Net assets at year end of £81 million (2004: £20 million)**
- **Cash balances at year end of £26 million (2004: £14 million)**
- **Raised £50.6 million, before expenses, through a placing with institutional investors**

Dividend

Taking into account the stage of Imperial's development, the Directors do not recommend the payment of any dividend.

Operations

Imperial has interests in the Tomsk region of Western Siberia, Russian Federation and North central Kazakhstan. The major part of the work in 2005 was focused on Western Siberia. In Kazakhstan valuable seismic work was also conducted.

Imperial now has a small administration headquarters in London with the majority of our employees based in our offices in Moscow and Tomsk and in the field. There is also a small office in Kazakhstan. In Tomsk we have established a well-resourced infrastructure with strong expert management with local knowledge. Out of a total of 93 current Group employees, 71 are based in the Tomsk region. It is a tribute to our skilled, experienced employees that Imperial continues to make such successful and expeditious progress.

Western Siberia

Nord Imperial (100% net interest)

Nord Imperial's acreage is situated in the Tomsk region of Western Siberia.

On 25 October 2005, Imperial acquired the remaining 20% interest of Nord Imperial which it did not already own for US$22 million, of which US$6.44 million was cash with the balance paid in new Imperial shares.

As a result of the 2004/5 programme, the two blocks comprising in Nord Imperial, Blocks 69 and 77, have begun to fulfil their promise.

Six wells were drilled or re-entered on these Blocks in 2005 as part of the initial programme. Good quality oil in potentially commercially deliverable quantities was identified. 171 km of new seismic data was also acquired.

Production has now commenced on Block 77 and is expected to reach between 1,500 and 2,000 barrels of oil a day in May 2006 from seven wells.

Very encouragingly on Block 69, oil has been brought to surface, in potentially commercial quantities without any fraccing, from the Lower Cretaceous section, a much more productive zone than the Jurassic intervals which were the basis of Imperial's July 2005 reserves estimations. This indicates significant potential for production from this section and from other parts of Imperial's acreage.

Allianceneftegaz (100% net interest)
Allianceneftegaz's acreage is situated in the Tomsk region of Western Siberia.

On 31 August 2005, Imperial acquired a further 39.5% interest in Allianceneftegaz for US$17.83 million. of which US$7.325 million was in cash with the balance in new Imperial shares. This was followed by the acquisition of the remaining 9.5% interest for US$2.85 million cash on 21 November 2005.

One well was successfully drilled in 2005. 236 km of new seismic data was also aquired.

As part of the 2006 programme, three new appraisal wells and two new exploration wells are being drilled and 417 km of new seismic are being shot.

Sibinterneft (43% net interest)
Sibinterneft's acreage is also situated in the Tomsk region of Western Siberia.

In 2005, 210 km of seismic data was acquired which showed considerable promise.

The 2006 programme comprises one new exploration well and 256 km of new seismic.

Sevkazgra, Kazakhstan (75% net interest)
Sevkazgra's North Torgai Block is situated in the Kostanai region of Northern Kazakhstan.

In 2005, new seismic data was acquired which has identified some 14 leads. A seismic programme for H2 2006 has been planned with a well projected to be drilled in 2007.

Block 80, Tomsk Region, Western Siberia
On 16 March 2006, Imperial acquired at auction a 25 year exploration and production licence for Block 80, Tomsk Region, Western Siberia. Block 80 is a block of 3,844 square kilometres with a number of potentially large structures. At least two wells on one of these structures have delivered oil which has been brought to surface. Imperial is confident that oil can be delivered at commercial rates through stimulation by fraccing and that Block 80 will therefore prove to have been a very successful acquisition.

Official Russian authority C1 and C2 reserves are 16 mmbo on the one structure where oil has so far been discovered, but Imperial estimates potential recoverable reserves in Block 80 could be as much as 245 mmbo.

Board Changes

On 28 July 2005, Guy Smith was appointed Financial Director. He was previously Imperial's Financial Manager. A Chartered Accountant, he trained with Price Waterhouse and spent a number of years in Moscow with companies including Coopers and Lybrand.

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1. The camp at Maiskaya 393.

2. Helicoptor landing at the Snezhnaya 135-139 cluster.

3. Preparing the site at Snezhnaya 135-139 cluster.

On 4 November 2005 Alexander Ivanovich Korchik was appointed to the Board. Alexander is well known in the Tomsk region having lived there for many years. He brings to the Board valuable local experience.

On 31 March 2006 Denis Capelson stepped down from the main Board although will remain in an executive capacity with Imperial as Commercial Manager.

Current Prospects and Outlook

Imperial maintains its rapid pace of development and excellent progress. It now has an excellent portfolio of acreage in the Tomsk region where its neighbours include TNK-BP, Sibneft, Gazprom, Russneft, Surgutneftegaz and Yukos.

The aggressive drilling and seismic programme for 2006 currently under way is proving so far to be very promising.

Since the period end four production or appraisal wells have been drilled on Block 77 and each has successfully identified oil. Importantly, the latest well, Snezhnaya 139, has identified a better than expected net pay of 11 metres from the Jurassic section.

Imperial expects near-term production of between 1,500 and 2,000 barrels a day from seven producing wells in Block 77 and is on track to meet its production target of 20,000 barrels of oil a day by the end of 2008 from three of its five so far identified fields. Significant preparations are already under way to place Imperial in the best possible position to achieve this with extensive planning for field development, production facilities and Imperial's own pipelines to tie in to the Transneft system in progress.

To date a small proportion of the Group's asset base has been addressed. In the year ahead we are also anticipating increasing our proven reserve base through exploration drilling.

We view the future with great confidence and look forward to significant progress on both production and exploration. Our intention is to achieve material operational profitability in 2007.

Peter Levine
Chairman and Chief Executive
31 March 2006

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"As a result of the successful first drilling season, an aggressive 16 well programme has been developed for 2006 which is progressing very well and in line with budget."

Demonstrating potential for commercial production in 2005

Imperial only commenced operations at the beginning of 2005 and moved forward rapidly to explore and appraise the Company's substantial acreage holding in the Tomsk region. Our objectives for 2005 were to confirm the presence of recoverable oil from a selection of the Company's numerous prospects and to demonstrate the potential to produce this oil at commercial rates. We have successfully achieved these objectives.

The initial programme of re-entering and testing 4 old wells and drilling 3 new wells achieved 100% success with oil being recovered from all 7 wells. Testing of these wells has also confirmed the potential for commercial production. As we anticipated, it was necessary to stimulate most of the wells by fraccing in order to obtain flow rates at commercial levels. As a result we have now moved from quoting oil in place on prospects last year to reporting P50 recoverable reserves on fields this year.

Reserves

An independent study by TRACS has confirmed P50 reserves of 228 mmbo net to Imperial from 5 fields. This study did not include the Lower Cretaceous discovery on Aikagalskaya described below on which Imperial estimates P50 reserves of 22 mmbo, bringing total P50 reserves up to 250 mmbo. These five fields only represent a fraction of the potential of our current Tomsk acreage of 21,800 sq km (equivalent to 90 UK North Sea Blocks). There remain numerous prospects where oil has been shown to be present during testing in Soviet days which are similar to the prospects that have now been converted from prospects to fields by our 2005 exploration programme.

Imperial Net Reserves and NPV10* — as calculated by TRACS

Field	P50 rec. res. (mln bbls)	NPV10 at $40/bbl $mln	NPV10 at $50/bbl $mln
Nord Imperial, Block 77 — Snezhnaya	39	136	174
Allianceneftegaz Block 70 — Maiskaya	42	257	314
Nord Imperial Block 69 — North Festivalnaya	32	100	142
Allianceneftegaz Block 70/85 — South Festivalnaya	53	142	195
Nord Imperial Block 69 — Aikagalskaya	62	263	328
TOTAL:	**228**	**$898**	**$1,154**

* calculated using a discount rate of 10%

Note: This total is subject to increase as per Imperial estimate of 22mbbo reserves in the lower Cretaceous in Aikagalskaya Block 69. This will increase NPV10 at US$50 bbl to in excess of US$1.2 billion

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1. Vasyugan River to north of the Snezhnaya field frozen in winter.

2. Vasyugan River to north of the Snezhnaya field navigable by barge in summer.

New discovery

In January 2006 Imperial announced a new discovery of oil from the Lower Cretaceous in the Festivalnaya 252 well, Block 69, from a zone that had not previously been tested. This is particularly significant in that the shallower Lower Cretaceous is a much better reservoir than the main Jurassic producing horizon in the Tomsk region. As a result, this reservoir is capable of much higher production rates, even without stimulation. Having demonstrated there is oil in the Lower Cretaceous, it is likely that there is greater potential for discoveries from this horizon throughout much of Imperial's acreage. With the concentration on the Jurassic in the Tomsk region in the Soviet days this reservoir may have previously been overlooked and underestimated. The Lower Cretaceous is a target in several of the exploration and appraisal wells in our 2006 programme.

Production plans

Imperial recognises that the real proof on the commercial viability of its fields in Western Siberia lies in production. Consequently, the Company has moved rapidly into early production on its first field, Snezhnaya, in March 2006. As well as providing cash flow, the purpose of early production is to demonstrate that the wells can produce at commercial rates. In September 2005 the Company began a programme of 4 appraisal/production wells on the Snezhnaya field, Block 77. Early production facilities are being constructed and production from these 4 wells will come on stream in April. Meanwhile, as announced in March 2006, production has already started from the Block 77 wells re-entered or drilled earlier in 2005. By May 2006 production capacity will be 1,500 to 2,000 bopd. With confirmation of anticipated production rates, the Company will move rapidly into the full development phase with construction of a pipeline connecting to the main Transneft artery system and commencement of full production drilling in early 2007.

Imperial is also planning to move to start early production on the Aikagalskaya field in spring 2007 subject to confirmation of reserves and production potential by the two appraisal wells which will be drilled on this field during spring and summer 2006 and the 4 follow-up appraisal/production wells. Target production from Imperial's fields in Tomsk is 20,000 bopd by the end of 2008.

2006 Exploration and Appraisal Programme

The full details of Imperial's total end 2005/2006 exploration and appraisal programme consisting of 3 new exploration wells and 13 appraisal wells are given below. This is a very aggressive programme, but rigs for all the wells will be mobilised before the spring thaw. The wells will be drilled throughout the year using up to 4 separate drilling crews. In support of current and future drilling the Company is planning to shoot over 800 km of 2D seismic and 96 sq km of 3D seismic. Costs are in line with budgets.

Russia — Tomsk Oblast

Review of 2005 Operations and 2006 Plans

Nord Imperial (100% net interest)

Nord Imperial's blocks 69 and 77 were acquired at a Government auction in November 2004. As described in the Chairman's report, Imperial acquired the remaining 20% minority shareholding in Nord Imperial in October 2005.

Nord Imperial has three blocks: Block 77 of over 1,000 sq km, which is adjacent to the southern part of Imperial's Sibinterneft Block 74, Block 69, of over 2,700 sq km, which borders the northern part of Allianceneftegaz Blocks 70 and 85, and the newly acquired Block 80 of the east of river Ob.

Russia — Tomsk Oblast
Nord Imperial (100% net interest)

Block 77

The 2004–2005 winter exploration programme comprised shooting 150 km of seismic and testing the Snezhnaya area on Block 77, where previous wells have already flowed oil at modest rates, by drilling one new well and re-entering and testing two old wells.

Imperial's first operations were the successful testing of the Dvoinoye 2 and Snezhnaya 133 wells which were re-entered and stimulated by modest fraccing, flowing oil at rates of 467 and 243 bopd respectively. The new well Snezhnaya 135 was fracced and tested at a stabilised flow rate of 201 bopd of 39 degree API oil. This frac was limited by the size of available equipment and it is believed that at least a 50% improvement in initial production rate could be achieved with a larger frac.

The well tests confirm the commercial potential of the Snezhnaya field. In their independent study TRACS have reported P50 recoverable reserves of 39 million barrels for the Snezhnaya field.

Imperial has moved rapidly into a programme of appraisal/production drilling in order to commence early production. In September 2005 the Company commenced a programme of 4 appraisal/production wells on the Snezhnaya field. These wells are deviated wells drilled from the Snezhnaya 135 site to bottom hole targets in a 1,500 m radius around the Snezhnaya 135 well. All four wells have now been drilled and have confirmed from wire line logging the presence of reservoir as good as or better than expected. These wells will be fracced and tested during April. Meanwhile, as announced in March 2006, production has already commenced through temporary facilities from the Snezhnaya 135 and the Dvoinoye 2 wells. Early production facilities are being constructed to handle production from the 6 Snezhnaya wells, while Dvoinoye 2 will continue to be produced from independent facilities. By May 2006 production is expected to be 1,500 to 2,000 bopd. In winter oil is taken out by road tanker and in summer by barge on the navigable Vasugan river which borders the northern edge of the field. Initially oil is being sold directly from the field to buyers who bring their own trucks. During the spring thaw there is a period in April and May where oil may only be produced into storage facilities until the river becomes ice free for barge transportation.

In March 2006 Imperial completed shooting a 96 sq km 3D seismic survey over the Snezhnaya field. This will allow better definition of the reservoir to provide optimum location of production wells. With confirmation of anticipated production rates from the early production, the Company will move directly into the full development phase with construction of a pipeline to connect the main Transneft trunk line, some 43 km to the north-east, and commencement of full production drilling in early 2007.

Russia — Tomsk Oblast
Nord Imperial (100% net interest)

Block 69

Imperial's evaluation of this block has concentrated on two fields, North Festivalnaya and Aikagalskaya. During 2005 two old wells were re-entered and re-tested and one new exploration well drilled.

North Festivalnaya

In the North Festivalnaya 1 re-entry well the upper interval of the Jurassic Lower Tyumen was tested after stimulation by limited fraccing and flowed at a rate of 18,000 cubic metres per day of gas and 29 bpd of condensate with 26% water. The water was from the fraccing, not from the formation, so the well could be expected to clean up to flow only gas and condensate. The new North Festivalnaya 3 well flowed small quantities of oil from a deeper level of the same reservoir interval at the low rates expected without stimulation, so that the North Festivalnaya Field is interpreted to comprise an extensive oil leg with a gas cap. The low permeability reservoir will need stimulation by large fracs in order to obtain commercial flow rates. TRACS reported P50 reserves for the North Festivalnaya field of 32 mmbo.

Aikagalskaya

The re-entry of the Festivalnaya 252 well on the Aikagalskaya field was especially difficult due to technical problems associated with the condition in which the well, originally drilled in 1970, was abandoned. This was nevertheless successfully achieved and an interval covering Basal Jurassic M Reservoir and the top of the Palaeozoic was tested and flowed at 126 bopd of 37 degree API oil without stimulation. The oil, although relatively light, has relatively high viscosity due to its paraffin content. TRACS reported recoverable reserves of 62 million barrels for this reservoir of the Aikagalskaya field.

The Lower Cretaceous section had not previously been tested in the Festivalnaya 252 well but its potential was recognised during Imperial's review of old data. The Lower Cretaceous reservoir is a much better reservoir than the underlying Jurassic, the main reservoir in the Tomsk region with consequent potential for higher production rates even without stimulation.

As a consequence of poor completion in the Soviet era the condition of the well prevented proper testing of the Lower Cretaceous reservoir section in isolation from other water bearing sections. Nevertheless, during testing of 25 m from a gross interval of 37 m the well initially flowed to surface at a rate of 155 barrels of fluid per day comprising 32% oil of 43 degrees API and 68% water. The water is thought to originate largely from aquifers above and below the oil-bearing zones. During subsequent testing of the upper part of this section by pumping, a rate of 327 barrels of fluid per day was achieved comprising 24% oil and 76% water. In a properly completed well it would be expected that it would be possible to produce clean oil at good commercial rates with little or no water.

Independent expert interpretation of production and other logs indicates at least 10 m of net oil pay and possibly more. Provisionally estimated most likely recoverable reserves are 22 million barrels of oil from this section which are not included in Imperial's 228 million barrels of P50 reserves reported by TRACS. This discovery not only significantly enhances the production potential and economics of the Aikagalskaya field as well as further increasing Imperial's reserves in Block 69, but, as importantly, also opens up the possibility of additional discoveries within the same interval throughout much of Imperial's acreage in the Tomsk region.

Plans for Block 69 in 2006, include 398 km of new seismic, on which shooting was completed in March, and the drilling of two appraisal wells on the Aikagalskaya field which will evaluate both this newly discovered Lower Cretaceous reservoir as well as the proven Palaeozoic/Basal Jurassic

Russia — Tomsk Oblast

Block 69 (continued)

reservoir. Winter road construction and site preparation for these appraisal wells is in progress and the first well, Aikagalskaya 256, is planned to be spudded in April with the second well, Aikagalskaya 257, in July.

With Imperial's focus in Block 69 on Aikagalskaya with its significant potential from two reservoirs, further work in relation to the North Festivalnaya field has been deferred until 2007. Accordingly, plans are now being implemented for a further four new wells to be drilled on the Aikagalskaya field later in 2006 by mobilising in advance, all necessary equipment and raw materials for these on the winter roads presently in place. These wells will be drilled in a similar manner to what was done on Snezhnaya, namely as deviated wells from off the Aikagalskaya 256 and 257 appraisal well sites.

In order to confirm reservoir deliverability Imperial is installing appropriate facilities to carry out early production testing of the Basal Jurassic/Palaeozoic reservoir in the Festivalnaya 252 well. Unlike Snezhnaya, there is no all-weather road or river access to the Aikagalskaya field, so that this testing will be limited to the winter season when the produced oil can be trucked out. Plans are in hand for the construction of Imperial's own pipeline during the 2006–2007 winter along with early production facilities to allow all the year round production from this field.

Overall Aikagalskaya appears especially promising and the Company believes there may be further upside potential on Block 69 especially in the Lower Cretaceous. This will be evaluated by the new seismic so as to provide potential future exploration targets for next year, while Aikagalskaya moves into production.

Russia — Tomsk Oblast
Nord Imperial (100% net interest)

Block 80

This newly acquired block lies east of the river Ob. Access for heavy equipment such as drilling rigs in common with most of the Tomsk region is in the winter when the ground is frozen. The distance from the block to the main Transneft oil pipeline is only 120 km to the tie-in point, where Imperial is planning to connect the pipeline from the Snezhnaya field. Compared to the main producing area in the Tomsk Oblast which lies mostly to the west of the Ob River, this is a relatively unexplored area that offers the potential for sizeable new discoveries. A number of wells from Soviet days have confirmed the presence of oil and two of them successfully flowed small quantities of oil to the surface. Imperial anticipates that with modern technology it will be able to exploit these accumulations effectively. Official Russian C1 and C2 proven and probable reserves on this particular structure are 16 mmbo. Elsewhere on the block old surveys have identified several other large structures. The initial exploration programme during the 2006–2007 winter will concentrate on detailing the Kiev-Egalskaya structure in the SW part of the block with 3D seismic, where the oil discoveries are, while 2D seismic is shot over the north and east of the block. Early drilling may be considered following full evaluation of the existing well and seismic data.

"2005 was a year of rapid and significant progress, particularly taking into account that Imperial only incorporated in February 2004 and commenced business in April of that year."

Russia — Tomsk Oblast
Allianceneftegaz (100% net interest)

Blocks 70, 85 and 86

Allianceneftegaz owns nine individual licences representing four separate Blocks: 70, 85, 86 and 96. The Company's exploration efforts have concentrated on the more prospective part of the acreage, Blocks 70, 85 and 86 which cover over 5,700 sq km and are located directly between producing Yukos and Sibneft oil fields. As reported in the Chairman's statement, in two separate transactions Imperial acquired the outstanding 49% shareholding in Allianceneftegaz during 2005.

In the 2004/2005 winter drilling programme Imperial shot 237 km of new seismic and drilled one new well, Maiskaya 392, on Block 70. Two potential pay zones within the Jurassic were identified from the cores and wire line logging. The upper one, in the Vasugan formation, of some 11 metres and the lower one, in the Lower Tyumen of at least 20 metres.

The Lower Tyumen interval in the Maiskaya 392 well was tested over several weeks by pumping and production stabilised at around 113 bpd of 46 degree API oil with a water cut of around 50%. This rate would be expected to be considerably improved by conducting a larger frac. Furthermore, this well is around 40m below the crest of the structure so that in wells further up dip, a greater portion of the reservoir than the 15m perforated in this well could be tested and the water cut would be reduced, resulting in up to several times the rate of oil production so far obtained from this interval.

The Vasugan interval in this well was tested without stimulation, confirming its potential by producing clean oil of 43 degrees API at the relatively low rates expected without stimulation. The Vasugan reservoir overlies and falls within the larger aerial extent of the Tyumen reservoir so that it will be possible to produce both reservoirs together.

Further appraisal drilling and testing of the Maiskaya field, which has P50 recoverable reserves of the two reservoirs together as reported by TRACS of 42 million barrels, will be carried out during 2006. The first of these wells, Maiskaya 393, was spudded in March. The second well, Maiskaya 394, will be drilled as a deviated well from the same site. These wells will require fraccing, which will be carried out during the 2006-2007 winter, when frac equipment can be brought in by winter roads. It is then planned to commence early production testing of the Maiskaya field during the same winter.

A new well will also be drilled on the South Festivalnaya field, which straddles the boundary between Allianceneftegaz Blocks 70 and 86 and Nord Imperial Block 69 during 2006. TRACS reported P50 recoverable reserves on this field of 53 mmbo.

Blocks 70, 85 and 86 have significant other exploration potential. A further 417 km of new seismic is planned to be shot on these blocks and two new exploration wells drilled during 2006. The first of these, Glukhovskaya 5, will be spudded in April. This prospect has multiple objectives in the Lower Cretaceous and the Jurassic Vasyugan and Tyumen. The Lower Cretaceous looks particularly promising following Imperial's discovery in this horizon in Block 69 to the north. The second exploration well which will be drilled later in the year, Chagvinskaya 4, has a primary target in the Jurassic Vasugan reservoir.

In total the 2006 drilling programme on the Allianceneftegaz acreage is very substantial consisting of 5 new wells, three of them appraisal wells and two exploration wells. Although some of the wells will be drilled later in the year, well sites have been constructed and all rigs and equipment will be on site before the 2006 spring thaw.

Russia — Tomsk Oblast
Sibinterneft (43% net interest with effective control)

Block 74

Sibinterneft has two Blocks: 74 and 95. Exploration efforts to date have concentrated on Block 74, which comprises some 3,500 sq km and borders the north side of Block 77, where Imperial's Snezhnaya field is located. In the 2004–2005 winter a seismic programme of 210 km was completed. Following up from this during 2006 Imperial plans to drill an exploration well, Golovnaya 353, primarily targeting the Jurassic Vasugan and Upper Tyumen horizons. In addition, a further 256 km seismic programme is planned on the east side of the block covering an area that has not hitherto been covered by modern seismic. The well site for Golovnaya 353 has been built and the rig is being mobilized from where it has just finished drilling the Snezhnaya 139 well. Drilling will be later in the year, when the drilling crew is available.

Block 74 has a number of further exploration prospects for future drilling, including one that has previously flowed oil to surface.

Kazakhstan — Kostanay Province
Sevkazgra (75% net interest)

North Torgai Block

The North Torgai block of over 4,000 sq km covers a significant part of a promising basinal area, where oil has been shown to be present in many of the shallow stratigraphic wells drilled in the area during Soviet days. The geology has many close similarities with the western Urals where many large fields have been found. No modern seismic has been shot in the area, so unlike Imperial's acreage in the Tomsk region, this is frontier exploration, but as such it offers the potential to open up a new oil province.

Imperial has now completed the interpretation of the 400 km seismic programme shot during 2005. This was the first seismic shot on the block. This has confirmed a large number of interesting leads, which require more detailing by infill seismic which is planned to be shot during the 4th quarter of 2006. First drilling can be expected in 2007.

Acquisition of new block

On 16 March 2006 Imperial acquired Block 80 to the east of the Ob River at auction for US$ 5.25 million. This block of nearly 4,000 sq km already has proven oil discoveries and offers the potential for sizeable fields. With a 25 year exploration and production licence, this block complements Imperial's portfolio offering attractive future potential while the Company brings its present fields on to production.

Outlook

In a very short space of time Imperial has moved rapidly toward proving up significant reserves and demonstrating their commercial viability. As well as continuing with an aggressive exploration and appraisal programme, including a new block, Imperial has now entered the production phase, producing and selling its first oil in March 2006. Plans are in place for rapid expansion of production towards Imperial's target of up to 20,000 bopd by the end of 2008.

Dr Rupert Kidd
Chief Operating Officer
31 March 2006

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1. Aikagalskaya 256 well site.
2. Drilling operator at Maiskaya 393.
3. Drilling rig at Maiskaya 393.

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“In a very short space of time Imperial has moved rapidly toward proving up significant reserves and demonstrating their commercial viability.”

Results for the year
The Group recorded a loss of £6.1 million for the year ended 31 December 2005.

Institutional placings
On 21 July 2005 Imperial Energy Corporation PLC raised £50.6 million, before expenses, through an institutional placing of 12,660,000 shares at 400 pence per share. The money raised has been used to finance the Group's working capital, exploration and development expenditure and acquisitions.

Capital expenditure
Capital expenditure in the year was £45 million (2004: £6 million). This comprises £19 million on exploration and development and £26 million on acquisitions.

Acquisitions
In August, Imperial increased its stake in OOO Allianceneftegaz by 39.5% to 90.5% for US$17.83 million (£9.98 million). This was satisfied by the issue and allotment of 1,225,834 shares at 480 pence per share and US$7.33 million (£4.09 million) in cash.

In November Imperial acquired the remaining 9.5% stake in OOO Allianceneftegaz to give it a 100% holding for US$2.85 million (£1.64 million) in cash.

In October Imperial acquired the remaining 20% stake in OOO Nord Imperial to take its total holding to 100% for US$22 million (£12.5 million). This was satisfied by the issue and allotment of 1,762,172 shares at 500 pence per share and US$6.44 million (£3.67 million) in cash.

Operating loss
The operating loss for the year was £8.4 million (2004: £1.7 million) which includes amounts attributable to minority interests of £1.3 million (2004: £0.1 million).

Included within the operating loss is an exceptional item related to VAT suffered in Russia of £3.2 million. Excluding this item, the loss would be £5.2 million.

Loss before tax and loss after tax and minority interest
The loss before tax of £7.5 million (2004: £1.5 million) and the loss after tax and minority interests of £6.2 million (2004: £1.4 million) included interest earned of £0.9 million (2004: £0.2 million). The interest earned reflects the Group's management of cash reserves.

The results include a foreign exchange loss of £0.1 million (2004: £0.2 million).

Cash flow
Net cash outflow from operating activities was £11.4 million (2004: £2.4 million).

As of 31 December 2005 the Group had total cash balances of £26.1 million (2004: £13.8 million).

Financial instruments
The Group's financial instruments comprise cash and liquid resources, and various items such as trade creditors that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. It is the Group's policy that no speculative transactions are undertaken, any transaction involving derivatives must be directly related to the underlying business of the Group.

The main risks arising from the Group's financial instruments are foreign currency risk and liquidity risk. The Group policies for managing these risks are summarised below.

Foreign currency risk
The Group closely monitors the risks associated with currency exposures and seeks to manage these uncertainties on an ongoing basis. The Group has raised funds in sterling but most exploration and development expenditure is based on the US dollar. To reduce exposure to sterling–dollar exchange fluctuations the Group has entered into a number of sterling–dollar option contracts during 2005.

Liquidity risk
The Group finances its operations through equity. Cash assets are invested safely to ensure that funding to meet expenditure commitments is available. As the Group begins to develop production and sales working capital will be closely monitored with trade debtors collected promptly.

T G K Smith ACA
Finance Director
31 March 2006

Directors and Advisers

Directors
P M Levine (Chairman and Chief Executive Officer)
A I Korchik (Vice-Chairman)
Dr R G W Kidd (Chief Operating Officer)
T G K Smith (Finance Director)
K P Forrest (Non-Executive Director)
P E Godec (Non-Executive Director)

Company Secretary
T G K Smith ACA

Company Number
5054461

Registered Office
6–8 York Place
Leeds
LS1 2DS
United Kingdom

London Operational Office
49 Berkeley Square
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London
W1J 5AZ
United Kingdom

Auditors
Baker Tilly
Chartered Accountants
2 Whitehall Quay
Leeds
LS1 4HG
United Kingdom

Nominated Adviser and Broker
Hoare Govett Limited
250 Bishopsgate
London
EC2M 4AA
United Kingdom

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
United Kingdom

Report of the Directors

The Directors present their report together with audited financial statements for the year ended 31 December 2005.

Principal Activities
The principal activities of the Group are oil exploration, development and production. The Group operates through subsidiary undertakings, the details of which are listed in Note 12 to the accounts.

Results and Dividends
The Group results for the period are set out on page 25 and show a loss for the year.

Review of the Business and Future Developments
The Directors are satisfied with the results of both the Group and the Company. A review of the year and prospects for the future are included in the Chairman's Statement, Review of Operations and the Financial Review.

Directors
The Directors who served during the year were as follows:
P M Levine
K P Forrest
P E Godec
Dr R G W Kidd
D Capelson (appointed 18 April 2005, resigned 31 March 2006)
T G K Smith (appointed 27 July 2005)
A I Korchik (appointed 4 November 2005)

In accordance with the Articles of Association, K P Forrest will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

T G K Smith and A I Korchik were appointed to the Board after the last Annual General Meeting and in accordance with the Articles of Association retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' Interests
The Directors and their families had the following beneficial interests in the shares of the Company:

	31 December 2005 Number of shares	1 January 2005 Number of shares
P M Levine	**3,961,777**	3,941,777
K P Forrest	**38,500**	28,500
P E Godec	**31,500**	21,500
Dr R G W Kidd	**56,000**	50,000
D Capelson	**32,751**	—
T G K Smith	**2,000**	—
A I Korchik*	**1,792,085**	—

* A I Korchik's holding is split with his partner L I Sheshko.

Biographical Information of Directors
P M Levine
Chairman and Chief Executive Officer
Peter Levine, aged 50, is a founding Director and shareholder of the Group. He was appointed Chairman on the formation of the Company in 2004. He graduated in jurisprudence from Trinity College, Oxford in 1977 and qualified as a solicitor in 1980 from when he specialised in international/corporate law. He is Chairman of the fully listed steel construction company Severfield-Rowen Plc, as well as the Chairman of PLLG, an International Law Firm.

Dr R G W Kidd
Chief Operating Officer
Rupert Kidd, aged 56, was appointed Chief Operating Officer and to the Board in 2004. He graduated in natural sciences from Cambridge University in 1971. He has an MSc in geophysics from Durham University and a PhD in geology from the University of East Anglia. He has some 26 years' oil industry experience joining Texaco in 1978 and then moving to Lasmo in 1982, where he became Country Manager in Colombia and in Pakistan, and subsequently Exploration and New Business Director for Lasmo North Sea. Prior to joining the Group he was Director, Acquisition and Divestment Consulting at IHS Energy, one of the leading suppliers of consulting services to the oil industry.

K P Forrest
Non-Executive Director
Kenneth Forrest, aged 63, was appointed a non-executive Director in 2004. He graduated in chemistry from Strathclyde University in 1965, gaining a PhD from that same university in 1968. In 1974 he joined the Department of Energy becoming Director of their China and Russian unit in 1984. In 1995 he was appointed Director of Exports (Oil and Gas) to the DTI and from May 2000 until he retired in 2002 was the Director of the Oil and Gas business Directorate at Trade Partners UK. He is the Co-Chairman, with the Azeri Deputy Minister for Economic Development, of the Azerbaijan British Trade and Investment Council. Kenneth Peat Forrest was appointed CBE in 2002.

P E Godec
Non-Executive Director
Pierre Godec, aged 61, was appointed a non-executive Director in 2004. He graduated from Ecole des Hautes Etudes Commerciales in Paris in 1968. In 1968 he joined Groupe ELF Aquitaine where he held various positions at their Paris headquarters. In 1974, he became VP Finance/Treasurer for Elf North America and from 1979 he was CEO/MD of various ELF international subsidiaries, including between 1990 and 1993 ELF Neftegaz, which operated in Russia and Kazakhstan. From 1995 to 2000 he was CEO/MD of ELF Petroleum and ELF Exploration in the UK and since 2000 he has been an international consultant to the oil industry.

T G K Smith
Finance Director
Guy Smith, aged 35, was appointed Finance Director in July 2005. He graduated from the University of Birmingham and then qualified as a Chartered Accountant with Price Waterhouse. After qualifying Guy worked in Russia and Eastern Europe for a number of companies, including Coopers and Lybrand where he worked closely with Russian companies developing their financial management and reporting.

A I Korchik
Vice-Chairman
Alexander Korchik, aged 48, was appointed to the Board in November 2005. He was educated in Tomsk, Russia and graduated from the Institute of Radio Electronics And Management Systems, Tomsk, in 1980. He then spent 10 years working in the Research Institute in Tomsk. Since 1990 he has been actively involved in several successful Tomsk based business ventures working closely with foreign partners. In 2001 he founded two companies Sibinterneft and Allianceneftegaz. These companies were acquired by the Group in 2004 and he served as General Director of the companies from their acquisition.

Substantial Shareholders
As at 17 March 2006, the following parties had notified the Company of the following interests of 3% or more in the nominal value of the Company's ordinary shares:

	Number of shares	%
Fidelity Investments	3,691,080	9.39
Lansdowne Partners	2,758,000	7.02
Schroder Investment Management	2,667,335	7.11
Credit Suisse Securities (Europe) Limited	1,540,716	3.92
Y D Zelvensky	1,195,921	3.04

Warrants in Issue
As at 31 December 2005, there were warrants in existence for 1,100,000 at 500 pence per share.

Interests in Contracts
As disclosed in Note 22 Related Party Transactions, there have been contracts or arrangements during the financial year in which a Director of the Company was materially interested and which were significant in relation to the Group's business.

Creditors Payment Policy and Practice
The Group's policy on payment of creditors is to settle all amounts with its creditors on a timely basis taking account of the credit period given by each supplier. Creditors are paid within 30 days or to terms.

Political and Charitable Contributions
There were no political contributions made by the Group during the year. No Charitable contributions were made during the year. In 2004 a charitable contribution £16,244 was made to the Tomsk Jewish Centre Foundation for the restoration of the City Synagogue.

Health, Safety and Environment
The Group is committed to complying with the Health, Safety and Environmental regulations and requirements of the countries in which it is operating and protecting the health, safety, welfare and security of its employees and all personnel affected by and involved in its activities. It also has a primary and continuing commitment to minimise the impact of its activities on the environment.

Post-Balance Sheet Events
Details of post-balance sheet events are disclosed in note 23 to these accounts.

Share Capital
Two resolutions (Numbered 6 and 7) are to be proposed at the Annual General Meeting relating to or concerning Share Capital.

Resolution 6 in the Notice of Annual General Meeting is an Ordinary Resolution to authorise the Directors pursuant to section 80 of the Companies Act 1985 to allot 12,968,828 Ordinary Shares up to an aggregate nominal amount of £324,221 representing approximately 33 per cent of the existing issued Share Capital.

Resolution 7 in the Notice of Annual General Meeting is a Special Resolution. By this Resolution the Directors are seeking approval of the shareholders to issue and allot new Ordinary Shares in Imperial on a non-pre-emptive basis. The Directors will, subject to the approval being given, then have the authority to issue up to 1,964,973 new Ordinary Shares, with an aggregate nominal value of £49,124, each ranking *pari passu* with the existing shares of the Company. Such authority to issue will expire on the earlier of the conclusion of the Annual General Meeting to be held in 2007 or fifteen months after the date of the passing of this resolution and any such issue would be on such conditions, at date and price as may be determined by the Board and the new Ordinary Shares could be allotted in consideration for cash or securities. On issue and allotment, application would be made for all such new Ordinary Shares to be admitted to trading on the Alternative Investment Market. If all the new Ordinary Shares, subject to the approval, are issued and fully subscribed the issued share capital of the Company will increase from 39,299,468 to 41,264,441 and the new Ordinary Shares will represent approximately 5 per cent of the then enlarged issued share capital of the Company. The Directors consider that this authority is appropriate to allow the Company to raise further monies for working capital including in relation to forthcoming working programmes.

Going Concern Basis

The Board's consideration of the going concern basis is set out in note 1 to these accounts under basis of preparation.

Auditors

A resolution to reappoint Baker Tilly, Chartered Accountants, as auditors will be put to members at the Annual General Meeting.

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the Group and of the Company and of the profit and loss of the Group for that year. 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 Group will continue in business;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding of the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

P M Levine
Chairman and Chief Executive
31 March 2006

Corporate Governance Statement

The Directors are committed, where practicable for a company of this size and nature, to applying the requirements of the Combined Code on Corporate Governance.

This statement explains how the Directors applied the principles of the code during the period ended 31 December 2005.

The Board of Directors
The Board meets quarterly. At these meetings, the Board reviews trading performance, financing, strategy, investment, acquisition strategy and discusses reports to shareholders.

The Board currently comprises the Chairman and Chief Executive, Vice-Chairman, Chief Operating Officer, Finance Director and two Non-Executive Directors. The Non-Executive Directors are considered to be independent of management and free from any contractual relationships to the Group, thereby allowing them to exercise full independent judgement on any issue. The Directors' biographies appear on pages 18 and 19 and demonstrate a range of relevant experience at a senior level. All Directors are able to take independent professional advice as appropriate at the Company's expense.

The roles of Chairman and Chief Executive are not split as required by the Code. The Directors believe that given the size of the Company, the amalgamation of the roles does not compromise the effectiveness of the Board.

The following committees have been established:

Audit Committee
The Audit Committee was appointed in January 2005. It comprises both Non-Executive Directors. The Finance Director attends the committee by invitation.

The committee provides a forum for reporting by the Group's external auditor, co-ordinating with the auditors any problems or reservations it may have and for the review of the half year and final accounts prior to their submission to the Board.

Remuneration Committee
The Remuneration Committee was appointed in January 2005. It comprises both Non-Executive Directors. The Chairman and Finance Director attend by invitation.

The Committee is responsible for determining the terms and conditions of service of all Executive Directors including remuneration.

The report on the Directors' remuneration is set out on page 23.

Nomination Committee
Due to the size of the Company, the Directors do not consider that it is appropriate to have a nomination committee. This situation will be monitored by the full Board from time to time. Any appointments to the Board are reviewed and approved by the full Board.

Relationships with Shareholders
The Board remains fully committed to maintaining regular communication with its shareholders.

Internal Control
The Board has responsibility for maintaining a system of internal control which safeguards shareholder's investment and the Group's assets.

The Group has established financial controls which include expenditure approval, delegation, authorisation levels and other control procedures together with accounting policies and procedures which are approved by the Board.

The Board has approved the annual budget. Performance against budget is monitored and reported to the Board.

The Group currently does not have an internal audit function as the Directors consider this to be inappropriate given the size of the Group. However, this situation will be reviewed by the Board from time to time.

The Directors confirm that the Board has reviewed the effectiveness of the system of internal control as described during the period.

As well as complying with the Provisions of the Code as disclosed in the Company's corporate governance statements, the Company has initiated the Principles of Good Governance relating to directors' remuneration as described below.

Remuneration Committee

The Remuneration Committee was appointed at the Board meeting of 19 January 2005. The membership of the committee comprises the two Non-Executive Directors, K P Forrest and P E Godec, with the Chairman and Finance Director attending by invitation.

The principal function of the committee is to determine, on behalf of the Board, the specific remuneration and other benefits of all Executive Directors. The fees paid to the Non-Executive Directors are determined by the Board. Additionally, the Remuneration Committee will make recommendations to the Board on the framework of executive remuneration.

Total Level of Remuneration

The Remuneration Committee is aware that it must both attract and retain individuals of the highest calibre by offering remuneration competitive with comparable public listed companies, and fairly and responsibly reward individuals for their contribution to the success of the Company.

Basic Salaries

The basic salary of each Executive Director is determined by taking into account the individual's performance and responsibilities and the achievement of personal objectives. The Executive Directors' appointments are not pensionable.

Fees

The fees for the Non-Executive Directors are determined by the Board and are reviewed periodically to reflect that they are in line with current practice.

Terms of Appointment

The Executive Directors' service contracts are for an indefinite period but can be terminated with notice periods that are determined to reflect the position held by the individual.

Share Related Incentive Schemes

The Board has approved the introduction of a Long Term Incentive Plan. Under the scheme awards entitling the recipient to acquire ordinary shares of 2.5 pence in the Company can be made to employees and officers on an annual basis. The awards will become exercisable two to three years from the anniversary of the grant date, subject to continued employment and the satisfaction of performance conditions defined at the time of the award. No consideration is payable for grant of the awards, with aggregate par value of the shares under award due on exercise.

It is intended that the first awards under this scheme will be made to coincide with the announcement of the annual results.

The remuneration committee in devising the scheme was independently advised by New Bridge Street Consultants LLP.

Bonus

The Board has approved an executive bonus scheme for 2006. It is based on the performance of the Company against certain targets, notably levels of production. The amount of any bonus payment under the scheme will not exceed 75% of annual salary.

Annual Remuneration of Directors

The remuneration paid to Directors in the period ended 31 December 2005 is shown below.

	Salary £'000s	Bonus £'000s	Benefits £'000s	Fees £'000s	Shares £'000s	**Total 2005 £'000s**	Total 2004 £'000s
P M Levine*	—	150	—	234	—	**384**	80
Dr R G W Kidd	175	150	9	—	—	**334**	93
K P Forrest	—	—	—	22	42	**64**	39
P E Godec	—	—	—	22	42	**64**	43
D Capelson	60	25	25	—	—	**110**	—
T G K Smith	40	25	—	—	—	**65**	—
A I Korchik	38	—	—	—	—	**38**	—
	313	350	34	278	84	**1,059**	255

* Fees are paid to PLLG GmbH, a company registered in Switzerland.

Independent Auditors' Report to the Shareholders of Imperial Energy PLC

We have audited the financial statements on pages 25 to 41.

This report is made solely to the Group's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Group's members those matters we are required to state to them in an auditor's 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 Group and the Group'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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, the Chairman's Statement, the Operating Review and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any 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, 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 also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Company's affairs at 31 December 2005 and of the Group loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly, Leeds
Registered Auditor
Chartered Accountants
31 March 2006

Baker Tilly

Consolidated Profit and Loss Account

For the year ended 31 December 2005

		Notes	2005 £'000s	2004 £'000s
Administrative expenses			**(5,117)**	(1,557)
Administrative expenses — exceptional			**(3,241)**	(105)
Operating loss		3	**(8,358)**	(1,662)
Interest receivable		6	**894**	162
Loss on ordinary activities before taxation			**(7,464)**	(1,500)
Taxation		7	**—**	—
Loss on ordinary activities after taxation			**(7,464)**	(1,500)
Minority interest			**1,282**	128
Loss for the financial year		18	**(6,182)**	(1,372)
Loss per ordinary share	**— Basic**	8	**(20.71)p**	(10.98)p
	— Diluted	8	**(20.71)p**	(10.98)p

There is no difference between the results on ordinary activities before taxation for the year stated above, and their historical cost equivalent.

The operating loss for the year arises from the Group's continuing operations.

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2005

	2005 £'000s	2004 £'000s
Loss for the financial year	**(6,182)**	(1,372)
Exchange differences on retranslation of net assets of foreign currency operations	**2,540**	—
Total gains and losses recognised for the year	**(3,642)**	(1,372)

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2005

	Group	
	2005 **£'000s**	2004 £'000s
Loss for the financial year	**(6,182)**	(1,372)
Exchange differences on retranslation of net assets of foreign currency operations	**2,540**	—
New share capital subscribed	**405**	577
Share premium on share issues less issue costs	**63,600**	21,021
Net additions to shareholders' funds	**60,363**	20,226
Opening shareholders' funds	**20,226**	—
Closing shareholders' funds	**80,589**	20,226

Consolidated Balance Sheet

As at 31 December 2005

	Notes	2005 £'000s	2005 £'000s	2004 £'000s	2004 £'000s
Fixed assets					
Intangible assets	10		**50,568**		6,134
Tangible assets	11		**387**		81
			50,955		6,215
Current assets					
Stocks	13	**2,167**		—	
Debtors due within one year	14	**3,223**		1,379	
Cash at bank and in hand		**26,101**		13,823	
		31,491		15,202	
Creditors:					
Amounts falling due within one year	15	**(2,313)**		(1,416)	
Net current assets			**29,178**		13,786
Total assets less current liabilities			**80,133**		20,001
Minority interest			**456**		225
Net assets			**80,589**		20,226
Capital and reserves					
Called up share capital	17		**982**		577
Share premium account	18		**84,621**		21,021
Foreign currency translation reserve	18		**2,540**		—
Profit and loss account	18		**(7,554)**		(1,372)
Shareholders' funds			**80,589**		20,226

The financial statements on pages 25 to 41 were approved by the Board of Directors and authorised for issue on 31 March 2006 and are signed on its behalf by:

P M Levine
Chairman and Chief Executive

Company Balance Sheet

As at 31 December 2005

	Notes	2005 £'000s	2005 £'000s	2004 £'000s	2004 £'000s
Fixed assets					
Intangible assets	10		**34**		—
Tangible assets	11		**46**		16
Investments	12		**—**		2,117
			80		2,133
Current assets					
Debtors due within one year	14	**841**		215	
Debtors due after one year	14	**61,136**		5,295	
Cash at bank and in hand		**23,657**		13,378	
		85,634		18,888	
Creditors:					
Amounts falling due within one year	15	**(250)**		(339)	
Net current assets			**85,384**		18,549
Total assets less current liabilities			**85,464**		20,682
Net assets			**85,464**		20,682
Capital and reserves					
Called up share capital	17		**982**		577
Share premium account	18		**84,621**		21,021
Profit and loss account	18		**(139)**		(916)
Shareholders' funds			**85,464**		20,682

The financial statements on pages 25 to 41 were approved by the Board of Directors and authorised for issue on 31 March 2006 and are signed on its behalf by:

P M Levine
Chairman and Chief Executive

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Notes	2005 £'000s	2004 £'000s
Cash flow from operating activities	19a	**(11,438)**	(2,439)
Returns on investments and servicing of finance	19b	**894**	162
Capital expenditure and financial investment	19b	**(17,482)**	(1,483)
Acquisitions and disposals	19b	**(9,400)**	(2,266)
Cash flow before financing		**(37,426)**	(6,026)
Financing	19b	**49,310**	19,849
Increase in cash in the year		**11,884**	13,823

Reconciliation of Net Cash Flow

		2005 £'000s	2004 £'000s
Increase in cash in the year	19c	**11,884**	13,823
Exchange differences	19c	**394**	—
Movement in net funds in the year		**12,278**	13,823
Net funds at beginning of year		**13,823**	—
Net funds at end of year	19c	**26,101**	13,823

1 Accounting Policies

Basis of Preparation

The financial statements have been prepared in accordance with the historical cost convention and in accordance with applicable accounting standards and the Statement of Recommended Practice 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities'.

The Group's turnover over the next twelve months will not generate sufficient funds to meet its development plans and exploration commitments over that period. In order to fulfil these plans and commitments additional external funding will be required. The Directors expect that through issuing new equity, using the authority to be requested at the Annual General Meeting, and/or utilising such production finance facilities which may be available from banks, they will be able to raise the funds to fulfil these plans and to meet the Group's commitments. The Directors expect the Group's funding requirements will be satisfactorily addressed at the appropriate time. The funds raised will allow the Group to fulfil its plans for 06/07 and increase turnover.

If, notwithstanding the Directors' reasonable expectations, the Group fails to realise appropriate funding, the Directors would consider alternative plans to utilise the Group's resources and generate funds. These could include restructuring of the Group's operations which is likely to result in adjustments in the carrying value of assets as stated in the financial statements, but would allow the Group to continue as a going concern.

The Directors consider that in preparing the financial statements they have taken into account all information that could reasonably be expected to be available. On this basis, they consider that it is appropriate to prepare the financial statements on the going concern basis. This assumes, on the basis of the Directors' expectations, that the Group will obtain the relevant funding or that the Directors' alternative plans will be successful. The financial statements do not include any adjustments that would result if the necessary funds were not secured and a restructuring of the Group was required.

Basis of Consolidation

The consolidated accounts incorporate the financial statements of the Company and all its subsidiary undertakings throughout the year ended 31 December 2005. Using the principles of acquisition accounting, the consolidated profit and loss account includes the results of subsidiary undertakings from the date of acquisition.

Operating in the former CIS States

During the period ended 31 December 2005 all of the Company's business was conducted in the former CIS States through its investment in subsidiaries operating in the oil and gas industry. These operations, and those of other similar companies, are subject to the economic, political and regulatory uncertainties prevailing in the region.

The legislation regarding foreign currency transactions and taxation in the region is constantly evolving and many new tax and foreign currency laws and related regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors.

Similarly, the region's laws and regulations concerning environmental assessments and clean-ups continue to evolve. As they do, companies operating in the region may incur substantial costs in the future relating to past and current operations.

Turnover

Turnover represents the amount invoiced by the Group to third parties in the ordinary course of business and is stated net of value added tax and similar levies and is recognised on delivery of product.

Capitalisation of Oil Exploration Expenditure

The Group follows the full-cost method of accounting under which all licence acquisitions, exploration, appraisal costs, and other direct costs of exploration incurred or acquired on the acquisition of a subsidiary are capitalised in respect of each designated geographical cost pool.

The costs of acquisition of property, cost of field production facilities, pipelines and plant and equipment are classified as tangible fixed assets if they relate to proved oil properties. Exploration expenditure on unproved properties is initially classified as intangible assets and is excluded from the tangible cost pools pending determination of the recoverable reserves attributable to the Group.

Producing oil assets are depleted by pool on a unit of production method in the proportion of actual production for the period to the total remaining commercial reserves. Reserves are those estimated at the end of the period plus production during the period. For depletion purposes only, the cost base includes costs of capital assets and anticipated future development expenditure.

Other Tangible Assets and Depreciation

Tangible fixed assets, other than oil and gas exploration expenditure, are depreciated on a straight-line basis over their estimated useful lives as follows:

Equipment — 30%
Motor Vehicles — 25%

Oil and Gas Reserves

Proven and probable oil and gas reserves are estimated quantities of commercially producible hydrocarbons which the existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs.

Investments

Investments in subsidiaries and associates are included in the financial statements at cost less provisions for impairment. All other fixed asset investments are stated at cost less provisions for permanent diminution.

Operating Leases

Rentals under operating leases are charged to the Profit and Loss account as incurred over the period of the lease.

Cash and Liquid Resources

Cash, for the purposes of the Cash Flow Statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources comprise funds held in term deposit accounts.

Foreign Currencies

Company

All Company transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling on the date of the transaction. Current assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the Balance Sheet date.

Group
The balance sheets and results of overseas subsidiaries are translated at the rate ruling at the Balance Sheet date. The resulting exchange differences are taken to the reserves. Exchange differences arising on quasi-equity long term loans to subsidiary undertakings are taken to reserves. All other exchange differences are taken to the profit and loss account.

Financial Instruments
The Group enters into currency options to hedge against the effects of future exchange rate fluctuations, in line with the Group's risk management policy. The premium paid on the option is recorded as a prepayment at cost until maturity when it is expensed.
The gains incurred on foreign currency options are recognised on maturity of the underlying transaction in the profit and loss account. Foreign currency options that generate a loss lapse with no additional charge to the Group's profit and loss account.

The fair value of foreign currency hedges is based on the market price of comparable financial instruments at the balance sheet date. The fair value of short-term deposits, loans and bank overdrafts with a maturity of less than one year have been assumed to approximate to their book value.

Deferred tax
Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax assets are recognised only to the extent that the Directors consider it is more likely that there will be suitable taxable profits from which future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

Issue Expenses and Share Premium Account
Costs of share issues are written off against the premium arising on the issue of share capital.

2 Segmental Reporting

During 2005 the operations of the Group comprise one class of business, the exploration for hydrocarbon liquids.

Net Assets are analysed as follows:

	2005 Net Assets £'000s	2004 Net Assets £'000s
Russia	**55,095**	7,360
Unallocated	**24,193**	12,404
Kazakhstan	**1,301**	462
	80,589	20.226

Group operating (loss) is analysed as follows:

	2005 (Loss) £'000s	2004 (Loss) £'000s
Russia	**(5,415)**	(206)
Unallocated	**(2,782)**	(1,403)
Kazakhstan	**(161)**	(53)
	(8,358)	(1,662)

3 Operating Loss

This is stated after charging:

	2005 £'000s	2004 £'000s
Auditors' remuneration — audit fees	**54**	30
Depreciation	**34**	3
Exchange differences	**135**	199

Exceptional Items
Included within operating loss is VAT suffered in Russia of £3,241,000. Although VAT in Russia is legally recoverable, the Group has yet to be able to recover VAT paid. Until it has proved that it can recover VAT it is felt inappropriate to recognise VAT recoverable as a current asset and accordingly it has been expensed to the profit and loss account. In the event that VAT is recovered in the future it will be credited to the profit and loss account.

4 Directors' Emoluments

	2005 £'000s	2004 £'000s
Directors' remuneration consists of:		
Fees and emoluments for management services	**1,059**	255
Highest paid director		
Fees and emoluments for management services	**384**	93

Further information on the remuneration of the Directors can be found in the Remuneration report on page 23.

There were no contributions made during 2005 to pension schemes.

5 Staff Costs

	2005 £'000s	2004 £'000s
Wages and salaries	**1,820**	258
Social security costs	**185**	30
	2,005	288

The average monthly number of employees (including Directors) during the period was made up as follows:

	2005 No.	2004 No.
UK	**7**	5
Russia	**20**	7
Kazakhstan	**7**	7
Total	**34**	19

6 Interest

	2005 £'000s	2004 £'000s
Bank interest receivable	**870**	162
Other interest receivable	**24**	—
Total	**894**	162

7 Taxation

The tax rate (nil) for the year is different than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2005 £'000s	2004 £'000s
Loss on ordinary activities before tax	**(7,464)**	(1,500)
Loss on ordinary activities before tax at the standard UK corporation tax rate of 30%	**(2,239)**	(450)
Effects of:		
Expenses not deductible for tax purposes	**168**	11
Current year UK tax losses not utilised	**507**	362
Overseas tax losses not utilised	**1,564**	77
	—	—

8 Loss per Share

The calculation of basic and diluted loss per ordinary share is based on the loss for the year of £6,182,000 (2004: £1,372,000). The weighted average number of ordinary shares in issue during the period was 29,847,754 (2004: 12,490,706).

9 Loss for the Financial Year

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The Group loss for the year includes a profit after tax of £777,000 (2004: loss of £916,000) for the year ended 31 December 2005, which is dealt with in the financial statements of the parent Company.

10 Intangible Fixed Assets

Group	Oil Exploration £'000s
Cost	
At 1 January 2005	6,134
Exchange movements	1,173
Additions	43,261
At 31 December 2005	**50,568**
Amortisation	
At 1 January 2005	—
Exchange movements	—
Charge for year	—
At 31 December 2005	**—**
Net Book Value at 31 December 2005	**50,568**
Net Book Value at 31 December 2004	6,134

Company	Oil Exploration £'000s
Cost	
At 1 January 2005	—
Exchange movements	—
Additions	34
At 31 December 2005	**34**
Amortisation	
At 1 January 2005	—
Exchange movements	—
Charge for year	—
At 31 December 2005	**—**
Net Book Value at 31 December 2005	**34**
Net Book Value at 31 December 2004	—

11 Tangible Fixed Assets

Group	Fixtures, fittings and equipment £'000s	Motor Vehicles £'000s	Total £'000s
Cost			
At 1 January 2005	49	35	84
Exchange movements	3	2	5
Additions	209	127	336
Disposals	(1)	—	(1)
At 31 December 2005	**260**	**164**	**424**
Depreciation			
At 1 January 2005	3	—	3
Exchange movements	—	—	—
Charge for year	27	7	34
Disposals	—	—	—
At 31 December 2005	**30**	**7**	**37**
Net Book Value at 31 December 2005	**230**	**157**	**387**
Net Book Value at 31 December 2004	46	35	81

Company	Fixtures, fittings and equipment £'000s	Motor Vehicles £'000s	Total £'000s
Cost			
At 1 January 2005	19	—	19
Exchange movements	—	—	—
Additions	44	—	44
Disposals	(1)	—	(1)
At 31 December 2005	**62**	**—**	**62**
Depreciation			
At 1 January 2005	3	—	3
Exchange movements	—	—	—
Charge for year	13	—	13
Disposals	—	—	—
At 31 December 2005	**16**	**—**	**16**
Net Book Value at 31 December 2005	**46**	**—**	**46**
Net Book Value at 31 December 2004	16	—	16

12 Investments

	Investment in Subsidiary Undertakings £'000s	Total £'000s
Cost and net book value		
Cost at 01 January 2005	2,117	2,117
Cost transferred to subsidiary undertaking	(2,117)	(2,117)
Cost at 31 December 2005	**—**	**—**

The following were subsidiary undertakings at the end of the period and have been included in the consolidated financial information:

Name	Country of Incorporation	Voting rights and proportion of ordinary share capital held	Nature of business
Imperial Energy Limited*	UK	100%	Operating company
Imperial Energy Kostanai Limited	UK	100%	Intermediate Holding company
Imperial Energy Tomsk	Cyprus	85%	Intermediate Holding company
Imperial Energy Cyprus	Cyprus	100%	Intermediate Holding company
Imperial Energy Nord	Cyprus	100%	Intermediate Holding company
R.K. Imperial Energy (Kostanai) Limited	Cyprus	100%	Dormant
OOO Imperial Energy	Russia	100%	Dormant
LLC Sibinterneft	Russia	51%†	Oil exploration
LLC Allianceneftegaz	Russia	100%	Oil exploration
LLC Nord Imperial	Russia	100%	Oil exploration
LLP North-Kazakhstan Geologo-Analytical Company Sevkazgra	Kazakhstan	75%	Oil exploration

* Direct holdings
All other investments are held indirectly
† Effective holding 43.35%
All other investments effective holdings are as shown

13 Stock

	Group 2005 £'000s	Group 2004 £'000s	Company 2005 £'000s	Company 2004 £'000s
Raw materials and consumables	**2,167**	—	**—**	—
	2,167	—	**—**	—

Raw materials and consumables are used in the construction of exploration assets.

14 Debtors

Group	2005 £'000s	2004 £'000s
Amounts falling due within one year		
Other debtors	**139**	119
Unpaid share capital	**—**	10
Prepayments	**3,084**	1,250
	3,223	1,379

Loan agreements between Group companies allow for interest to be charged. No interest has been charged to date. It will be charged when subsidiary companies have the funds to pay the interest due.

Company	2005 £'000s	2004 £'000s
Amounts falling due within one year		
Other debtors	**109**	116
Unpaid share capital	**—**	10
Prepayments	**732**	89
	841	215
Amounts falling due after one year		
Amounts owed by subsidiary undertakings	**61,136**	5,295

15 Creditors — Amounts Falling Due Within One Year

Group	2005 £'000s	2004 £'000s
Trade creditors	**1,756**	489
Taxes	**89**	104
Other	**468**	823
	2,313	1,416

Company	2005 £'000s	2004 £'000s
Trade creditors	**142**	256
Taxes	**19**	83
Other	**89**	—
	250	339

16 Financial Instruments

An outline of the objectives, policies and strategies pursued by the Group in relation to financial instruments is set out in the financial review on page 16 of this report, and in Note 1 on pages 30 and 31.

Disclosure in this note, other than currency disclosures, excludes short-term debtors and creditors.

Financial Assets

The Group financial assets comprise cash at bank.

The currency and interest rate risk profile of the Group's financial assets as at 31 December were as follows:

2005	**Fixed Rate £'000s**	**Floating Rate £'000s**	**Interest Free £'000s**	**Total £'000s**
Sterling	**6,011**	**17,096**	**—**	**23,107**
US Dollars	**—**	**610**	**688**	**1,298**
Rouble	**—**	**1,650**	**—**	**1,650**
Tenge (Kazakhstan)	**—**	**—**	**46**	**46**
	6,011	**19,356**	**734**	**26,101**

2004	Fixed Rate £'000s	Floating Rate £'000s	Interest Free £'000s	Total £'000s
Sterling	—	13,021	—	13,021
US Dollars	—	271	1	272
Rouble	—	—	519	519
Tenge (Kazakhstan)	—	—	11	11
	—	13,292	531	13,823

Currency Exposures

It is the policy of the Group to reduce the risk arising from currency exposure. Speculation is not part of the Group's treasury activities.

The table below shows the Group's currency exposures; in other words, exposure that gives rise to the net currency gains and losses recognised in the profit and loss account. Such exposure comprises the monetary assets and liabilities of the Group that are not denominated in the operating (or functional) currency of the operating unit involved. The principal functional currencies of the Group's operating companies are Sterling and US Dollars.

As at 31 December the exposures were

	Net foreign currency monetary assets/(liabilities)				
Functional Currency 2005	**Sterling £'000s**	**US Dollar £'000s**	**Rouble £'000s**	**Tenge £'000s**	**Total £'000s**
Sterling	**—**	**551**	**—**	**—**	**551**
US Dollar	**—**	**—**	**2,189**	**46**	**2,235**
2004					
Sterling	—	269	—	—	269
US Dollar	—	—	1,055	37	1,092

Fair Value of Group's Financial Instruments

	2005		2004	
	Book Value £'000s	**Fair Value £'000s**	Book Value £'000s	Fair Value £'000s
Cash at bank and in hand	**26,101**	**26,101**	13,823	13,823
	26,101	**26,101**	13,823	13,823

16 Financial Instruments continued

The Group utilises currency derivatives, such as currency options to manage foreign exchange risk. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

The Group had options to purchase dollars equivalent to an amount of approximately £24.9 million to cover the expenditure in the Group's exploration and development programme. At 31 December 2005, the fair value of the Group's currency derivatives is estimated to be approximately £1.5 million, the book value was £0.7 million. These amounts are based on market values of equivalent instruments at the balance sheet date.

17 Share Capital

	2005 £	2004 £
Authorised		
200,000,000 ordinary shares of 2.5p each	**5,000,000**	5,000,000
Issued, allotted and fully paid		
39,299,468 ordinary shares of 2.5p each	**982,487**	—
23,098,462 ordinary shares of 2.5p each	**—**	577,462
	982,487	577,462

The following share movements occurred during the year:

On 24 February 2005 276,500 ordinary shares of 2.5p each were issued at 160 pence per share.
On 29 June 2005 26,500 ordinary shares of 2.5p each were issued at 160 pence per share.
On 21 July 2005 12,660,000 ordinary shares of 2.5p each were issued at 400 pence per share.
On 31 August 2005 1,225,834 ordinary shares of 2.5p each were issued at 480 pence per share.
On 6 September 2005 250,000 ordinary shares of 2.5p each were issued at 160 pence per share.
On 27 October 2005 1,762,172 ordinary shares of 2.5p each were issued at 500 pence per share.

As at 31 December 2005 there were warrants in issue that allow the holders to subscribe for up to 1,100,000 ordinary shares of 2.5p each at 500 pence per share.

18 Reserves

Group	**Share Premium Account £'000s**	**Profit and Loss Account £'000s**	**Foreign Currency Translation £'000s**
At 1 January 2005	21,021	(1,372)	—
Loss for the year	—	(6,182)	—
Premium on shares issued	65,815	—	—
Placing costs	(2,215)	—	—
Exchange differences on net assets	—	—	2,540
As at 31 December 2005	**84,621**	**(7,554)**	**2,540**
Company			
At 1 January 2005	21,021	(916)	—
Profit for the year	—	777	—
Premium on shares issued	65,815	—	—
Placing costs	(2,215)	—	—
Exchange differences on net assets	—	—	—
As at 31 December 2005	**84,621**	**(139)**	**—**

19 Notes to the Group Cash Flow Statement

a) Reconciliation of losses to net cash inflow from operating activities

	2005 £'000s	2004 £'000
Operating activities		
Operating loss	**(8,358)**	(1,662)
Depreciation	**34**	3
Increase in stock	**(2,167)**	—
Increase in debtors	**(1,844)**	(1,369)
Increase in creditors	**897**	589
Net cash flow from operating activities	**(11,438)**	(2,439)

b) Analysis of cash flows for headings netted in the cash flow statement

		2005 £'000s	2004 £'000
Returns on investments and servicing of finance			
Interest received		**894**	162
Net cash inflow from returns on investments and servicing of finance		**894**	162
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(335)**	(66)
Purchase of Intangible fixed assets		**(17,147)**	(1,417)
Net cash outflow from capital expenditure and financial investment		**(17,482)**	(1,483)
Acquisitions and disposals			
Purchase of subsidiary undertakings	19d	**(9,400)**	(2,275)
Net cash acquired with subsidiary	19d	**—**	9
Net cash outflow for acquisitions and disposals		**(9,400)**	(2,266)
Financing			
Issue of ordinary share capital		**51,525**	21,249
Expenses of share issue		**(2,215)**	(1,400)
Net cash inflow from financing		**49,310**	19,849

c) Analysis of net funds

	At 1 January 2005 £'000s	Cash flow £'000s	Exchange Differences £'000s	**At 31 December 2005 £'000s**
Cash at bank and in hand	13,823	11,884	394	**26,101**
Total	13,823	11,884	394	**26,101**

19 Notes to the Group Cash Flow Statement continued

d) Acquisitions

	LLC Allianceneftegaz £'000	LLC Nord Imperial £'000	Total £'000
Net assets acquired:			
Intangible fixed assets	12,140	13,006	25,146
	12,140	13,006	25,146
Minority shareholders' interests	(523)	(528)	(1,051)
	11,617	12,478	24,095
Satisfied by:			
Cash	5,733	3,667	9,400
Shares issued	5,884	8,811	14,695
	11,617	12,478	24,095

Details of Acquisitions

39.5 % of LLC Allianceneftegaz was acquired in August 2005 for £9.98 million, of which £5.88 million was paid in shares with the balance in cash and a further 9% in November 2005 for £1.64 million which was paid in cash.

20% of LLC Nord Imperial was acquired in October 2005 for £12.5 million, of which £8.8 million was paid in shares and the balance in cash.

20 Obligations Under Operating Leases

Annual commitments under non-cancellable operating leases are as follows:

	Licence rentals £'000s
Operating leases which expire:	
Within one year	—
In two to five years	194
	194

21 Commitments

a) Licence Commitments

The Group has commitments in Russia to complete 3,935 km of seismic acquisition and to drill 11 exploration wells over the remaining term of its exploration licences. Fulfilling these commitments is expected to cost US$54 million.

In Kazakhstan its commitment is to US$7 million of capital expenditure.

b) Options for future acquisitions

The Company has the option to acquire up to a further 23% of LLC Sibinterneft which can be triggered as and when proven reserves are discovered. The cost of such acquisition is fixed at $7 per tonne (approximately $1 per barrel) of proven oil.

22 Related Party Transactions

The Group used the services of PLLG, an international law firm where P M Levine is Chairman, to provide services through its offices in the United Kingdom, Russia and Kazakhstan. P M Levine is also Chairman and Chief Executive of the Company and a shareholder. During the period ended 31 December 2005 PLLG, through its various offices, charged the Group £1,448,881 (2004: £364,364) for legal and professional support and advice. Such work included services relating to the £50 million fundraising and the purchases for US$42.7 million of the minority interests in certain of Imperial's Russian subsidiaries. As at 31 December 2005 an amount of £37,227 (2004: £68,505) was included within creditors.

PLLG International continued to provide administrative support and office space in all the Group's countries of operation. During the period rental and administrative charges totalled £204,534 (2004: £97,397) although these have now diminished as Imperial's own infrastructure has been built up and leased offices taken by Imperial. As of 31 December 2005 an amount of £2,684 (2004: £20,250 creditor) was included within prepayments.

In 2005 the Group entered into a consulting agreement with L I Sheshko, the partner of A I Korchik who is a Director of the Company. This agreement was entered into before the appointment of A I Korchik as a Director. Under this agreement L I Sheshko provided and/or procured the following:

- consulting services on the subject of political, economic and financial risks arising with regard to the Group's oil and gas operations in the Tomsk region;
- representation, on behalf of the Group, with regional governmental bodies to develop and maintain support for the Group's oil and gas operations in the Tomsk region.

During the year the Group paid £523,000 under this agreement. As of 31 December 2005 an amount of £174,000 was included within creditors. As a result of A I Korchik becoming a Director, the agreement has now been terminated.

23 Post-Balance Sheet Events

On 16 March 2006 at an auction held in Tomsk by the Ministry of National Resources, OOO Nord Imperial agreed to acquire Block 80 for the sum of 148,200,000 roubles (US$5.25 million).

Notice of Annual General Meeting

IMPERIAL ENERGY CORPORATION PLC

(Incorporated in England and Wales under the Companies Act 1985 (as amended), with registered number 5054461)

NOTICE is hereby given that the Annual General Meeting of the Company will be held at 49 Berkeley Square, Mayfair, London, W1J 5AZ on 25 May 2006 at 12 noon for the following purposes:

1. To receive the report of the directors and audited accounts for the financial period ended 31 December 2005.

2. To reappoint Dr K P Forrest CBE as a Director.

3. To reappoint Mr T G K Smith as a Director.

4. To reappoint Mr A I Korchik as a Director.

5. To reappoint Baker Tilly as auditors and authorise the Directors to fix their remuneration.

To consider and, if thought fit, pass the following Resolutions, of which Resolution 6 will be proposed as an Ordinary Resolution and Resolution 7 will be proposed as a Special Resolution.

6. **THAT** the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Companies Act 1985) up to an aggregate nominal value of £324,221 such authority to expire on the earlier of the conclusion of the Annual General Meeting of the Company next following the passing of this resolution or fifteen months after the date of this resolution, save that the Directors may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and may allot relevant securities pursuant to such an offer or agreement as if the authority conferred hereby had not expired.

7. **THAT**, in substitution for any existing and unexercised authorities, the Directors be and are hereby authorised and empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority given in the previous resolution as if section 89(1) of the Act did not apply to such allotment, provided that such power be limited to:

   7.1 the allotment of equity securities which are offered to all the holders of equity securities of the Company (at a date specified by the Directors) where the equity securities respectively attributable to the interests of such holders are as nearly as practicable in proportion to the respective number of equity securities held by them, but subject to such exclusions and other arrangements in relation to fractional entitlements and any legal or practical problems under any laws, or requirements of any regulatory body or stock exchange in any territory or otherwise; and

   7.2 the allotment (otherwise than pursuant to sub-paragraph (10.1)) of equity securities up to an aggregate nominal amount of £49,124;
   and this power shall expire on the earlier of the conclusion of the Company's next Annual General Meeting and fifteen months from the date of the passing of this resolution save that the Company may make an offer or enter into an agreement before the expiry of that date which would or might require equity securities to be allotted after that date and the Directors may allot equity securities in pursuance of such an offer as if the power conferred hereby had not expired.

Registered Office	*By order of the Board*
6/8 York Place	Peter Levine
Leeds	Chairman and Chief Executive
LS1 2DS	
West Yorkshire	
United Kingdom	
	13 April 2006

Notes:

1. A member of the Company entitled to attend and vote at the above meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.

2. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he so wish.

3. A form of proxy is attached and to be valid must be completed and returned so as to reach the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, United Kingdom (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) not later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.

4. As provided by Regulation 41(1) of the Uncertificated Securities Regulations 2001, only those members registered in the register of members of the Company 48 hours before the time set for the meeting shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

5. The following documents will be available for inspection during business hours at the registered office until the date of the meeting and on that day at the meeting itself:

   The Register of Directors' Interests in the Company's shares.

   Copies of the Directors' Service Contracts.

   Copy of the rules of the Long Term Incentive Plan.

IMPERIAL ENERGY CORPORATION PLC

FORM OF PROXY

for use for the Annual General Meeting to be held on 25 May 2006

I/We (block capitals) ....
of

....

being (a) holder(s) of [ordinary] shares in the Company, hereby appoint the Chairman of the meeting or (Note 1)

....

....

....

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 25 May 2006 and at any adjournment thereof.

I/We direct my/our proxy to vote as indicated by an X in the appropriate column. (Note 2)

RESOLUTIONS	FOR	AGAINST	VOTE WITHHELD
1. Ordinary Resolution. To receive the accounts and reports of the Directors and auditors for the financial year ended 31 December 2005			
2. To reappoint Dr K P Forrest CBE			
3. To reappoint Mr T G K Smith			
4. To reappoint Mr A I Korchik			
5. Ordinary Resolution. To reappoint Baker Tilly as auditors of the Company and to authorise the Directors to fix their remuneration			
6. Ordinary Resolution. To authorise the Directors to allot securities up to a specified amount			
7. Special Resolution. To give the Directors power to allot securities for cash without first offering them to existing shareholders			

Signature .... (Note 3)

Date 2006

NOTES

1. If you wish to appoint a proxy other than the Chairman of the meeting, cross out the words "the Chairman of the meeting" and write the full name and address of your proxy on the dotted line. The change should be initialled. A proxy need not be a member of the Company.
2. In the absence of instructions, the person appointed proxy may vote or abstain from voting as he/she thinks fit on the specified resolutions and, unless otherwise instructed, may also vote or abstain from voting as he/she thinks fit on any other matter (including amendments to resolutions) which may properly come before the meeting.
3. This form must be signed and dated by the shareholder or his/her attorney duly authorised in writing. In the case of a corporation this form must be given under its common seal or signed on its behalf by a duly authorised officer or an attorney. In the case of joint holders the signature of any one holder will be sufficient but the names of all the joint holders should be stated. The vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority is determined by the order in which the names stand in the register of members in respect of the joint holding.
4. To be effective at the meeting this form must be lodged at the address of the Company's Registrars shown overleaf not later than 48 hours before the time of the meeting together, if appropriate, with the power of attorney or other authority under which it is signed or a duly certified copy of that power or authority.

Second fold

BUSINESS REPLY SERVICE
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