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Exploration

Production



Infrastructure

Imperial Energy Corporation PLC

Imperial Energy Corporation is an independent oil and gas exploration and production company focused on the CIS and in particular, Russia.

Imperial Energy operates in the Tomsk region of Western Siberia, Russian Federation and north-central Kazakhstan.

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Highlights

Operational

- SPE 2P reserves at 920 mmboe as at 31 December 2007
 - 2P oil reserves rise to 863 mmbbls (2006 802.6 mmbbls)
 - New 2P gas net reserves of 56 million boe (2006 nil)
- C1+C2 Russian Registered Reserves have grown by 630% to current 432 mmboe in the last two years
- All Imperial's Russian exploration licences extended in 2007 and early 2008 for two more years
- A total of 34 new wells drilled in 2007
- Reached the 10,000 bopd year-end target production rate in December 2007
- Built and commissioned two wholly-owned pipelines 208 km in length with oil flowing directly to the Transneft system through Imperial's own tie-ins and custody transfer stations at Luginetskoye and Zavyalovo

Corporate and Financial

- Moved to the Official List of the London Stock Exchange in May 2007
- Entered FTSE 250 Index in November 2007
- Revenue of US\$20 million (2006 US\$31 million)
- Seven-year convertible bond for US\$191.3 million successfully issued in December 2007
- RIG autonomous group within Imperial
- Approximately US\$600 million Rights Issue announced in April 2008

Exploration

Successful exploration of our
substantial acreage base

Production

Increasing production
by development of our
significant reserves

Infrastructure

Ongoing infrastructure programme for pipelines and field facilities

Imperial at a Glance

Block 69

Festivalnoye, Central Festivalnoye and North Festivalnoye fields

Three wells at Festivalnoye and one well at North Festivalnoye were production tested in 2007 in preparation for field development. Major production and appraisal drilling is planned for Festivalnoye field in 2008.

Block 70

Maiskoye, Middle Glukhovskoye, and North Chertalinskoye fields

Significant development work was carried out at Maiskoye with five horizontal wells and one vertical well drilled and the construction of phase one of the field facilities. In December 2007, the new exploration well on South Maiskoye successfully tested commercial oil flow from the Tyumen reservoir. In addition, this well discovered Vasyugan oil bearing sands, confirming the existence of both Vasyugan and Tyumen reservoirs extending from the productive Maiskoye field a few km to the north-east. Middle Glukhovskoye oil field was newly discovered and registered in 2007.

Block 74

Golovnoye and Buranovskoye fields

Golovnoye oil field was successfully tested and registered as a discovered field. During 2007 Imperial also drilled a well at Buranovskoye successfully identifying and testing commercial rates of oil. The Letnaya and Trostnikovaya prospects have significant oil potential and remain to be explored.

Block 77

Snezhnoye and Dvoynoye fields

Significant development work was carried out at the Snezhnoye field in 2007 with 14 wells currently in production. Major production and appraisal drilling is planned for 2008 for that field. Dvoynoye field comprises one well to date which is currently producing. Chizhapskaya and Dvoynaya-NW prospects have been defined in the north-west of Block 77.

Block 80

Kiev-Eganskoye field. In October 2007, Imperial received the results of new seismic data on Block 80, including 380 sq km of 3-D seismic.

The 3-D data revealed one significant NE-SW trending structure and several smaller surrounding structures with a high exploration potential. Significant exploration and appraisal drilling is due to take place on Kiev-Eganskoye field in 2008.

Block 85

South Festivalnoye, Tamratskoye and Nyulginskoye fields

The South Festivalnoye well was successfully drilled and identified hydrocarbons. This well will be tested and the field registered in 2008. The Nyulginskaya prospect was successfully drilled with oil identified in Cretaceous and Tyumen reservoirs. An additional well was drilled in Tamratskoye and tested commercial rates of oil. Tamratskoye oil field was newly discovered and registered in 2007.

" Imperial Energy's operations are focused on the Tomsk region of Western Siberia, Russian Federation and north-central Kazakhstan with the major part of work taking place in Tomsk "

Block 86

Chagvinskoye and Vodorazdelnoye fields

Well Chagvinskoye 4 was tested in 2007 in a number of layers. Further testing and field registration will be carried out in 2008 prior to field development. Vodorazdelnoye 3 exploration well was successfully drilled, tested and registered in 2007. The well was hydraulically fractured, further testing and field registration will be completed during 2008.

The North Torgai Block, Kazakhstan

The results of Imperial's seismic survey show several leads and one potential prospect of interest.

The Board has decided to explore this prospect which is situated in the northern part of the block, to the west of Lake Kushmurun. Drilling of this structure has now commenced. It is anticipated that the results of this well will now be announced by the end of May 2008.

Pipelines & Field Facilities

Two pipelines, the 159 km Maiskoye-Festvalnoye-Luginetskoye pipeline and the 49 km Snezhnoye-Zavyalovo pipeline are now fully operational. Oil is flowing directly to the Transneft system through Imperial's own custody transfer stations at Luginetskoye and Zavyalovo. A third pipeline, 152 km long east of the Ob River has already completed the construction phase with commissioning due by the end of summer 2008, and first oil is expected to flow in autumn 2008. Imperial has invested in construction and upgrading of field facilities at Snezhnoye and Maiskoye, and has started the construction of facilities at Festvalnoye and Kiev-Eganskoye fields.

Chairman's Statement

The year 2007 saw Imperial deliver on its key objectives. Whilst it was a year not without its challenges, by the end of it the following had been achieved:

- Significant appraisal and exploration work including 34 new wells and major seismic acquisition which increased our SPE based reserves, subsequently confirmed in the newly published independent reserves report
- 229% growth in Russian Registered Reserves over the year
- The end of year target production rate of 10,000 bopd was exceeded before end of December
- Our two major pipelines, being 208 km in aggregate length, built during the year, each with their own processing and custody transfer facilities and tie-ins were commissioned and flowed oil direct to the Transneft system
- Exploration licences of Imperial's subsidiary Alliancenerftegaz were extended for two years

By the end of 2007, Imperial was transformed into a production company with the necessary backbone and infrastructure to deliver that production to market. Our new oilfield services company, Rus Imperial Group, continues to develop and is now operating the first of its rigs, No. 501, successfully, on Imperial's Snezhnoye field.

The first part of the year was not without controversy. Whilst this inevitably diverted others and also our attention away from our core business, we nevertheless achieved our key goals, albeit with some delay and at a greater cost than originally anticipated.

In 2008 we are concentrating on the major job in hand. This year we have effectively doubled the aggressive production challenge we set for 2007, namely a year end production target of 25,000 bopd.

Key events which have already occurred in 2008:

- Imperial's independently estimated 2P reserves increased to 920 million boe and our aggregate 3P reserves now stand at 3.4 billion boe
- Continued increase in Russian Registered Reserves – a further 15% rise to 432 million boe in the first three months (a 630% increase since 2006)
- Exploration licences for Block 74 extended for a further two years
- Since the effective date of the independent reserves report, further new discoveries have been made in the Tomsk region not taken into account in the present reserve estimates
- The Kazakhstan exploration well currently still drilling shows initial promising signs of hydrocarbons
- Our third pipeline, extending to 152 km, the first East of the Ob river in the Tomsk region has completed its construction phase and now enters the testing phase
- After disappointing February and March production levels, production rates have registered upward momentum
- Rus Imperial Group is now successfully operating as an independent unit and has made a new discovery with its first well for Imperial drilled ahead of projected time
- Approximately US\$600 million Rights Issue announced in April 2008

Forthcoming events targeted for 2008 are:

- The completion of Imperial's 72-well drilling programme
- The commissioning of Imperial's third pipeline in the autumn
- Significant increase in Russian Registered Reserves
- Strategic action in relation to Rus Imperial Group
- The development of a strategy to utilise Imperial's gas reserves
- Delivery on Imperial's end of year production target rate
- Continuing technical evaluation of the Kazakh prospect

Dividend

Taking into account the stage of Imperial's development, the Directors do not recommend the payment of any dividend (2006 nil).

Operations

A summary of the main operations undertaken by the Group in 2007, developments subsequent to the year end and plans for the remainder of 2008 are set out in the Operational Review.

Financial resources

Imperial is in the midst of a capital intensive programme, the result of which is designed to propel the Group forward to meet its current and future year targets.

The Group has invested heavily in major infrastructure and equipment. US\$225 million will have been spent by the end of 2008 on pipelines and infrastructure alone. A further US\$100 million has been invested in Rus Imperial Group where Imperial is currently considering strategic options to unlock shareholder value and potential.

The Company's extensive drilling programme brings its own significant costs. All this is against a background of the very volatile credit markets and cost inflation in our industry. Taking into account that Imperial's current bank facility matures in November this year, and the need to secure Imperial's capital expenditure requirements to ensure it is financed through to early 2010 at which point, based on its current work programme, positive cash flow generation should sustain the capex required to meet the Group's production targets, Imperial has announced to raise approximately US\$600 million by way of an equity rights issue.

Board appointments

During 2007 John Hamilton joined the Board as Group Finance Director replacing Guy Smith who left the Board with our gratitude at the end of the year. John has added an important dimension to Imperial bringing with him many years of experience as an oil and gas banker at ABN AMRO.

Ekaterina Kirsanova, one of the first employees of Imperial in Russia, joined the Board as an Executive Director at the start of 2008.

Also during the year, Rob Shepherd joined the Board as a Non-Executive Director. Rob was formerly also with ABN AMRO as an oil and gas specialist having trained with Shell prior to his banking career.

Current prospects and outlook

Operationally the year has started with frenetic activity with the emphasis on logistics, moving heavy equipment and supplies into place for the 2008 drilling season.

From April onwards we expect to see new wells progressively coming on stream with a parallel emphasis on maintaining satisfactory levels of production from our existing well stock.

Imperial has come a long way since it joined AIM in April 2004 with no reserves, no production and no infrastructure. Within a short space of time, from a standing start, through its own organic efforts and with the ongoing support of its shareholders, Imperial has achieved one of the largest reserve bases of any independent E&P company on the London Stock Market, demonstrated a critical path to material production, built its own pipeline network and associated infrastructure now extending to over 350 km across the largest swamps in Europe and created from the ground up its own oilfield services division using latest technology equipment.

Whilst the industry and the environment in which Imperial carries on its business bring many challenges each day, the Directors remain confident, though not complacent, as to the Group's successful prospects.

Peter Levine
Executive Chairman
15 April 2008

Business Review – Operational

Production reached a rate of 10,000 bopd in December 2007 through production drilling on Snezhnoye and Maiskoye. Infrastructure including pipelines and field facilities was built to enable Imperial to deliver its crude to market. A successful exploration campaign resulted in a number of field discoveries and significant increases in reserves.

Reserves

The independent reserve engineers DeGolyer and McNaughton (D & M) completed their annual review and update

of hydrocarbon reserves as at 31 December 2007 for Imperial's interests in the Tomsk Region, Western Siberia. For the first time a certain amount of gas reserves are included. D & M were not asked to review Imperial's interest in the Kostanai region, Kazakhstan, which is still subject to continued exploration drilling. Imperial is also reporting its current Russian Registered Reserves on a field by field basis.

Production

Imperial reached the 10,000 bopd 2007 year-end target production rate before the

end of 2007. The total production in 2007 was 833,799 bbls. Approximately 80% of production came from the Maiskoye field and 20% from the Snezhnoye field with a total number of producing wells reaching 25 by the end of 2007. Whilst 2008 started with production in February and March lower than expectations due to technical and logistical issues, upward momentum has been regained as this report goes to print.

Imperial's Net Oil and Gas Reserves as of 31 December 2007 (DeGolyer and MacNaughton)

Field	SPE Oil (mmbbls)			SPE Gas (mmboe)		
	1P	2P (1P+2P)	3P (1P+2P+3P)	1P	2P (1P+2P)	3P (1P+2P+3P)
Buranovskoye	–	–	11	–	–	–
Central Festivalnoye	79	79.7	139.5	0.8	3.1	3.1
Chagvinskoye	–	–	195.2	–	–	2.6
Dvoinoye	1.2	5.2	6.9	0.2	0.3	0.4
Festivalnoye	18.9	136.4	513.5	2.8	12.2	28.1
Golovnoye	–	2.0	8.3	–	0.1	0.2
Kiev-Eganskoye	17.1	107.0	575.2	1.3	3.6	6.0
Maiskoye	13.6	73.7	119.0	0.9	2.1	2.3
Middle Glukhovskoye	9.3	25.3	469.4	2.4	2.6	9.8
North Chertalinskoye	7.5	46.4	183.5	2.4	4.8	9.3
North Festivalnoye	42.3	127.1	218.9	10.0	10.1	10.1
Nyulginskoye	–	–	49.0	–	–	0.7
Snezhnoye	24.1	93.5	156.8	7.2	9.8	10.1
South Festivalnoye	–	132.0	403.5	–	5.3	7.0
South Maiskoye	2.9	25.7	188.0	0.2	0.8	3.1
Tamratskoye	1.3	9.7	58.9	0.3	1.4	3.8
Vodorazdelnoye	–	–	20.1	–	–	2.0
Total	146.1	863.7	3,306.8	28.5	56.2	98.6

Totals

1P = 174.6 mmboe, 2P = 92.0 mmboe, 3P = 3,405.4 mmboe

Imperial's Russian registered reserves

Field	Type	Imperial C1 and C2 reserves, mmmboe		
		C1	C2	C1+C2
Buranovskoye	n/a*	n/a	n/a	n/a
Central Festivalnoye	n/a	n/a	n/a	n/a
Chagvinskoye	n/a	n/a	n/a	n/a
Dvoynoye	Oil	3 548	2 351	5 899
Festivalnoye	Oil	9 687	8 395	18 082
Middle Glukhovskoye	Oil	3 292	33 31	36 602
Golovnoye	Oil	2 862	16 994	19 856
Kiev-Eganskoye	Oil	10 329	4 628	14 957
Maiskoye	Oil	57 59	31 186	88 776
North Chertalinskoye	n/a	n/a	n/a	n/a
	Gas mln m ³	19 556	29 565	49 121
North Festivalnoye	Condensate '000 t	3 833	5 796	9 629
	Total	23 389	35 361	58 75
Nyulginskoye	n/a	n/a	n/a	n/a
Snezhnoye	Oil	33 704	30 85	64 554
	Gas, mln m ³	10 811	7 278	18 089
	Condensate '000 t	0 824	0 146	0 97
	Total	45 339	38 274	83 613
South Festivalnoye	n/a	n/a	n/a	n/a
South Maiskoye	Oil	6 417	52 794	59 211
Tamratskoye	Oil	1 168	22 462	23 63
Vodorazdelnoye	Gas mln m ³	7 811	13	20 811
	Condensate '000 t	0 54	0 898	1 438
	Total	8 351	13 898	22 249
Total		171 972	259 653	431 625

*No Russian Registered Reserves as at 31 December 2007

Future production

In 2008 Imperial plans to drill 69 production wells. The Directors are targeting an increase in production to 25,000 bopd by the end of 2008, 35,000 bopd by the end of 2009, 60,000 bopd by the end of 2010, and 80,000 bopd by the end of 2011. The targeted production is expected to come from at least five of Imperial's fields: Snezhnoye, Maiskoye, Festivalnoye, Kiev-Eganskoye and Dvoynoye.

As further wells are drilled and tested as part of Imperial's work programme, the Directors' targets of future production may be adjusted upwards or downwards in line with results achieved.

2008 work programme

Imperial is pursuing an aggressive work programme in 2008, the total expenditure in relation to which is expected by the end of the year including accrued payments to amount to approximately US\$350 million. In total, the current programme includes 72 wells, 2D and 3D seismic surveys, pipelines and infrastructure construction. An exploration well is also being drilled currently at Imperial's Torgai Block in Kazakhstan.

Imperial's exploration programme for the Tomsk region in 2008 includes drilling three exploration wells: wells 361 and 362 at Kiev Eganskoye and well 6 at Glukhovskoye.

In total, approximately 69 production wells are planned to be drilled on Maiskoye, South Maiskoye, Kiev Eganskoye, Festivalnoye and Snezhnoye fields in 2008.

At Snezhnoye, drilling is expected to continue strongly through the year with some 24 wells planned to be drilled, hydraulically fractured on the Vasyugan reservoir, and put into operation.

At Maiskoye, Imperial plans to further develop the facilities and plans to drill 16 wells. Having successfully drilled and tested its first well at the South Maiskoye field, Imperial plans to drill a further three wells in 2008 under a pilot production scheme.

Business Review – Operational continued

On Block 80, Kiev-Eganskoye, Imperial plans to drill the first production well in H1 2008. 3-D seismic on that structure and the 2-D seismic on other potential targets in this Block have been obtained ahead of schedule. Based on the results of these surveys, Imperial will drill two exploration wells on the north of the structure by the end of H1 2008 with an option to drill another appraisal/production well under a pilot production scheme. Pending further technical appraisal, over 2008, Imperial plans to drill some 15 production wells at Kiev-Eganskoye.

Festivalnoye will continue to be developed with approximately 10 production wells expected to be drilled during 2008.

Kazakhstan

Drilling still continuing at Imperial's North Torgai property, Kazakhstan, with promising signs of oil already identified. Results of the exploration well are expected to be available by the end of May 2008.

Infrastructure

Transport

Imperial's current oil production is being sold into the Russian domestic market through its wholly owned pipelines. At the beginning of 2007, Imperial obtained all necessary permissions from the relevant Russian ministries and authorities for the construction of two pipelines of 208km in length in aggregate in the Tomsk region. Imperial successfully completed and commissioned both of these pipelines and oil is now successfully flowing through the new processing facilities at Snezhnoye and Maiskoye directly into the Transneft system through Imperial's own custody transfer stations and tie-ins at Zavyalovo and Luginetskoye.

The first pipeline, Snezhnoye-Zavyalovo, is approximately 49 km in length and extends from the Snezhnoye field to the Transneft main trunk pipeline at Zavyalovo. This pipeline serves Imperial's Blocks 74 and 77.

The second pipeline, Maiskoye-Festivalnoye-Luginetskoye, is approximately 159 km in length and extends from Imperial's Maiskoye field, on Block 70, through Festivalnoye field, on Block 69 to the Transneft pipeline tie-in at Luginetskoye. This pipeline serves Imperial's Blocks 69, 70, 85 and 86.

A third pipeline, east of the Ob River, to service Block 80, has completed its construction phase with completion and commissioning due by the end of summer 2008, and first oil is expected to be transported in autumn 2008.

Field facilities

In 2007 Imperial invested significant sums in upgrading field facilities at a number of its fields. First phase field facilities costing approximately US\$24 million were completed at Maiskoye. The facilities are capable of upgrade to handle 30,000 bopd by 2010. The Snezhnoye facility has been upgraded from early to full production facility, with storage tanks, pump systems, firefighting capabilities and a three megawatt gas fired electric power station. New production facilities at Snezhnoye were successfully tested and commissioned in summer 2007. This US\$28 million Snezhnoye facility, together with the newly built 49 km long pipeline to Zavyalovo custody transfer station, are currently processing all production from the field. Imperial has also upgraded pad facilities at Festivalnoye and started the construction of early production facilities at Kiev-Eganskoye.

Oil sales

Prior to pipeline completion in 2007, Imperial was selling all of its oil at the wellhead to local off-takers for use in the Russian domestic market. The average realised oil price per barrel in 2007 was US\$33.35. In total Imperial sold 597,577 bbls of oil in 2007. The completion of Imperial's pipelines gives Imperial the ability to transport all of its oil production to both

domestic and export markets. The Group's agreement with Vitol SA opened up the export market, and the first oil was exported in January 2008. Under current Russian market practice, oil companies export up to approximately one third of their production.

RIG

In April 2006, Imperial Energy established its own drilling company Rus Imperial Group (RIG), which is now an autonomous structure within Imperial Group. RIG ordered three new drilling rigs which are British designed and fabricated in China. These top-drive rigs use the latest technology with the capability to drill down to 5,000 metres. They are also skid mounted for ease of transportation by helicopter or with all terrain transport vehicles. RIG's well services equipment includes a brand new workover rig (RIG-KRS-1) fabricated by ELAZ (Russia). RIG is currently drilling wells for Imperial Energy at the Snezhnoye field, and drilling is expected to commence on Imperial's other fields in April and May 2008. RIG has also stepped into the supervision role of the drilling operations for Imperial Energy in Kazakhstan.

IFS

As part of RIG Imperial Energy has its own Russian registered frac services company, 50% owned by the management of Imperial Fracturing Services (IFS). As the IFS frac fleet is helicopter transportable it allows Imperial to hydraulically fracture and test exploration wells, book reserves and register fields during the summer months. This accelerates Imperial's development programmes significantly. IFS is already in successful operation fracturing Imperial's production and exploration wells and servicing third parties on demand.

Christopher Hopkinson
Chief Executive Officer

Business Review – Financial

Selected operational and financial data

	Units	2007	2006	+/- %
Production	Total barrels	833,799	127,000	557
Oil sales	US\$ million	199	31	542
Operating loss*	US\$ million	(390)	(152)	(156)
Net cash inflow/(outflow) from operations*	US\$ million	11	(30.5)	n/a
Year end cash and cash equivalents and bank deposits	US\$ million	131.7	95.3	38
Average realised price/bbl ¹	US\$	33.35	24.41	37
Cash operating costs per boe ²	US\$	29.84	44.91	n/a
2007 production target (achieved) ³	bopd	10,000	n/a	n/a

* Key performance indicators

1 Average realised oil price per barrel is the average proceeds received for each barrel of oil sold in the period

2 Cash operating costs are cost of sales excluding depletion and amortisation

3 Total barrels of oil produced per day by the year end

Key financial highlights

- Commercial oil production from two oil fields in Tomsk commenced in November 2007
- Year end cash and cash equivalents of US\$131.7 million from US\$95.3 million at 31 December 2006, primarily due to US\$200 million loan facility and issue of US\$191 million seven year convertible bonds
- Funding for major infrastructure and development of Group including two major oil pipelines linking directly to the Transneft system, transfer stations at Luginetskoye and Zavyalovo and the purchase of three drilling rigs

Gross loss

Until the end of October 2007, the Group treated all of its production as representing test production as part of an evaluation programme and the Group's accounting policy for such production is to charge an amount from evaluation costs to cost of sales so as to reflect a zero gross profit on such sales. For the last two months of 2007, the production from Maiskoye and Snezhnoye was no longer considered to be test production. Due to the high level of fixed costs within cost of sales in the initial stage of production there was a gross loss for 2007.

General and administrative expenses

General and administrative expenses increased to US\$379 million (2006 US\$194 million). Professional and corporate fees increased by US\$8 million primarily as a result of the work related to the move from AIM to the main market, additional legal

and public relations costs arising from the Group's higher profile in Russia. The standalone RIG business incurred setup costs of US\$3.7 million. Charges related to employee incentive schemes were US\$2.1 million (2006 US\$0.9 million). Furthermore the appreciation of the rouble against the US dollar contributed to the overall cost base during the year. Excluding these items the increase in G&A costs reflects the continued growth and development of the business.

Russian Value Added Tax ('VAT')

Although VAT in Russia is legally recoverable, for companies in the exploration stage the timing and ability to recover VAT is uncertain. As a result, whilst the Company was in the exploration phase, the Directors felt it was prudent to reflect this uncertainty and provided against the net VAT recoverable in 2004 and 2005. In 2006, the Group began to produce oil, which improved its ability to recover VAT. During 2007, US\$1.2 million (2006 US\$4.3 million) of VAT was recovered in cash and credited back to the income statement.

Investment revenue

Investment revenue of US\$1.2 million (2006 US\$4.4 million) arises from bank interest received on cash balances and bank deposits. In 2006, the Group raised US\$199.1 million, net of expenses, to finance its exploration and development activities. This money was held on deposit earning interest until required for investment into the Group's operations.

Taxation

Due to the absence of taxable income, no UK corporation tax or Russian profits tax has been payable in the years to date. Tax of US\$0.5 million (2006 US\$0.3 million) has been accrued in Cyprus arising from the margin charged on intra-group lending via the Group's Cypriot financing company.

Capital investment

Capital investment in the year on exploration and evaluation was US\$214.7 million (2006 US\$119.6 million), related to Imperial's 2007 programme and preparations in the year for the commencement of its 2008 programme.

Additions in the year of property, plant and equipment amounted to US\$220.7 million (2006 US\$10.7 million). Whereby investment on development and production assets mainly related to the acquisition of drilling rigs of US\$51 million, completion of field facilities of US\$52 million and the pipeline construction of US\$39 million and includes a provision for decommissioning of US\$59.5 million.

Cash flow and liquidity

The Group's liquidity requirements arise principally from its working capital requirements and capital expenditure investments. There was a net cash inflow from operations of US\$1.1 million (2006 US\$ outflow 30.5 million). This is principally due to the increased trade payables which is a result of the increased activity of the Group and its ability to get improved credit terms.

Imperial held total cash and cash equivalents and bank deposits of US\$131.7 million as of 31 December 2007, as compared to US\$95.3 million as of 31 December 2006.

Financing

In 2007, the Group met its liquidity requirements from the proceeds of equity financings; however, the Group put in place a US\$200 million debt finance facility (temporarily increased to US\$235 million in November of which US\$35 million was repaid in December) and issued a US\$191.3 million seven year convertible bond during the year. As a result, as at 31 December 2007 net debt was US\$237 million (2006: nil).

The Group announced an approximately US\$600 million rights issue and the Board expect to imminently sign the equity bridge to ensure that it is financed through to early 2010, at which point, based on its current work programme, positive cash flow generation should sustain the capex required to meet the Group's production targets. The Group believes that following admission of these new shares, it will have a robust and sustainable capital structure.

Financial instruments

The Group's financial instruments comprise cash and liquid resources such as debt, convertible bonds 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 Board reviews and agrees policies for managing financial risks that may affect the Group. The main financial risks affecting the Group are discussed below.

Principal risks and uncertainties

There are a number of potential risks and uncertainties, which could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results. The Group's risk management policies and procedures are also discussed in the Corporate Governance Statement.

The following is a list of the principal risks and uncertainties faced by Imperial. This is not a comprehensive list of all significant risks and uncertainties faced by the Group. Furthermore, by their very nature, the key risks associated with our strategic objectives can change over time.

Political risk

Political risk can include nationalisation, tax changes, alteration to the terms of licences or internal civil unrest. Political risk is inherent in the oil industry as governments look to maximise their share of hydrocarbon resources. The Group's view is that our shareholders understand the political risk is balanced in each case by the rewards available from investment, and as such accept this risk/reward profile.

Geological risk

Exploration activities are capital intensive and their successful outcome cannot be assured. The Group undertakes exploration activities and incurs significant costs with no guarantee that such expenditure will result in the discovery and producing of commercially deliverable oil. Imperial Energy is exploring in geographic areas, where environmental conditions are challenging and costs can be high.

The Group feels that such risks are mitigated with prospects in well established oil producing areas coupled with the extensive expertise and experience of core management.

Liquidity risk

The Group's cash requirements and balances are projected for the Group as a whole and for each country in which operations are conducted and capital expenditure is incurred. The Group meets these requirements through an appropriate mix of available funds, equity instruments and debt financing. The Group will seek to minimise the impact that any debt financings may have on its balance sheet by negotiating borrowings in matching currencies. Primarily, these are expected to be denominated in US dollars. The Group further mitigates liquidity risk by maintaining an insurance programme to minimise exposure to insurable losses.

Foreign currency risk

The proceeds of the Group's domestic oil sales in Russia are received in Russian roubles but the price of oil which determines the amount of those revenues is based upon the US dollar denominated oil price. The proceeds of future international oil sales of the Group will be received in US dollars. The Group's expenses in Russia are primarily incurred in Russian roubles and in Kazakhstan are primarily incurred in the Kazakh tenge. The Group has also raised funds in UK sterling. However, the Group's policy is to conduct and manage its business in US dollars. The Group is therefore exposed to fluctuations in the relative values of UK sterling, the US dollar, the Russian rouble and the Kazakh tenge. To manage this exposure, the Group has, where appropriate, entered into foreign exchange contracts and is likely to enter into further foreign exchange contracts in the future.

Commodity price risk

The Group's production is usually sold on 'spot' or near-term contract, with prices fixed at the time of a transfer of custody or at a monthly average price. Over time, during periods when the Group sees an opportunity to lock in attractive oil prices, it may engage in limited price hedging.

Credit risk

The Group's principal financial assets comprise trade receivables, bank deposits and cash and cash equivalents.

Trade receivables are presented in the balance sheet net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on bank deposits and cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

John Hamilton
Group Finance Director

Business Review – Market

The Russian oil industry in context

The Russian oil and gas industry has undergone dramatic changes since the collapse of the Soviet Union. Rising oil prices have boosted investment and contributed to the increasing growth in production, which after the collapse was at its historically lowest levels of 6 million bopd in 1996. In recent years, Russian oil production has surged and will likely peak by 2012 according to Wood Mackenzie estimates (2008).

Russia now accounts for 81% of total FSU oil production and output is expected to continue to grow to nearly 10 mmbbls per day after which new investment opportunities will dwindle and depletion of older fields will probably exceed growth in output from new areas. The recent growth shows the benefit of the application of modern technology and management methods to boost output from the less mature regions of West Siberia and offshore. In particular, the introduction in less drilled West Siberian fields of hydraulic fracturing and directional drilling has already led to substantial increases in production (Douglas-Westwood, 2008).

Western Siberia

The majority of Russia's production increases over the past decade have come from Western Siberia, the basin accounts for over 60% of the country's oil production according to Douglas-Westwood estimates (2008). The region has extremely well developed infrastructure and export capacity. The introduction of new technologies and Western business practices, including increased EOR efforts, will drive the region's growth as well as new developments.

The Tomsk region is in the eastern part of the West Siberian basin and is the second largest oil-producing province in Western Siberia with daily production about 300,000 bopd for the last few years.

Oil price environment

2007 was a year of soaring oil prices. Starting at \$61.05/bbl the Brent blend reached \$70/bbl in June. Fuelled by US dollar weakness, falling inventories in the US and bad weather in crude-producing regions, oil broke through the \$90 barrier and came within just 71 cents of \$100 a barrel, hitting an all-time intraday high of \$99.29 a barrel in electronic trading early on

21 November (Market Watch, December 2007). The Russian domestic oil prices generally followed the trend. According to the Russian Ministry of Economy and Trade, the average price of Urals blend oil in 2007 was \$69.3 per barrel, 13.4% higher than in 2006, averaging \$86.4/bbl in 4Q07. Due to increased oil prices better netbacks were realised towards the end of the year. As this report goes to print the oil price is in excess of US\$100/bbl with some experts expecting it to increase further.

On the downside, accelerating cost inflation was one of the most noticeable trends in the Russian oil sector in 2007. A number of factors have contributed to this, including the appreciation of the rouble against the dollar, increased costs for steel and labour, rising Transneft tariffs for domestic and export deliveries (average 16% increase in 2007, JP Morgan estimates) and development drilling costs (average 20.6% increase in 2007, JP Morgan estimates). Russia's oil companies also face high export duties: the crude export duty was set at a record high of \$37.6/bbl for December 2007–January 2008. All these factors contributed to increased operating costs across the industry.

Russia – Oil production to 2015E (kb/d)

Oil price dynamics, \$/bbl

Corporate Social Responsibility/ Sustainable Development

Imperial Energy is a dynamically developing oil and gas company and is committed to the sustainability of its business. Our approach incorporates the three generally accepted tenets of sustainable development: environmental, social and economic. Principally, we are committed to

- minimising the impact of our activities on living and non-living natural systems, including ecosystems, land, air, and water → **environmental**
- protecting the health, safety, welfare and security of our employees and all personnel affected by and involved in our activities → **social**
- being an integral part of the communities within which we operate, focusing on creating opportunities for the development and success of our employees, their families, and other members of society → **economic**

Environmental and social

In order to effectively manage the environmental and social aspects of its business, Imperial has put in place a four-level Health, Safety and Environment (HSE) Management System. The scope of the HSE Management System follows a hierarchical structure which involves four levels. The levels from the top down are

- Level 1 – Corporate HSE Policy
- Level 2 – Operations Management System
- Level 3 – Operating Principles and Technical Guidelines
- Level 4 – Contractor Operating Procedures

Level 1 Corporate HSE Policy

The Corporate HSE Policy has been established by Imperial's management to set a level of ambition, achievement and behaviour to be attained by the organisation which encompasses Imperial's philosophy toward HSE and operational matters. It provides the framework to guide and inform the HSE standards, procedures and practices for the operations.

Specifically, the HSE Policy mandates that

- Effects on the natural environment must be properly managed and reflect industry practice
- The standard of work by employees and contractors meet all specified HSE Management System requirements
- The health and safety of employees, contractors and other affected parties is protected
- The social circumstances in the vicinity of operations are understood, impacts are managed and socio-economic development opportunities supported

Level 2 Operations Management System

The HSE Management System provides a measurable level of attainment that helps operations to conform with the Corporate HSE Policy and provides a system of principles for health, safety and environmental management.

A key part of Imperial's approach to managing the environmental and social aspects of our business is the commitment to continual improvement of our processes, systems and outcomes. We are in the process of looking at ways in which we can augment and update our Policy and Management System to accord with emerging industry practice.

In this light, we will look to broaden the scope of our Management System by more explicitly incorporating a commitment to community engagement on matters relating to environmental and social issues. The intent is to foster an ongoing process to build and maintain a constructive relationship with locally affected stakeholders.

Level 3 Operating principles and technical guidelines

In order to effectively guide, record and monitor implementation of the HSE Management System, a number of documents are required detailing processes

Environmental protection is an integral part of Imperial Energy's investment programme.

Imperial Energy uses advanced exploration, drilling and geological extraction methods to ensure the greatest possible efficiency in the use of the Group's resources. Imperial's ecology department has developed and successfully manages an environmental safety system, which includes monitoring the air, water and soil, waste utilisation, and rapid response measures in the event of environmental hazards. This system forms part of the broader HSE Management System.

Imperial Energy also carries out special environmental protection projects. As a responsible and efficient subsoil user, Imperial Energy studied the means to use associated gas for its production needs. In 2007, the Group installed a power generator fired by associated gas at the Snezhnoye field.

The Group has launched its own environmental training programme and rewards its employees depending on how well they comply with the Group's internal environmental protection policy.

such as Risk Assessments, Performance Indicators, Audit Programmes, and Training Schedules. These documents form the essential parts of Level 3 and 4

Level 4 Contractor operating procedures
Underlying the HSE Management System are a set of operating procedures developed by the contractor which are a management-approved work process complying with the operating standards to be achieved. A bridging document may be required to ensure that the Contractor Procedures conform to Imperial's Operating Principles

Economic

Despite its relatively short corporate history, Imperial Energy has managed to forge a tradition of community involvement and investment. Imperial Energy carries out programmes to support educational institutions, creative teams and scientific research, with a special focus on providing assistance to sick and underprivileged children.

Effective implementation of the Group's community commitments is handled by a special department which liaises with regional and local authorities on a broad range of topics on their part concerning the provision of community support. Imperial routinely addresses a large number of inquiries on providing community assistance.

Imperial Energy's subsidiaries (Alliancenerftegaz, Nord Imperial, Sibinterneft) and the Tomsk administration agreed to launch a number of economic programmes in the various districts of the Tomsk region. Imperial spent a total of 1.6 million roubles on these purposes in 2007.

Imperial Energy takes pride in being able to create new avenues of personal growth for people and add value to their lives thanks to its community commitment programme.

Imperial Energy's charity and sponsorship activities provide an outreach to many people from all walks of life.

Imperial Energy's charity and sponsorship activities provide an outreach to many people from all walks of life.

Imperial Energy is actively involved in supporting creative endeavours and scientific research in Russia. The Group provides sponsorship support to a KVN team 'Maximum' and the creative society 'Dobryata'. In 2007 Imperial Energy used some of its in-house funds to purchase musical instruments for Kargasosk Orphanage No. 27 'Alenushka'.

Imperial Energy devotes special attention to collaborating with educational institutions. In 2007, Imperial provided financial aid to the Tomsk Polytechnic University for upgrading a computer class.

Every year the company awards scholarships to five students at the Tomsk Polytechnic University. As part of this programme students are encouraged to undergo internships with a possibility of joining the Company after graduation. A similar programme has been agreed with the Gubkin Moscow Oil and Gas Institute where another five scholarships have been granted to students from Siberia.

Imperial Energy supports orphanages and helps provide care for the sick children. Imperial has long-term commitments and also responds to numerous requests from schools, nurseries and medical institutions in the region and provides financial aid on a one-off basis.

Corporate Social Responsibility/ Sustainable Development continued

Case study

Reducing carbon footprint
in the Tomsk region

Environmental protection is an integral part of Imperial Energy's investment programme. Imperial has taken a forward-looking and responsible approach towards preserving one of the key facets of the national heritage, the nature, and reducing the carbon footprint in the Company's main area of operations, the Tomsk region.

On one such assignment Imperial Energy supported amenity planting initiated by the local government. In May 2007 Imperial Energy planted out a walk of more than 100 lime trees in the centre of Tomsk, in the grounds of the State Tomsk University campus. Additionally in the same month almost 200 wild ash and birch trees were planted out in the central parks of Kargasok and Parabel districts of the Tomsk region.

Trees absorb carbon dioxide to produce oxygen and wood, both of which are very useful for humans and animals. Each tree planted reduces the environmental impact by 'breathing in' about 730 kg CO₂ emissions over its lifetime of 100 years (www.carbonfootprint.com).

In line with its environmental protection efforts the Company has also introduced sustainable development technologies into its corporate practices including paper recycling with more than 1.5 tonnes of paper recycled since April 2007.

Imperial embarks on such green initiatives in order to limit the impact of the oil and gas industry and ensure the long-term sustainability of the environment, leaving a positive legacy for future generations.

Case study

Helping disadvantaged and sick children in Siberia

Russia has more orphans today than after World War II, with over 700,000 orphans living in 2,000 state-run orphanages. Many Russian orphanages lack funds to buy the most basic needs: medical supplies, adequate food, nutritional supplements and winter clothing. Approximately 12,000 orphans are adopted every year by Russians, and only 3,000 children by foreigners. Many prospective parents will not adopt sick children or those with any hereditary risk.

As part of its considerable presence and investment in Tomsk, Imperial Energy supports orphanages and also helps provide care for the sick children.

Imperial Energy is an active sponsor of Orphanage No. 4, the least funded institution of its kind in the region, and home to 65 children aged 7–17. In the last few years this Siberian orphanage had not been receiving

state financing for repair works, and some of its buildings, including the medical centre, were in urgent need of major renovation, including reflooring and reroofing, critical for the health and safety of the children and staff living and working in the harsh Siberian climate. Imperial Energy donated over one million roubles for the reconstruction works and other needs of the orphanage, as well as supplying its football team with a new strip, and has been regularly sending gifts to the children.

Imperial Energy is also a dedicated supporter of the Russian Children's Fund, a non-commercial social organisation aimed at helping sick and disabled children. The Tomsk subsidiary of the Russian Children's Fund was established in 2002 and since then has been involved in numerous charity activities for the local community. Imperial Energy supports the Fund with regular financial donations as well as by providing funds on a project basis.

In 2007 the Company participated in the purchase of expensive medical equipment for the children suffering from respiratory diseases and acted as a sponsor of numerous children's holiday celebrations.

The Company's charity efforts also encompass support for the local community's initiatives including 'A Common Miracle' programme, a charity broadcast on a local TV channel TV2, helping sick children, families in need, young talents, orphanages and other local non-commercial organisations. Thanks to Imperial's considerable contribution a 16-year-old boy with cerebral paralysis received the much needed medical treatment.

Imperial Energy's charity activities will continue to focus on helping the most vulnerable categories of the society: sick and underprivileged children.

Board of Directors

Peter Michael Levine
Executive Chairman

Peter Levine, aged 52, founded Imperial in 2004 and is the largest non-institutional shareholder of the Group. He graduated in jurisprudence from Trinity College, Oxford in 1977 and qualified as a solicitor in 1980, specialising in international/corporate law. Peter is, at the date of this report, chairman of the FTSE 250 steel construction company, Severfield-Rowen Plc although he is stepping down from that position in May 2008. He was formerly the Honorary Consul for the Republic of Kazakhstan in the United Kingdom and joint chairman of the British-Kazakh Society.

Simon Christopher Hopkinson
Chief Executive Officer

Christopher Hopkinson, aged 41, was appointed to the Board in December 2006 and appointed Group Chief Executive Officer in April 2007. He graduated from St Andrews University with honours in Applied Physics. Following this he trained at Shell where he spent 13 years leading a team dedicated to optimising drilling and production performance. In the last four years he worked for Yukos EP, where he was head of development on new wells and most recently Lukoil Overseas where he was director of global projects and asset management. Christopher is originally from the UK, is a Russian speaker and is also a member of the Society of Petroleum Engineers.

John Andrew Hamilton
Group Finance Director

John Hamilton, aged 42, was appointed to the Board in December 2007. John has over 15 years of international banking experience with ABN AMRO. For the past seven years he has worked in the oil and gas team within ABN AMRO's corporate and investment bank in London, most recently as executive director where he specialised in upstream E&P. Mr Hamilton has been integrally involved in a variety of upstream oil and gas transactions including structured debt, bonds, convertible bonds, equity and acquisitions. John Hamilton holds a BA from Hamilton College, New York and an MBA from Rotterdam School of Management and New York University.

Denis Victorovich Kurochkin
Chief Financial Officer, CIS

Denis Kurochkin, aged 36, was appointed to the Board in December 2006. He graduated from Far Eastern State University, Vladivostok, and is a qualified accountant who trained and spent the first eight years of his professional career at PricewaterhouseCoopers in Russia, latterly as a manager working for major Russian oil and mineral companies. Subsequently he worked in key executive financial roles in leading Russian and international businesses including two years with Sidanco, subsequently TNK-BP, and with ALCOA in Russia. He is a Russian national and is a member of the Association of Chartered Certified Accountants.

Ekaterina Evgenievna Kirsanova
Executive Director, Head of Moscow office

Ekaterina Kirsanova, aged 32, was appointed to the Board in January 2008. Ekaterina was one of the first employees of Imperial, having joined the Company in 2004. Since Imperial's inception, as Head of the Moscow office Ekaterina has been responsible for strategic coordination with ministries and other Russian governmental bodies. Ekaterina has university degrees in linguistics and law. From 2000 to 2004 she worked for the international law firm PLLG as Head of their Moscow office.

Kenneth Peat Forrest
Non-Executive Director

Kenneth Forrest, aged 66, was appointed a Non-Executive Director in 2004. He graduated in chemistry from Strathclyde University in 1965, gaining a PhD from the same university in 1968. In 1974, he joined the Department of Energy becoming director of the Department's China and Russia unit in 1984. In 1995, he was appointed director of export (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.

Pierre Erwin Godec
Non-Executive Director

Pierre Godec, aged 63, Chevalier de l'Ordre National de la Legion d'Honneur, 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 vice president and treasurer for Elf North America and from 1979 he was chief executive officer and managing director of various ELF international subsidiaries, including between 1990 and 1993 ELF Neftegaz, which operated in Russia and Kazakhstan. From 1995 to 2000 he was chief executive officer of ELF Petroleum and ELF Exploration in the UK and since 2000 he has been an international consultant to the oil industry.

Rob Shepherd
Non-Executive Director

Rob Shepherd, aged 41, is finance director of Dominion Petroleum Limited, an AIM-listed exploration company focused primarily on East Africa. He graduated in Mechanical Engineering from Sheffield University and thereafter spent five years working for Shell in the Netherlands. After completing an MBA at the INSEAD Business School, he joined ABN AMRO Bank, where he worked for almost 10 years until the end of May 2007 during which he advised on, and arranged financing for, both national and multi-national oil and gas companies, primarily in the CIS.

Directors' Report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditors' report for the year ended 31 December 2007

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 14 to the accounts

Business review

The Company is required by the Companies Act to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2007 and the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group ('business review'). The information that fulfils the requirements of the business review can be found within the Chairman and Chief Executive's Statement, Operational Review and the Financial Review. These sections also include details of the expected future developments in the business of the Group and details of the key performance indicators that management use. The Group's financial instruments are discussed in note 29 to the accounts

Details of significant events since the balance sheet date are contained in note 30 to the financial statements

Dividends

The Directors do not recommend payment of a dividend for the year ended 31 December 2007 (2006: nil)

Directors

The Directors who served during the year except as noted were as follows

P M Levine*	
K P Forrest	
P E Godec	
T G K Smith	(resigned 31 December 2007)
S C Hopkinson	
D V Kurochkin	
R J Shepherd	(appointed 11 June 2007)
J A Hamilton	(appointed 3 December 2007)
E Kirsanova	(appointed 21 January 2008)

* P M Levine will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election

R J Shepherd, J A Hamilton and E Kirsanova 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 who held office at 31 December 2007 had the following beneficial interests in the shares of the Company

	31 December 2007 Number of shares	1 January 2007 Number of shares
P M Levine*	4,679,777	4,082,777
K P Forrest	43,000	43,000
P E Godec	48,142	46,000
S C Hopkinson	5,353	–
D V Kurochkin	358	–
R J Shepherd	2,407	–
J A Hamilton	–	–

* On 15 January 2008 P M Levine disposed of 1,545,777 shares

No other changes took place in the interests of Directors between 31 December 2007 and 15 April 2008

Directors' share options

Details of Directors' share options held under incentive plans are provided in the Directors' Remuneration Report

Creditors payment policy

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 15 days or to terms

Charitable and political contributions

During the year, the Group made charitable donations of US\$143,000 (2006: US\$73,000), principally to local charities in the Tomsk region

There were no political contributions made by the Group during the year (2006: nil)

Substantial shareholders

As at 11 April 2008, the following parties had notified the Company in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following rights as shareholders of the Company

	Number of shares	%
Schroder Investment Management Limited	5,173,829	10.12
P M Levine	3,134,000	6.13
Deutsche Bank AG	3,012,948	5.89
Baillie Gifford & Co	2,631,407	5.15
Fidelity International Limited	2,492,560	4.88
Blackrock Inc	2,446,389	4.79
London and Amsterdam Trust Company	2,381,147	4.66
S R Global Fund	2,364,530	4.63
J P Morgan Chase & Co	2,359,733	4.62
Legal & General Group PLC	1,697,078	3.32

Interests in contracts

As disclosed in note 31 Related party transactions, there have been no contracts or arrangements during the year ended 31 December 2007 in which a Director of the Company was materially interested and which were significant in relation to the Group's business

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. Further details of the Group's HSE policy is provided above.

Going concern

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the accounts.

Auditors

Each of the persons who is a Director at the date of approval of this annual report confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte and Touche LLP have expressed their willingness to continue in office as auditors and a resolution to appoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

J A Hamilton
Group Finance Director
15 April 2008



Corporate Governance

The Company is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance ('Combined Code') that was issued in 2006 by the Financial Reporting Council for which the Board is accountable to shareholders

Statement by the Directors on compliance with the Combined Code

Throughout the year ended 31 December 2007, the Company has been in compliance with the provisions set out in section 1 of the Combined Code with the following exceptions

Peter Levine is Executive Chairman of the Company. Prior to 9 May 2007, he was Chairman and Chief Executive Officer but he stepped down as Chief Executive Officer upon the Company's admission to the main list. He is also the Chairman of the Nominations Committee. Notwithstanding the provisions of the Combined Code, the Board believes that in view of his knowledge of the Group's business and his expertise in the industry in which the Group operates, it is in the best interests of the Company that Peter Levine continues in these roles

Prior to the appointment of Rob Shepherd, neither the Audit Committee, the Remuneration Committee nor the Nominations Committee comprised three independent Non-Executive Directors because the Company had only two independent Non-Executive Directors. Following Rob Shepherd's appointment the Company now complies with the code

Excluding the Chairman, half of the Board should comprise Non-Executive Directors. Currently, excluding the Chairman, the Board comprises four Executive Directors and three Non-Executive Directors. Accordingly, the Company is not in compliance with the Combined Code in that it does not have an equal number of Non-Executive and Executive Directors. The Board is proposing to appoint a further Non-Executive Director to the Board in due course

The Board of Directors

The Board of Directors, whose names and biographical details are set out above, currently comprises an Executive Chairman, four other Executive Directors and three independent Non-Executive Directors. The Board meets regularly during the course of the year to review trading performance and budgets, funding, to set and monitor strategy, examine acquisition opportunities and report to shareholders. The Board has a formal schedule of matters specifically reserved to it for decisions. The Board held six scheduled Board meetings during the year with 100% attendance from Board members in office at the time of each Board meeting

The Combined Code recommends that the Board should appoint one of its independent Non-Executive Directors to be the Senior Independent Director. The Senior Independent Director should be available to shareholders if they have concerns that contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or where such contact is inappropriate. Pierre Godec is the Board's existing Senior Independent Director

The Board has appointed an Audit Committee, a Remuneration Committee and a Nomination Committee. Each committee and each Director has the authority to seek independent professional advice where necessary to discharge their respective duties in each case at the Company's expense. These committees deal with the following specific aspects of the Group's affairs

Audit Committee

The Audit Committee comprises three Non-Executive Directors, Pierre Godec, its Chairman, Kenneth Forrest and Rob Shepherd. The Audit Committee is responsible for a wide range of financial matters including reviewing the annual financial statements, and considering the scope of the Company's annual external audit. It met twice during 2007 and both meetings were attended by all members. It monitors the controls that are in place to ensure the integrity of the financial information reported to shareholders. The Committee also oversees the relationship with the external auditor, reviews the scope and results of audits and provides a forum for reporting by the Group's auditors. The Committee also focuses on compliance with legal requirements, accounting standards and the Listing Rules and ensures that effective systems of internal control and risk management are maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports nevertheless remains with the Board. The Chairman and other Executive Directors attend meetings of the Audit Committee through invitation

Remuneration Committee

The Remuneration Committee comprises the three Non-Executive Directors, Pierre Godec, its Chairman, Kenneth Forrest and Rob Shepherd. The Committee met three times during 2007 and all meetings were attended by all members. The Committee considers remuneration policy and the employment terms, share option grants and remuneration of the Executive Directors and senior management. The Committee's role is advisory in nature and makes recommendations to the Board on the overall remuneration packages for Executive Directors in order to attract, retain and motivate high quality executives capable of achieving the Group's objectives. The Committee also reviews proposals for the introduction of share plans and other incentive plans, makes recommendations for the grant of awards under such plans as well as advising on the terms of employment of the Executive Directors. None of the Directors participates in any discussion or votes on any proposal relating to his own remuneration. The Board's policy is to remunerate the Group's senior executives fairly and in such manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel

The remuneration of the Non-Executive Directors is determined by the Chairman and the other Executive Directors outside the framework of the Remuneration Committee

Nomination Committee

The Nomination Committee is chaired by Peter Levine and its other members are Kenneth Forrest and Pierre Godec. During 2007, it met twice and all meetings were attended by all Committee members. Specific consideration was given to the

appointment of a new Non-Executive Director. The Nomination Committee considers the structure, size and composition of the Board, retirements and appointments of additional and replacement Directors, reviews succession plans for the Directors and makes recommendations to the Board on membership of the Board, its committees and other matters within its remit.

Relationship with shareholders

The Board remains fully committed to maintaining regular communication with its shareholders. Information about the Group's activities is provided in the Annual Report and the Interim Report which are sent to all shareholders.

There is regular communication with major institutional shareholders and meetings are offered throughout the year.

Imperial Energy welcomes all communication from shareholders and potential investors and also has its own website (www.imperialenergy.com) which contains a wide range of information including a dedicated investor information section.

The Board also uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation.

Internal control

The Directors are responsible for establishing, maintaining and reviewing the effectiveness of the Group's system of internal control which is designed to provide reasonable assurance regarding the reliability of financial information and to safeguard shareholders' investments and the Group's assets. By their nature such systems can only provide reasonable but not absolute assurance that the Group will be protected against material misstatement or loss.

The Board has put in place formally defined lines of responsibility and delegations of authority and has delegated to executive management the implementation of material internal control systems. Documented policies and procedures are in place for key systems and processes and the authorisation of the Directors is required for all key decisions.

A comprehensive budgeting process is in place and the annual budget is approved by the Board. Performance against budget is monitored and reported to the Board. Actual results are reported against budget on a regular basis. Revised forecasts for the year and longer term financial projections are regularly produced throughout the year.

The Board has the primary responsibility for identifying the major business risks facing the Company and the Group and developing appropriate policies to manage those risks. The risk management approach is used to focus attention on the Group's most significant areas of risk and to determine key control objectives on a continuous basis throughout the year.

The Board will continue to review and report on the effectiveness of the Group's system of internal control.

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.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements, including a Directors' Report in compliance with the requirements of the Companies Act 1985. Financial statements are prepared in accordance with IFRS both for the Group, as required, and for the Company, by election. Company law requires the Directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985, and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements for each financial year fairly present the financial position, financial performance and cash flows of the Group. The Directors are required faithfully to represent the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses in accordance with the relevant framework set out by the IAS Board. The Directors are also required to:

- properly select and apply accounting policies,
- present information in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with IFRS requirements is insufficient to enable the user to understand fully the impacts on the entity's financial position and financial performance.

The Directors are required to prepare financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business. After making enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing 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 Company and Group. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Company website.

P M Levine
Executive Chairman
15 April 2008

Remuneration Report

Introduction

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration in the Combined Code. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Act requires the auditors to report to the Company's members on certain parts of the Directors' remuneration report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Companies Act 1985. The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration Committee

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The Committee operates under the delegated authority of the Board and its Terms of Reference is available from the Company Secretary. The Committee is responsible for determining and agreeing the pay, benefits and contractual arrangements for the Executive Directors of the Company (including the Executive Chairman) and other members of the senior management team.

The members of the Committee during 2007 were P E Godec (Chair), K P Forrest and R J Shepherd who are all independent Non-Executive Directors. Attendance at Committee meetings held during the year and the number of meetings held is set out in the Corporate Governance Statement.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No Director plays a part in any discussion about his or her own remuneration.

The Remuneration Committee has appointed Hewitt New Bridge Street (formerly known as New Bridge Street Consultants LLP) to provide it with independent remuneration advice. Hewitt New Bridge Street does not provide any other services to the Group. The Committee also received assistance from T G K Smith, J A Hamilton (the former and current Group Finance Directors) and P M Levine (Executive Chairman), who attended meetings of the Committee as required. No Director took part in matters relating directly to their own remuneration.

Remuneration policy

The Company's policy is to maintain levels of remuneration sufficient to attract, motivate and retain senior executives of the highest calibre who can deliver growth in shareholder value. Executive remuneration currently consists of basic salary, benefits, annual bonus potential and a long-term incentive share plan. The total remuneration package is structured so that a significant proportion is subject to performance-related elements, thereby creating a strong alignment of interest between executives and shareholders.

The committee has made changes to the remuneration policy for 2008 in recognition that the Company has developed rapidly since its flotation in May 2004 and make it more relevant to its status as a FTSE 250 company from November 2007. In this regard, a number of changes have been made to ensure that the policy is more compliant with best practice and institutional shareholder guidelines.

Basic salary

The Remuneration Committee reviews basic salary annually. Salaries are set to reflect the particular skills, responsibilities and experience of the individual and to provide a market competitive base salary. In determining a market competitive amount the Committee takes into account pay levels for similar sized companies in the oil and gas producers sector and in the FTSE 250 and seeks to pay broadly market rates, taking account of experience and expertise of individual executives.

The salaries effective from 1 January 2008 are P M Levine £429,300, S C Hopkinson roubles 22,406,232, J A Hamilton £200,000, D V Kurochkin roubles 9,028,483 and E Kirsanova Roubles 8,404,212. With the exception of J A Hamilton, the Executive Directors are based outside of the UK and this is partly reflected in the salaries paid.

Benefits-in-kind

The Executive Directors receive certain benefits-in-kind, namely health insurance and life assurance. For full details of the benefits provided in the 2007 financial year, please refer to the table below.

Pension

The policy of the Company is not to make any contributions and to permit individuals to be responsible for their own pensions.

Bonus

The Company operates an executive bonus scheme. The annual bonus is designed to drive and reward excellent short-term operating performance. In line with best practice, the Company has introduced a maximum bonus opportunity for the current and future financial years. The maximum bonus potential for the 2008 financial year is 150% of salary with any bonus in excess of 100% of salary being paid in shares, the receipt of which is

deferred for two years and subject to continued employment. Payment of the annual bonus is based on stretched production (50%) and operating costs (50%) targets. There is overriding Committee discretion in exceptional circumstances for bonuses to be scaled back if the Company's HSE Performance is considered unacceptable.

In 2007, the annual bonus plan operated on a discretionary basis. Actual bonuses awarded for 2007 are shown in the table below.

As part of the terms of his joining package, the Company has agreed to compensate J A Hamilton for the bonus opportunity relating to 2007 which he lost on leaving his previous employer up to an amount of £300,000. This will be settled in 2008.

Long Term Incentive Plan

In 2006, the Board approved the introduction of a Long Term Incentive Plan (LTIP). Awards under the LTIP are 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 the intention of the Committee that awards granted in 2008 will be subject to a combination of Total Shareholder Return (50%) and production (50%) performance targets, both measured over a three year performance period. TSR has been chosen because it aligns the interests of Directors with shareholders by requiring superior total shareholder return performance compared to competitor companies. Production targets have been chosen because they require a substantial improvement in the Company's operational performance before awards are capable of vesting.

Total shareholder return will be measured relative to a peer group of oil and gas companies. Awards will vest as to 15% of the total award in the event that median performance is achieved with proportionate vesting up to 50% of the total award if upper quartile performance is achieved. The production targets will be based upon a sliding scale of barrels of oil per day ('bopd') performance. Awards will vest as to 15% of the total award in the event that 40,000 bopd is achieved, with proportionate vesting up to 50% if 60,000 bopd is achieved at the end of the performance period. The Committee will re-assess the performance condition immediately prior to granting the awards to ensure that it remains appropriately challenging.

Going forward, awards will be made within a maximum individual grant limit of up to 150% of salary per annum, save in exceptional circumstances (such as a senior executive recruitment) when higher awards may be granted.

Share price performance graph

The performance graph below sets out Imperial's annual total shareholder return since its flotation in April 2004 to 31 December 2007. This is compared to the FTSE 350 Oil & Gas Index, which was selected as an appropriate comparator because it represents a broad equity market index of which the Company is a member.

Directors' contracts

The Committee's policy is to offer rolling service contracts with notice periods of one year or less from the Company or executive.

The details of the Directors' contracts are summarised in the table below.

	Date of contract	Notice period
Name of director		
P M Levine	20 January 2006	12 months
S C Hopkinson	7 December 2006	6 months
D V Kurochkin	11 December 2006	6 months
J A Hamilton	3 December 2007	6 months
E Kirsanova	21 January 2008	6 months

An Executive Director may not become a Director of another company without the prior consent of the Board. P M Levine is entitled to serve as Non-Executive Chairman of Severfield Rowen PLC and is entitled to retain the fees relating to this position. P M Levine until 31 May 2007 was also Non-Executive Chairman of Keltbray Group (Holdings) Limited.

Remuneration Report continued

Non-Executive Directors

All Non-Executive Directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association and based on independent surveys of fees paid to Non-Executive Directors of similar companies taking into account the time commitment and responsibility of the role. The basic fee paid to each Non-Executive Director in the year was £62,500 per annum of which £30,000 is receivable in Ordinary Shares of the Company. In addition, R J Shepherd has a separate agreement to provide the Company with advice on its financing options, for which he was paid US\$155,000 in 2007. Non-Executive Directors cannot participate in any of the Company's share schemes.

Audited information

Aggregate Directors' remuneration

Directors' emoluments

	Fees/ salaries \$000	Annual bonus* \$000	Other payments \$000	Benefits** \$000	Total 2007 \$000	Total 2006 \$000
Executive Directors						
P M Levine ¹	809	990	–	225	2,024	1,233
S C Hopkinson	687	900	–	170	1,757	9
J A Hamilton (from 3 December 2007)	35	–	–	–	35	–
D V Kurochkin	272	426	–	24	722	7
T G K Smith	223	118	–	5	346	273
A I Korchik (to 18 January 2007) ³	14	–	–	18	32	934
Former Directors ⁴	–	–	–	–	–	1,203
Non-Executive Directors						
P E Godec	125	–	–	–	125	126
K P Forrest	125	–	–	–	125	119
R J Shepherd (from 11 June 2007)	68	–	155 ²	–	223	–
	2,358	2,434	155	442	5,389	3,904

Emoluments for Russian based Directors are paid in roubles, whereas all other Directors are paid in sterling.

* In 2007 and prior, the Company operated a discretionary bonus scheme. In determining bonus payments the Remuneration Committee took into consideration the relative importance of the achievements in the year and the actual contribution of those towards furthering the Company's strategy. In awarding the 2007 bonuses the following specific factors were taken into account: (i) the significant increase in reported reserves; (ii) achievement of the Group's production target for 2007; (iii) achievement of strategic targets including successful admission to the main market; and (iv) the need to motivate key staff following the exceptional external scrutiny during the year.

** Benefits in kind represent private health insurance, life insurance. P M Levine receives a housing allowance and as part of his recruitment terms, S C Hopkinson received a location allowance and as part of his recruitment terms a one-off assistance towards personal legal costs.

¹ Fees are paid to PLLG GmbH, a company registered in Switzerland and owned by P M Levine.

² In addition to the remuneration above, R J Shepherd was paid US\$155,000 for advisory services to the Company on its financing arrangements.

³ As part of the arrangements on his stepping down from the Board, A I Korchik continued his employment with the Company until 31 December 2007. He was paid US\$529,000 under this employment.

⁴ Relates to the remuneration of Dr R J Kidd and D Capelson. Dr Kidd was paid US\$272,000 for advisory services undertaken to the Group outside the UK in 2007.

As at 31 December 2007, LTIP share options held by the Directors who served during the year were as follows

	Date of grant	At 1 January 2007	Granted / awarded	Exercised	Lapsed	As at 31 December 2007	Date from which exercisable
P M Levine							
1	31 March 2006	75,000	–	–	–	75,000	31 March 2008
1	31 March 2006	75,000	–	–	–	75,000	31 March 2009
2	1 January 2007	–	200,000	–	–	200,000	1 January 2010
3	3 May 2007	–	325,000	–	–	325,000	3 May 2010
S C Hopkinson							
1	25 September 2006	50,000	–	–	–	50,000	25 September 2009
2	1 January 2007	–	125,000	–	–	125,000	1 January 2010
3	3 May 2007	–	125,000	–	–	125,000	3 May 2010
A I Korchik							
1	31 March 2006	75,000	–	–	(75,000)	–	31 March 2008
1	31 March 2006	75,000	–	–	(75,000)	–	31 March 2009
D V Kurochkin							
1	25 September 2006	25,000	–	–	–	25,000	25 September 2009
2	1 January 2007	–	50,000	–	–	50,000	1 January 2010
T G K Smith							
1	31 March 2006	50,000	–	–	–	50,000	31 March 2009
2	1 January 2007	–	25,000	–	–	25,000	1 January 2010
J A Hamilton							
4	17 December 2007	–	66,000	–	–	66,000	31 December 2010

- Grants made in 2006 were subject to two performance conditions, 50% of the awards granted are subject to a condition based on the Company's net present value reaching a range of targets by certain future dates, and the remaining 50% of the awards have been subject to a performance condition based on the Company's total shareholder return relative to 10 oil and gas companies measured between 1 January 2006 and 31 December 2007 for the two year awards and between 1 January 2006 and 31 December 2008 for three year awards. Options will vest as to 30% in the event that median performance is achieved with proportionate vesting up to 100% if upper quartile performance is achieved. The share price on the date of grant was 690p per share.
- The grant to on 1 January 2007 was subject to two performance conditions, 50% of the awards granted are subject to a condition based on the Company's net present value reaching a range of targets by certain future dates, and the remaining 50% of the awards have been subject to a performance condition based on the Company's total shareholder return relative to 15 oil and gas companies measured between 1 January 2007 and 31 December 2009. Options will vest as to 30% in the event that median performance is achieved with proportionate vesting up to 100% if upper quartile performance is achieved. The share price on the date of grant was 637p per share.
- These one-off grants in May 2007 were made in recognition of the work done by P M Levine and S C Hopkinson to manage the exceptional external scrutiny on the Company in 2007. The award is split into three parts:
 - Part A will vest in full on the Normal Vesting Date subject to the Company's barrels of oil production per day reaching at least 10,000 on any day within the financial year of the Company ending 31 December 2007.
 - Part B will vest in full on the Normal Vesting Date subject to the Company's barrels of oil production per day reaching at least 25,000 on any day within the financial year of the Company ending 31 December 2008.
 - Part C will vest in full on the Normal Vesting Date subject to the Company's barrels of oil production per day reaching at least 35,000 on any day within the financial year of the Company ending 31 December 2009.

Remuneration Report continued

Subject to the achievement of the relevant bopd target, the extent to which such portion of the Award may vest (if at all) shall further be determined by the extent to which the TSR Condition is met. The TSR Condition provides that no part of an Award that would otherwise vest may vest unless the Company's total shareholder return performance over the period 17 April 2007 to 16 April 2010 is at least equal to the median within a specified comparator group of 15 oil and gas companies. For such median performance, 30% of the relevant part may vest, rising on a straight-line basis to full vesting for upper quintile total shareholder return performance. The share price on the date of grant was 1295 pence per share.

- 4 The grant to J A Hamilton was made as part of his recruitment terms for the value loss he suffered on leaving his previous employer. This option was granted subject to a performance condition based on the Company's total shareholder return relative to 15 oil and gas companies measured between 1 January 2008 and 31 December 2010. Options will vest as to 30% in the event that median performance is achieved with proportionate vesting up to 100% if upper quartile performance is achieved. The share price on the date of grant was 1,324p per share.

The market price of the ordinary shares at 31 December 2007 was 1,550p per share and the range during the year was 610 5p per share to 1,550p per share.

Any ordinary shares required to fulfil entitlements under the LTIP are issued as new ordinary shares.

P E Godec

Chairman of the Remuneration Committee
15 April 2008

Independent Auditors' Report

to the members of Imperial Energy Corporation PLC

We have audited the Group and the Company financial statements of Imperial Energy Corporation PLC for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 44. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company'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 Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited 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 whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Consolidated financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company 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 review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. 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 further information outside the Annual Report.

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 and the part of the Directors' Remuneration Report to be audited. 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 and Company'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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Independent Auditors' Report continued

to the members of Imperial Energy Corporation PLC

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended,
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2007,
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London, United Kingdom
15 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 \$000	2006 \$000
Revenue	3 4	19,928	3,129
Cost of sales		(22,194)	(3,129)
Gross (loss)/profit		(2,266)	–
Administrative expenses			
– general and administrative expenses		(37,923)	(19,425)
– Russian Value Added Tax	5	1,215	4,267
Operating loss	5	(38,974)	(15,158)
Investment revenue	3 7	1,174	4,431
Other gains and losses	8	(2,318)	(3,534)
Finance costs	9	(1,835)	–
Loss before tax		(41,953)	(14,261)
Tax	10	(548)	(328)
Loss for the year		(42,501)	(14,589)
Attributable to			
Equity holders of the parent		(42,373)	(14,470)
Minority interest		(128)	(119)
		(42,501)	(14,589)
		2007 \$000	2006 \$000
Loss per share			
From continuing operations			
Basic	11	(83 69)c	(31 87)c
Diluted	11	(83 69)c	(31 87)c

All operations are classified as continuing in both years

Consolidated Statements of Changes in Equity

For year ended 31 December 2007

	Share capital \$000	Shares to be issued \$000	Share premium account \$000	Convertible bond reserve \$000	Translation reserve \$000	Retained losses \$000	Minority interest \$000	Total equity \$000
At 1 January 2006	1,875	2,095	149,739	–	1,320	(14,117)	258	141,170
Loss for the year	–	–	–	–	–	(14,470)	(119)	(14,589)
Currency translation adjustments	–	–	–	–	5,283	–	–	5,283
Total recognised income and expense	–	–	–	–	5,283	(14,470)	(119)	(9,306)
New share capital subscribed	501	(114)	204,646	–	–	114	–	205,147
Expenses of issue of equity shares	–	–	(6,050)	–	–	–	–	(6,050)
IFRS 2 option cost (note 28)	–	938	–	–	–	–	–	938
Acquisition of minority interest	–	–	–	–	–	–	(16)	(16)
At 31 December 2006 and 1 January 2007	2,376	2,919	348,335	–	6,603	(28,473)	123	331,883
Loss for the year	–	–	–	–	–	(42,373)	(128)	(42,501)
Currency translation adjustments	–	–	–	–	23,315	–	–	23,315
Total recognised income and expense	–	–	–	–	23,315	(42,373)	(128)	(19,186)
New share capital subscribed	55	(1,981)	10,277	–	–	1,981	–	10,332
Convertible bonds issue (note 20)	–	–	–	34,300	–	–	–	34,300
Convertible bond transfer (note 20)	–	–	–	(122)	–	122	–	–
IFRS 2 option cost (note 28)	–	6,022	–	–	–	–	–	6,022
Acquisition of minority interest	–	–	–	–	–	–	45	45
At 31 December 2007	2,431	6,960	358,612	34,178	29,918	(68,743)	40	363,396

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 \$000	2007 \$000	2006 \$000	2006 \$000
Non-current assets					
Intangible assets	12		252,043		210,860
Property, plant and equipment	13		427,472		10,871
			679,515		221,731
Current assets					
Inventories	15	7,101		17,233	
Trade and other receivables	16	33,426		13,001	
Bank deposits	17	–		19,600	
Cash and cash equivalents	18	131,677		75,728	
Derivative financial instruments	21	–		183	
			172,204		125,745
Total assets			851,719		347,476
Current liabilities					
Trade and other payables	23	(56,936)		(9,134)	
Current tax liabilities		(560)		(328)	
Borrowings	19	(215,854)		–	
Derivative financial instruments	21	–		(2,547)	
			(273,350)		(12,009)
Non-current liabilities					
Convertible loan notes	20	(152,497)		–	
Deferred tax liabilities	22	(2,993)		(3,202)	
Provisions	24	(59,483)		(382)	
			(214,973)		(3,584)
Total liabilities			(488,323)		(15,593)
Net assets			363,396		331,883
Equity					
Share capital	25	2,431		2,376	
Shares to be issued	28	6,960		2,919	
Share premium account		358,612		348,335	
Convertible bonds reserve	20	34,178		–	
Translation reserves		29,918		6,603	
Retained losses		(68,743)		(28,473)	
Equity attributable to equity holders of the parent			363,356		331,760
Minority interest			40		123
Total equity			363,396		331,883

The financial statements were approved by the Board and authorised to issue on 15 April 2008

J A Hamilton
Group Finance Director



Consolidated Cash Flow Statement

For year ended 31 December 2007

	Note	2007 \$000	2006 \$000
Operating activities			
Operating loss from continuing activities	5	(38,974)	(15,158)
Depreciation	5	3,589	502
IFRS 2 option cost	28	2,086	938
Operating cash outflows before movement in working capital		(33,299)	(13,718)
Increase in trade and other receivables		(20,425)	(8,431)
Decrease/(increase) in inventories		10,132	(13,504)
Increase in trade and other payables		45,217	5,148
Cash inflow/(outflow) from operations		1,625	(30,505)
Tax paid		(525)	–
Net cash inflow/(outflow) from operating activities		1,100	(30,505)
Investing activities			
Purchase of intangible assets		(212,761)	(114,403)
Purchases of property, plant and equipment		(155,243)	(10,834)
Movement in funds on bank deposit	17	19,600	(19,600)
Interest received		1,174	4,431
Net cash used in investing activities		(347,230)	(140,406)
Financing activities			
Issue of convertible bonds	20	191,300	–
Issue costs of convertible bonds	20	(4,625)	–
Proceeds on issue of shares		10,332	199,097
Loan drawdowns		210,840	–
Interest paid		(5,430)	–
Net cash from financing activities		402,417	199,097
Net increase in cash and cash equivalents		56,287	28,186
Cash and cash equivalents at beginning of year		75,728	44,896
Effect of foreign exchange rate changes		(338)	2,646
Cash and cash equivalents at end of year	18	131,677	75,728

Notes to the Group Financial Statements

1 General information on the Company and the Group

Imperial Energy Corporation PLC ('the Company', or together with its subsidiaries, 'the Group') is a company incorporated in Great Britain under the Companies Act 1985. The address of the registered office is 6-8 York Place, Leeds, LS1 2DS. The nature of the Group's operations and its principal activities are an independent oil and gas exploration, development and production company focused in Russia and Kazakhstan.

2 Accounting policies and presentation of financial statements

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis, except for share-based payment charges and the measurement of certain financial instruments.

The financial statements are presented in United States dollars ('US dollar' or 'US\$'), the functional currency of the Company, as the majority of the Company's operations are conducted in US dollars and management have used the US dollar accounts to manage the Group's financial risks and exposures. The functional currency of the Russian subsidiaries is the Russian rouble and the functional currency of the Kazakh subsidiary is the Kazakh tenge.

During the year, the Company and the Group adopted IFRS 7 'Financial Instruments: Disclosures' and the related amendments to IAS 1 'Presentation of Financial Statements'. This resulted in certain additional disclosures which are provided in the notes to the financial statements.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 3	Revised Business Combinations
IFRS 8	Operating segments
IAS 23	Borrowing Costs – amendment

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial information of the Company except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

The principal accounting policies adopted are set out below.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combinations (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Group Financial Statements continued

2 Accounting policies and presentation of financial statements continued

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group

All intra-Group transactions, balances, income and expenses are eliminated on consolidation

(c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If, after reassessment, the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(d) Commercial reserves

Commercial reserves are proven and probable ('2P') oil reserves, which are defined as the estimated quantities of crude oil which geological, geophysical and engineering data demonstrates with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable. There should be a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50% statistical probability that it will be less.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. To the extent that revenue arises from test production during an evaluation programme, an amount is charged from exploration and evaluation costs to the cost of sales so as to reflect a zero net margin.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(f) Foreign currencies

The individual financial statements of each Group company are measured in the currency of the primary economic environment in which it operates (its functional currency).

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair values that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair values were determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2 Accounting policies and presentation of financial statements continued

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rate at the date of transaction is used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRSs as sterling denominated assets and liabilities.

Exchange differences that arise on long-term intra-Group loans are recognised in the income statement in the individual accounts of each Group company. On consolidation they are transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

(g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Notes to the Group Financial Statements continued

2 Accounting policies and presentation of financial statements continued

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(h) Oil exploration and evaluation expenditure

The Group follows the full-cost method of accounting, having regard to the requirements of IFRS 6 'Exploration and Evaluation of Mineral Resources'. Under the full cost method of accounting, expenditures incurred in connection with the acquisition, exploration and evaluation of oil and gas assets ('E&E costs'), including directly attributable overheads are capitalised in separate geographical cost pools. Cost pools are established on the basis of geographical area having regard to the operational and financial organisation of the Group. The Group currently has two cost pools: Tomsk Region and Kostanai province.

E&E costs are initially capitalised within 'Intangible non-current assets'. Such E&E costs may include costs of licence acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, but do not include costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the income statement as they are incurred.

Tangible assets acquired for use in E&E activities are classified within tangible non-current assets as property, plant and equipment – development and production assets. However, to the extent that such a tangible asset is consumed in exploration and evaluation, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Intangible E&E assets related to each exploration and evaluation licence/prospect are not depreciated and, absent any impairment being recognised (see below), are carried forward until the conclusion of the appraisal programme and determination as to whether commercial reserves exist.

If commercial reserves have been discovered, the related E&E assets are assessed for impairment on a cost pool basis as set out below and any impairment loss is recognised in the income statement. The carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as development and production assets within property, plant and equipment.

Intangible E&E assets that relate to E&E activities that are determined not to have resulted in the discovery of commercial reserves remain capitalised as intangible E&E assets at cost less accumulated amortisation, subject to meeting a pool-wide impairment test as set out below. Such E&E assets are amortised on a unit of production basis over the life of the commercial reserves of the pool to which they relate.

E&E assets are assessed for impairment by reference to IFRS 6 when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

Where the E&E assets concerned fall within a geographic pool where the Group has tangible oil and gas assets with commercial proven and probable reserves, the E&E assets are tested for impairment together with all cash generating units and related tangible and intangible assets associated with that cost pool. The aggregate carrying value is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves based upon management's expectation of future oil prices and future costs. Any identified impairment is charged to the income statement.

Where the E&E assets to be tested fall outside the scope of any established cost pool, the E&E assets concerned will be tested for impairment separately and, where determined to be impaired, will be written off.

2 Accounting policies and presentation of financial statements continued

(i) Oil development and production

Development and production assets are accumulated on a field-by-field basis and represent the costs of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined above. Changes in the estimates of commercial reserves or future field development are dealt with prospectively.

The net book values of producing assets are depreciated on a field-by-field basis using the unit of production method by reference to the ratio of production in the period to the related commercial reserves of the field, taking into account estimated future development expenditures at current prices necessary to bring those reserves into production.

The minimum amount of oil inventory required to be maintained in the Group's oil pipelines in order for them to operate efficiently ('linefill') is classified as part of property, plant and equipment because it is necessary to bring the property, plant and equipment to its required operating condition. Linefill is recognised at cost and is subject to depreciation to estimated residual value.

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount. The aggregate carrying value is compared against the expected recoverable amount of the cash generating unit, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single cash generating unit where the cash flows of each field are interdependent.

Proceeds from the disposal of oil and gas assets (both intangible and tangible) are credited against the relevant cost centres. Any overall surplus arising in a cost centre is credited to the income statement.

(j) Decommissioning

Where a material liability for the removal of production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The decommissioning provision recognised is the net present value of the Group's share of estimated future expenditure determined in accordance with local conditions and requirements. A tangible fixed asset of an amount equivalent to the provision is also created, included as part of the relevant property, plant and equipment and is depreciated on a unit of production basis in accordance with the Group's policy for depletion and depreciation of tangible non-current oil and gas assets. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset. Period charges for changes in the net present value of the decommissioning provision arising from discounting are included in finance costs.

The effects of changes in estimates on the unit of production calculations are accounted for prospectively over the estimated remaining proven and probable reserves of each pool.

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Notes to the Group Financial Statements continued

2 Accounting policies and presentation of financial statements continued

(l) Leasing

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease

(m) Property, plant and equipment

Property, plant and equipment, other than oil and gas assets, are stated at cost less accumulated depreciation and any recognised impairment loss

Depreciation is charged so as to write off the cost less estimated residual value over their estimated useful lives, using the straight-line method, on the following basis

Buildings	4%
Fixtures, fittings and equipment	30%
Motor vehicles	25%

(n) Investments in subsidiaries

Investments in subsidiaries are carried at cost less provision for impairment

(o) Inventories

Inventories are stated at the lower of cost and net realisable value

(p) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument

Trade and other receivables

Trade receivables are non-interest bearing and are stated at initial fair value which equals nominal value, less allowances for estimated irrecoverable amounts. Trade receivables are recognised when invoiced

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand deposits and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value

Bank deposits

Bank deposits with an original maturity of over three months are held as a separate category of current asset and are presented on the face of the balance sheet

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities

Trade and other payables

Trade payables are non-interest bearing and are stated at cost

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs

2 Accounting policies and presentation of financial statements continued

Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses certain derivative instruments to provide effective economic hedges under the Group's policies when necessary. However, the Group has not elected to apply hedge accounting to any of its derivative instruments. Accordingly, changes in the fair value of such derivative instruments are recognised immediately in the income statement. The Group does not use derivative financial instruments for speculative purposes.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Provisions

The provision for decommissioning is based on the net present value of the Group's share of the expenditure which is expected to be incurred at the end of the producing life of each field (currently estimated to be 24 years) in the removal and decommissioning of the facilities currently in place.

(q) Share-based payments

The Group makes equity-settled share-based payments to certain employees. These payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

The fair value of such share-based payments is measured by use of a stochastic model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

(r) Share issue expenses and share premium account

Costs of share issues are written off against the premium arising on the issues of share capital.

(s) Critical accounting judgements and estimates in applying the Group's accounting policies

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management have made the following judgements that may have a significant effect on the amounts recognised in the financial statements:

Oil and gas assets

As detailed in note 2(h), under the full cost method of accounting for exploration and evaluation ('E&E') costs, such costs are capitalised as intangible assets by reference to appropriate cost pools, and are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to: (i) the likely future commerciality of the asset and when such commerciality should be determined, (ii) future revenues and costs pertaining to any wider cost pool with which the asset in question is associated, and (iii) the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value.

Further, note 2(h) describes the Group's policy regarding the reclassification of intangible assets to tangible assets. Management considers the appropriateness of asset classification at least annually.

Notes to the Group Financial Statements continued

2 Accounting policies and presentation of financial statements continued

Convertible bonds

Note 2(p) sets out the Group's accounting policy on convertible bonds. Management assesses the fair value of the liability component at issue and reviews the appropriateness of the amortisation period at least annually. Note 2(k) describes the nature of the costs that the Group capitalises which includes applicable borrowing costs that are directly attributable to qualifying assets as defined in IAS 23 Borrowing Costs (IAS 23). Management has considered the definition of qualifying assets in IAS 23 and has determined that all expenditure incurred in respect of the Group's E&E assets currently meets the definition. Consequently, the interest associated with capital expenditure on the Group's E&E assets has been capitalised.

Recoverability of Russian VAT

In common with other oil and gas companies operating in Russia, the Group has recognised the potential difficulties associated with recovering certain Russian VAT paid in previous years. In the light of this uncertainty, judgements have been made as to the extent of provision required against VAT receivables.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Decommissioning

The Group has potential decommissioning obligations in respect of its interests in Russia and Kazakhstan. The extent to which a provision is required in respect of these potential obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning works, and the discount rate to be applied to such costs.

Operating in the CIS

All of the Group's business is conducted in the CIS 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.

3 Total revenue

An analysis of the Group's revenue is as follows:

	2007 \$000	2006 \$000
Oil sales	19,928	3,129
Investment revenue	1,174	4,431
	21,102	7,560

4 Business and geographical segments

The Group has one principal business activity being oil and gas exploration and production. Revenue by destination does not materially differ from revenue by origin. There are no inter-segment sales.

Geographical segments from the basis on which the Group Reports its primary segment information

	Russia \$000	Kazakhstan \$000	Unallocated \$000	2007 Group \$000
Oil sales	19,928	–	–	19,928
Segment results				
Operating loss	(15,465)	(32)	(23,477)	(38,974)
Investment revenues	55	–	1,119	1,174
Other gains and losses	(2,380)	–	62	(2,318)
Finance costs	(1)	–	(1,834)	(1,835)
Loss before tax	(17,791)	(32)	(24,130)	(41,953)
Tax	–	–	(548)	(548)
Loss for the year	(17,791)	(32)	(24,678)	(42,501)
Assets and liabilities				
Assets	567,781	6,082	290,807	864,670
Liabilities	(124,418)	(173)	(376,683)	(501,274)
Other segment information				
Capital additions – Intangible assets	223,531	1,218	–	214,749
– Property, plant and equipment	220,536	–	117	220,653
Depreciation	(3,402)	(9)	(178)	(3,589)
	Russia \$000	Kazakhstan \$000	Unallocated \$000	2006 Group \$000
Oil sales	3,129	–	–	3,129
Segment results				
Operating loss	(1,206)	(31)	(13,921)	(15,158)
Investment revenues	75	–	4,356	4,431
Other gains and losses	44	–	(3,578)	(3,534)
Loss before tax	(1,087)	(31)	(13,143)	(14,261)
Tax	–	–	(328)	(328)
Loss for the year	(1,087)	(31)	(13,471)	(14,589)
Assets and liabilities				
Assets	241,073	3,182	103,221	347,476
Liabilities	(9,298)	(16)	(6,279)	(15,593)
Other segment information				
Capital additions – Intangible assets	108,614	1,053	9,888	119,555
– Property, plant and equipment	10,484	18	160	10,662
Depreciation	(393)	(12)	(97)	(502)

Notes to the Group Financial Statements continued

5 Operating loss for the year

The loss for the year has been arrived at after charging/(crediting)

	2007 \$000	2006 \$000
Depreciation of property, plant and equipment	3,589	502
Staff costs (see note 6)	16,995	7,296
Auditors' remuneration for audit services (see below)	541	272
Operating lease charges – licence rentals	365	350
Russian VAT	(1,215)	(4,267)

Included within the operating loss in 2007 is VAT recovered in Russia of \$1.2 million (2006: \$4.3 million). VAT in Russia is legally recoverable but for companies in the exploration phase recovery it is uncertain. As a result, whilst the Group was in the exploration phase, the Directors felt it was prudent to reflect this uncertainty and provided against the net VAT recoverable in 2004 and 2005. In 2007, the Group received the final cash repayments of \$1.2 million (2006: \$4.3 million) relating to VAT recoverable in respect of 2004 and 2005. The Group also began to produce oil, which improved its ability to recover VAT. As a result the Group has credited an amount equal to the cash repayments received previously provided against back to the income statement.

The analysis of auditors' remuneration on a worldwide basis is as follows

	2007 \$000	2006 \$000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	251	176
Audit of the Company's subsidiaries pursuant to legislation	136	96
Total audit fees	388	272
Other services pursuant to legislation	129	–
Corporate finance services	1,875	–
Total non-audit fees	2,004	–

Fees payable to the Company's auditors in respect of corporate finance services were mainly in connection with the move from AIM to the main list.

6 Staff costs

The average monthly number of employees (including Executive Directors) was

	2007 Number	2006 Number
Directors	4	4
Administration and technical	217	87
Operations	194	49
	415	140
	\$000	\$000
Their aggregate remuneration comprised		
Wages and salaries	13,468	5,725
Social security costs	1,441	633
IFRS 2 option cost (note 28)	2,086	938
	16,995	7,296

Included in staff costs is US\$6.02 million (2006: US\$1.28 million) which has been capitalised as part of exploration and evaluation assets as these costs are directly attributable to exploration and evaluation activities. Details of Directors' remuneration are provided in the Remuneration Report.

7 Investment revenue

	2007 \$000	2006 \$000
Interest on bank deposits	760	630
Interest on cash and cash equivalents	414	3,801
	1,174	4,431

8 Other gains and losses

	2007 \$000	2006 \$000
Other foreign exchange losses	2,318	3,534

9 Finance costs

	2007 \$000	2006 \$000
Interest on bank overdrafts and loans	10,361	–
Interest on convertible loan notes	533	–
Total interest expense	10,894	–
Less amount included in the cost of qualifying assets	(9,059)	–
	1,835	–

A portion of the borrowing costs incurred during 2007 (US\$9.1 million) has been capitalised to the cost of qualifying assets in accordance with the Group's accounting policy (2006: nil)

10 Tax

a) Analysis of the tax charge in the period

The tax charge comprises

	2007 \$000	2006 \$000
Current tax		
UK corporation tax	–	–
Overseas taxation	757	328
Total current tax	757	328
Deferred tax		
UK corporation tax	–	–
Overseas taxation	(209)	–
Total deferred tax	(209)	–
Total tax charge	548	328

b) Factors affecting the tax charge in the period

	2007 \$000	2006 \$000
Loss on ordinary activities before tax	(41,953)	(14,261)
Tax at the applicable corporation tax rate of 24% (2006: 24%)	(10,069)	(3,422)
Effect of tax rates in foreign jurisdictions	(762)	(82)
Tax effect of expenses that are not deductible in determining taxable profit	6,721	1,575
Income not taxable	(4)	(5)
Current year tax losses not utilised	4,050	2,262
Profits on controlled foreign entities less creditable tax	1,177	–
Short-term timing differences	(180)	–
Utilisation of losses brought forward	(385)	–
	548	328

Notes to the Group Financial Statements continued

10 Tax continued

The Group's operations are conducted primarily outside the UK. The most appropriate tax rate for the Group is considered to be 24%, the rate of profits tax in Russia which is the primary source of revenue to the Group. The Group also operates in jurisdictions where the tax rate differs from that in Russia, which affects the overall tax rate.

11 Loss per share

The calculation of the basic and diluted loss per share is based on the following data:

Loss

	2007 \$000	2006 \$000
Loss for the purposes of basic loss per share being net profit attributable to equity holders of the parent	(42,373)	(14,470)
Effect of dilutive potential Ordinary Shares		
Share-based payment charge	–	–
Loss for the purposes of diluted loss per share	(42,373)	(14,470)

	Number	Number
Number of shares		
Weighted average number of Ordinary Shares for the purposes of basic loss per share	50,632,290	45,401,314
Effect of dilutive potential Ordinary Shares		
Share options	–	–
Weighted average number of Ordinary Shares for the purposes of diluted loss per share	50,632,290	45,401,314

Share options have not been taken into account in calculating the number of shares for diluted loss per share as this would reduce the reported loss per share.

12 Intangible assets

	Exploration and evaluation assets \$000
Cost and carrying amount	
At 1 January 2006	91,841
Additions	119,555
Adjustments to the income statement in respect of test production	(3,129)
Exchange movements	2,593
At 31 December 2006	210,860
Additions	214,749
Adjustments to the income statement in respect of test production	(4,949)
Transfers to property, plant and equipment	(198,992)
Exchange movements	20,477
At 31 December 2007	252,043

13 Property, plant and equipment

	Land and buildings \$000	Development and production assets \$000	Fixtures fittings and equipment \$000	Motor vehicles \$000	Total \$000
Cost					
At 1 January 2006	–	–	449	283	732
Additions	668	6,074	2,002	1,918	10,662
Exchange differences	–	–	28	25	53
At 31 December 2006	668	6,074	2,479	2,226	11,447
Additions	2,488	209,496	4,972	3,697	220,653
Disposals	–	–	(7)	–	(7)
Transfers	–	200,410	(1,418)	–	198,992
Exchange differences	49	–	163	159	371
At 31 December 2007	3,205	425,857	6,189	6,082	431,456
Accumulated depreciation					
At 1 January 2006	–	–	51	13	64
Charge for the year	33	–	338	131	502
Exchange differences	–	–	9	1	10
At 31 December 2006	33	–	398	145	576
Charge for the year	87	2,362	518	622	3,589
Disposals	–	–	(5)	–	(5)
Transfers	–	–	(210)	–	(210)
Exchange differences	3	–	21	10	34
At 31 December 2007	123	2,362	722	777	3,984
Carrying amount					
At 31 December 2007	3,082	423,495	5,467	5,305	427,472
At 31 December 2006	635	6,074	2,081	2,081	10,871

Notes to the Group Financial Statements continued

14 Investments

The subsidiaries of the Group are as follows

Name	Country of incorporation	Percentage holding	Nature of business
Imperial Energy Limited*	Great Britain	100%	Intermediate holding company
Imperial Energy Kostanai Limited	Great Britain	100%	Intermediate holding company
Rus Imperial Corporation PLC	Great Britain	100%	Intermediate holding company
Rus Imperial Limited	Great Britain	100%	Intermediate holding company
Imperial Energy Tomsk Limited	Cyprus	85%	Intermediate holding company
Imperial Energy (Cyprus) Limited	Cyprus	100%	Intermediate holding company
Imperial Energy Nord Limited	Cyprus	100%	Intermediate holding company
RK Imperial Energy (Kostanai) Limited	Cyprus	100%	Intermediate holding company
Imperial Energy LLC	Russia	100%	Oil exploration
Sibinterneft LLC**	Russia	47.5%	Oil exploration
LLC Alianceneftegaz	Russia	100%	Oil exploration
Nord Imperial LLC	Russia	100%	Oil exploration
LLP North-Kazakhstan Geologo-Analytical Company Sevkazgra	Kazakhstan	75%	Oil exploration
Freshspring Investments Limited	Cyprus	100%	Intermediate holding company
EFFY LLC	Russia	100%	Oil exploration
Nefsilius Holdings Limited	Cyprus	100%	Intermediate holding company
Biancus Holdings Limited	Cyprus	100%	Financing company
Redcliffe Holdings Limited	Cyprus	100%	Intermediate holding company
LLC Rus Imperial Group	Russia	100%	Drilling company
San Agio Investments Limited	Cyprus	100%	Intermediate holding company
LLC Stratum	Russia	100%	Oil exploration
Imperial Energy Trading AG	Switzerland	100%	Oil trading
Imperial Energy Gas Limited	Cyprus	100%	Intermediate holding company
Imperial Frac (Cyprus) Limited	Cyprus	100%	Intermediate holding company
LLC Imperial Frac Service	Russia	50%	Fracking company
Imperial Energy Finance (Jersey) Limited*	Jersey	100%	Financing company

* Direct holdings. All other investments are held indirectly.

** 55.9% of Sibinterneft LLC is held by Imperial Energy Tomsk Limited hence the Group has effective control over the Company and the results are included in the consolidated accounts.

15 Inventories

	2007 \$000	2006 \$000
Raw materials and consumables	4,562	17,233
Work in progress	516	–
Crude oil stocks	2,023	–
	7,101	17,233

Raw materials and consumables are held for the construction of exploration and evaluation, and exploration and production assets.

16 Trade and other receivables

	2007 \$000	2006 \$000
Trade receivables	1,985	460
Other debtors	5,748	702
VAT receivable	23,097	11,388
Prepayments	2,596	451
	33,426	13,001

The majority of oil sales are prepaid, for non-prepaid sales, proceeds are receivable within 15 days of delivery of the goods to customers

The VAT receivable amount principally comprises VAT incurred in Russia. As described in note 5, whilst the recoverability of these amounts has historically been uncertain the Directors have recognised provisions against the net VAT recoverable in respect of prior years, the Group is currently receiving cash refunds in this respect within 90 days of incurring the expenditure

The Directors consider that the carrying amount of trade and other receivables approximates their fair value

17 Bank deposits

	2007 \$000	2006 \$000
Bank deposits	–	19,600

There were no deposits greater than three months as at 31 December 2007

The Directors consider that the carrying amount of the deposits approximates their fair value

18 Cash and cash equivalents

	2007 \$000	2006 \$000
Cash at bank	15,383	37,744
Short-term deposits	116,294	37,984
	131,677	75,728

19 Borrowings

	2007 \$'000	2006 \$'000
Secured Borrowing at amortised cost		
Bank loans – US\$ denominated	200,760	–
Other loans – US\$ denominated	15,094	–
Total borrowings		
Amount due for settlement within 12 months	215,854	–

Notes to the Group Financial Statements continued

19 Borrowings continued

The principal features of the Group's borrowings are as follows

- (i) Debt finance facility of US\$200 million (2006 US\$nil) The facility is available for drawing until one month prior to the final maturity date of 3 November 2008 when all amounts drawn under the facility and which are still outstanding at that time are required to be repaid. The facility is secured by a pledge over shares of certain of the Group's subsidiary companies. Interest on the facility was 3.25% + 1 month Libor for the first six months, 3.75% + 1 month Libor for the next six months, and 4.75% + 1 month Libor for the remainder. The margin was 1% higher until the completion date which was 12 February 2008.
- (ii) Loan of US\$15 million (2006 US\$ nil) from Vitol S.A. This loan is secured against future oil sales and due for repayment in full on 5 August 2008. This loan carries a variable interest rate at monthly Libor + 4% (2006 nil).

The weighted average interest rates paid during the year were as follows

	2007 %	2006 %
Bank loans	9.69	–
Other loans	8.60	–

Undrawn borrowing facilities

At 31 December 2007, the Group had available no undrawn committed borrowing facilities in respect of which all conditions precedent had been met (2006 US\$nil).

20 Convertible bonds

On 18 December 2007 US\$191.3 million 5.95% convertible bonds were issued by Imperial Energy Finance (Jersey) Limited ("IEFJL") at an issue price of £18.19 per note with a fixed rate of US\$ GBP 2.0624. The bonds are first convertible into exchangeable redeemable Preference Shares to be issued by IEFJL, which will then be automatically exchanged for Ordinary Shares of the Company.

On issue, the loan notes were convertible at 5,099,286 shares per loan note. The conversion price is at a 45% premium over the volume weighted average share price of the Ordinary Shares at the date the convertible loan notes were issued.

If the notes have not been converted, they may be redeemed at any time on or after 2 January 2013 at par. Interest of 5.95% will be paid semi-annually up until that settlement date.

The net proceeds received from the issue of the convertible loan notes have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Company, as follows

	\$000
Nominal value of convertible bonds issued net of issue costs	186,675
Equity component	(34,300)
Liability component at date of issue	152,375
Interest and amortisation of issue costs	533
Coupon interest	(411)
Liability component at 31 December 2007	152,497

20 Convertible bonds continued

The equity component of US\$34.3 million has been credited to equity reserve (see consolidated statements of changes in equity)

The interest charged for the year is calculated by applying an effective interest rate of 10.15% to the liability component for the 13 day period since the loan notes were issued. The liability component is measured at amortised cost. The difference between the carrying amount of the liability component at the date of issue and the amount reported in the balance sheet at 31 December 2007 represents the effective interest rate less interest paid to that date.

The rights issue announced in April 2008 has no adverse impact upon the rights of the holders of the convertible loan notes.

The rights issue announced on 2 April 2008 (see note 30) has no impact upon the rights of the holders of the convertible loan notes as under the terms of the Convertible Bonds, adjustments will be made to take account of the number of Ordinary Shares to be issued on conversion of the Convertible Bonds to take account of the rights issue.

21 Derivative financial instruments**Currency derivatives**

In 2006, the Group entered into a variety of foreign currency forward contracts and options in the management of its exchange rate exposures. The instruments purchased were primarily denominated in the currencies of the Group's principal markets. There were no new derivatives entered into by the Group in 2007.

	2007 \$000 Fair value	2006 \$000 Fair value
Forward foreign currency contracts – current asset	–	183
Forward foreign currency contracts – current liability	–	(2,547)

Forward exchange contracts are valued by discounting the contractual forward price and deducting the current spot rate.

An overview of the objectives, policies and procedures pursued by the Group in relation to financial instruments is provided in the Financial Review and note 29.

22 Deferred tax

Differences between IFRS and statutory tax rules (in Russia, the UK or elsewhere) give rise to temporary differences between the carrying values of certain assets and liabilities for financial reporting purposes and for income tax purposes. The following are the principal deferred tax assets and liabilities recognised by the Group and movements thereon during the current reporting periods.

	2007 \$000	Charge/ (credit)	2006 \$000
Acquisition of subsidiaries	2,993	(209)	3,202
Other short-term timing differences	7,471	5,712	1,759
Russian tax losses	(7,471)	(5,712)	(1,759)
Deferred tax liability	2,993	(209)	3,202

At the balance sheet date, the Group has additional deferred tax assets of US\$3.6 million (2006: US\$2.4 million) in respect of Russian tax losses, US\$2.0 million (2006: US\$2.19 million) in respect of UK tax losses and US\$1.9 million (2006: US\$0.6 million) in respect of UK temporary differences in relation to share-based payment transactions. No deferred tax asset has been recognised in respect of these amounts due to the unpredictability of future profit streams.

Notes to the Group Financial Statements continued

23 Trade and other payables

Group	2007 \$000	2006 \$000
Trade payables and accruals	48,293	8,462
Interest payable on convertible loan notes	411	–
Other payables	8,232	672
	56,936	9,134

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for Group trade purchases is 15 days.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

24 Provisions

	Total \$000
At 1 January 2007	382
Additional provision in the year	59,101
At 31 December 2007	59,483

The provision for decommissioning is based on the net present value of the Group's share of the expenditure which is expected to be incurred at the end of the producing life of each field (currently estimated to be 24 years) in the removal and decommissioning of the facilities currently in place.

25 Share capital

	2007 £000	2006 £000
Authorised 200 million Ordinary Shares of 2.5p each	5,000	5,000
	2007 £000	2006 £000
Issued and fully paid		
51,121,161 Ordinary Shares of 2.5p each	2,431	2,376
(2006 50,031,161 Ordinary Shares of 2.5p each)		

The following share movements occurred during the year:

On 23 January 2007, 50,000 Ordinary Shares of 2.5p each were issued upon the exercise of certain share options of 2.5p per share.

On 21 March 2007, 493,000 Ordinary Shares of 2.5p each were issued upon the exercise of certain warrants at 500p per share.

On 11 September 2007, 547,000 Ordinary Shares of 2.5p each were issued upon the exercise of certain warrants at 500p per share.

26 Commitments and contingencies**(a) Licence commitments**

The Group has capital commitments in Russia to complete 1,750 km² of seismic acquisition and to drill nine exploration wells over the remaining term of its exploration licences. Fulfilling these commitments is expected to cost US\$69.8 million.

In Kazakhstan, the Group has a capital commitment of US\$5 million of capital expenditure.

(b) Equipment acquisitions

At 31 December 2007, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US\$192.4 million (2006: US\$140.2 million).

(c) Options for future acquisitions

The Company has the option to acquire up to a further 19.1% of LLC Sibinterneft which can be triggered as and when proven reserves of greater than 100 million barrels of oil equivalent are registered with the Ministry of Natural Resources. The cost of such acquisition is fixed at \$7 per tonne (approximately \$1 per barrel) of proven oil.

There are no material contingent liabilities within the Group.

27 Operating lease arrangements

The Group as a lessee

	2007 \$000	2006 \$000
Minimum lease payments under operating leases recognised in income for the year	767	152

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2007 \$000	2006 \$000
Land and buildings		
Within one year	266	377
In the second to fifth years inclusive	–	941
After five years	–	–
	266	1,318

28 Share-based payments**Equity-settled share option scheme**

The Company has a share option scheme for certain key employees of the Group. Options are exercisable at a price equal to the par value of the Company's shares on the date of grant. The vesting period is typically three years, although initial awards have a vesting period of two years. If the options remain unexercised after a period of five years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	2007		2006	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of year	740,000	2.5p	–	–
Granted during the year	1,481,000	2.5p	890,000	2.5p
Forfeited during the year	(250,000)	2.5p	(100,000)	2.5p
Exercised during the year	(50,000)	2.5p	(50,000)	2.5p
Outstanding at the end of the year	1,921,000	2.5p	740,000	2.5p
Exercisable at the end of the year	–	2.5p	50,000	2.5p

Notes to the Group Financial Statements continued

28 Share-based payments continued

The weighted average share price at the date of exercise for share options exercised during the period was 720p. The options outstanding at 31 December 2007 had a weighted average exercise price of 2.5p, and a weighted average remaining contractual life of 1.88 years. In 2007, 50,000 options were exercised on 23 January 2007. The aggregate of the estimated fair value of the options exercised on this date is 720p per share.

The total charged for the year against equity was US\$6,022,000. Of this amount US\$3,936,000 was capitalised (2006: US\$nil) and US\$2,086,000 (2006: US\$938,000) was charged to the income statement charge in relation to the fair value of the awards granted under the share options scheme measured at grant date using a stochastic model.

The inputs into the stochastic model are as follows:

	2007 May Grant	2007 January Grant	2006 2 year options	2006 3 year options
Weighted average share price	1295p	637p	690.5p	690.5p
Weighted average exercise price	2.5p	2.5p	2.5p	2.5p
Expected volatility	36.9%	39.0%	36%	39%
Expected life	3 years	3 years	2 years	3 years
Risk-free rate	5.5%	5.1%	4.4%	4.5%
Expected dividends	0%	0%	0%	0%

Expected volatility is usually determined by calculating the historical volatility of the Company's share price over the previous two years. The Company's Ordinary Shares commenced trading on 2 April 2004, giving nearly three years' worth of historic share price data at the time of the grant. This data gives an historic share price volatility of 88.4% and 74.4% for January 2007 and May 2007 awards respectively (97.5% for 2006 awards). However, this includes the period immediately post flotation when a company's share price is likely to be more volatile than its longer term average (indeed the Company's volatility had fallen to 52% over the last six months prior to the January grant). In these circumstances, IFRS 2 permits consideration of the historic volatility of other similar entities for which more trading activity is available. The Directors therefore considered the volatilities of other companies in the FTSE Oil and Gas producers sector over periods commensurate with the expected terms of the awards (i.e. two and three years). This showed that the average volatility of these companies is around 39.0% and 36.9% in the three years to January 2007 and May 2007 respectively. Therefore the valuations were performed using this proxy volatility based on other similar companies.

The expected life used in the model has been adjusted, based on the Directors' best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Nord Imperial option agreements

By option agreements dated 18 October 2005 and 24 October 2005 and for a nominal consideration of £1, each of the vendors under the Nord Imperial assignment agreements (under which the Group acquired the remaining 20% of Nord Imperial which it did not already own) were granted options to subscribe for an aggregate of 1,100,000 Ordinary Shares at a subscription price of 500p per Ordinary Share. The options were exercisable from 1 May 2006 until 1 November 2007.

The fair value at issue of these options of US\$2.1 million has been charged to the cost of acquisition of Nord Imperial included in the exploration and evaluation assets.

The fair value was calculated using a Black-Scholes model, the inputs into which were:

Share price	457.5p
Exercise price	500p
Expected volatility	40%
Risk free rate	6%
Expected dividend yield	nil

During 2007, 1,040,000 (2006: 60,000) of these options were exercised at 500p. As at 31 December 2007 no options were outstanding.

29 Financial instruments**Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings and convertible bonds disclosed in notes 19 and 20, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

Gearing ratio

The Board periodically reviews the capital structure of the Group. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end was as follows:

	2007 \$000	2006 \$000
Debt	368,351	–
Cash and cash equivalents	(131,677)	95,325
Net debt	236,674	n/a
Net debt to equity ratio	65.1%	n/a

Debt is defined as long- and short-term borrowings, as detailed in notes 19 and 20.

Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Categories of financial instruments

	Carrying value	
	2007 \$000	2006 \$000
Financial assets		
Loans and receivables (including bank deposits and cash and cash equivalents)	133,662	95,788
Derivative financial instruments	–	183
Financial liabilities		
Borrowings and payables	(262,343)	(7,682)
Derivative financial instruments	–	(2,547)
Convertible bond at amortised cost	(152,497)	–

Notes to the Group Financial Statements continued

29 Financial instruments continued

Financial risk management objectives

The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include currency risk, fair value interest rate risk, commodity price risk, credit risk and liquidity risk.

The use of financial derivatives is governed by the Group's policies and is approved by the Board. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's financial instruments comprise cash deposits, bank loans, convertible bonds and other borrowings.

(a) Foreign exchange risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts where appropriate. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
UK sterling	(1,721)	(330)	133	58,578
US dollars	(15,094)	—	—	—
Kazakhstan tenge	—	—	93	74

At the year end 31 December 2007, the Group had no outstanding forward exchange contracts.

Foreign currency sensitivity analysis

The Group is mainly exposed to the currencies of UK sterling, US dollar, Russian rouble and Kazakhstan tenge. The Group has an exposure to US dollars because the functional currency of its Russian subsidiaries is Russian roubles. A change in the US dollar/Russian rouble exchange rate will therefore result in a foreign exchange gain or loss on the US dollar denominated balances in these subsidiaries.

In accordance with IFRS 7, the impact of foreign currencies has been determined based on the balances of financial assets and liabilities at 31 December 2007. The sensitivity analysis includes only outstanding foreign currency denominated monetary items largely result from trade payables and receivables, and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the US dollar strengthens 10% against the relevant currency. For a 10% weakening of the US dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

If the US dollar had gained/(lost) 10% against all currencies significant to the Group at 31 December 2007 income would have been US\$1.7 million higher/(lower) (2006: US\$5.8 million lower/(higher)). There is no material effect on equity reserve other than those relating directly to movements in the income statement.

(b) Interest rate risk management

The Group is exposed to interest risk as entities in the Group borrow funds at both fixed and floating interest rates.

Deposits earn interest by reference to Libor. The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year. A 0.5% increase or decrease is used for internal reporting to management of the assessment of the reasonably possible change in interest rates.

29 Financial instruments continued

If interest rates had been 0.5% basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2007 would increase/decrease by US\$167,000 (2006 decrease/increase by US\$191,000). This is wholly attributable to the Group's exposure to interest rate on its variable rate net cash and borrowings.

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group feels that it has mitigated the risk of financial loss as the majority of oil sales are prepaid, whereas as non prepaid sales are receivable within 15 days of delivery of goods to the counterparty.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are connected entities.

The Group's financial assets comprise trade receivables and bank deposits. The credit risk on bank deposits and cash and cash equivalents is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(d) Liquidity risk management

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Cash forecasts are regularly produced to identifying the liquidity requirements of the Group.

To date, the Group has relied on shareholder funding, bank loans and convertible bonds to finance its operations. The Group has no undrawn borrowing facilities at 31 December 2007.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	3 months to 1 year \$'000	5+ years \$'000	Total \$'000
2007				
Convertible bonds	5.95	–	191,300	191,300
Variable interest rate borrowing	8.6	15,094	–	15,094
Variable interest rate bank loans	9.69	200,760	–	200,760
		215,854	191,300	407,154

There were no non-derivative financial liabilities at the year ended 31 December 2006.

Notes to the Group Financial Statements continued

29 Financial instruments continued

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month \$000	3 months to 1 year \$000	Total \$000
2007				
Cash and cash equivalents	5.13	131,677	–	131,677
		131,677	–	131,677
2006				
Cash and cash equivalents	4.81	75,728	–	75,728
Bank deposits	4.73	–	19,600	19,600
		75,728	19,600	95,328

The Group has no undrawn bank loan facilities at the balance sheet date, 31 December 2007. The Group expects to meet its other obligations from operating cash flows and an appropriate mix of available funds, equity instruments and debt financing. The Group further mitigates liquidity risk by maintaining an insurance programme to minimise exposure to insurable losses.

The Group expects to finance its operations through to early 2010 by way of the rights issue and the associated equity bridge announced in April 2008.

The Group has no derivative financial instruments at year end 31 December 2007.

30 Events after the balance sheet date

On 2 April 2008, the Group announced it had entered into an agreement with Hoare Govett Limited and Merrill Lynch International (the 'Underwriters') for a standby equity underwriting agreement pursuant to which the Company was granted the right to require the Underwriters to underwrite a rights issue to raise up to an aggregate amount of US\$600 million at a price to be agreed between the Company and the Underwriters. The obligation to provide such underwriting pursuant to the agreement expires on 1 July 2008.

On 8 April 2008, the facility agreement with Vitol S.A. was increased from US\$15 million (note 19) to US\$40 million.

In conjunction with the proposed rights issue, the Group entered into a short-term facility agreement with amongst others, ABN AMRO Bank NV and Merrill Lynch, as the arrangers and original lenders, and ABN AMRO Bank NV as security trustee, pursuant to which a short-term credit facility of approximately US\$95 million was provided to the Group.

Both of the above facilities are intended to be repaid once the funds from the proposed rights issue are received.

31 Related party transactions

Transactions between the Group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements.

Trading transactions

P. M. Levine ceased being Non-Executive Chairman and having any beneficial other interest in PLLG International on 31 March 2006. As a result, from 1 April 2006, PLLG International is no longer a related party of the Group.

The remuneration of the Directors who are the key management personnel of the Group is disclosed in the Director's Remuneration Report.

Company Balance Sheet

as at 31 December 2007

	Note	2007 \$000	2007 \$000	2006 \$000	2006 \$000
Non-current assets					
Property, plant and equipment	33	–	94	–	123
Investments	34	–	4,390	–	–
			4,484		123
Current assets					
Trade and other receivables	35	829	–	414	–
Loans from other Group entities	36	478,822	–	266,718	–
Bank deposits	37	–	–	19,600	–
Cash and cash equivalents	38	63,028	–	65,442	–
Derivative financial instruments	21	–	–	183	–
			542,679		352,357
Total assets			547,163		352,480
Current liabilities					
Trade and other payables	39	4,435	–	(1,047)	–
Borrowings	40	152,908	–	–	–
Derivative financial instruments	21	–	–	(2,547)	–
			–	(3,594)	–
			157,343		–
Total liabilities			157,343		(3,594)
Net assets			389,820		348,886
Equity					
Share capital	25		2,431		2,376
Shares to be issued	42		6,690		2,919
Share premium account			358,612		348,335
Convertible bond reserve			34,178		–
Retained losses			(12,091)		(4,744)
Equity attributable to equity holders of the parent			389,820		348,886

The financial statements were approved by the Board and authorised to issue on 15 April 2008

J A Hamilton
Group Finance Director



Company Statement of Changes in Equity

for year ended 31 December 2007

	Share capital \$000	Shares to be issued \$000	Share premium \$000	Convertible bond reserve \$000	Retained losses \$000	Total equity \$000
At 1 January 2006	1,875	2,095	149,739	–	(2,734)	150,975
Loss for the year	–	–	–	–	(2,124)	(2,124)
Total recognised income and expense	–	–	–	–	(2,124)	(2,124)
New share capital subscribed	501	(114)	204,646	–	114	205,147
Expenses of issue of equity shares	–	–	(6,050)	–	–	(6,050)
IFRS 2 option cost (notes 5, 28, 42)	–	938	–	–	–	938
At 31 December 2006	2,376	2,919	348,335	–	(4,744)	348,886
Loss for the year	–	–	–	–	(9,450)	(9,450)
Total recognised income and expense	–	–	–	–	(9,450)	(9,450)
New share capital subscribed	55	(1,981)	10,277	–	1,981	10,332
Convertible bond issued	–	–	–	34,300	–	34,300
Convertible bond transfer	–	–	–	(122)	122	–
IFRS 2 option cost (notes 5, 28, 42)	–	6,022	–	–	–	6,022
At 31 December 2007	2,431	6,960	358,612	34,178	(12,091)	389,820

Company Cash Flow Statement

for year ended 31 December 2007

	Note	2007 \$000	2006 \$000
Operating activities			
Operating loss from continuing activities		(21,905)	(8,277)
IFRS 2 charge	28 42	1,362	938
Depreciation		144	71
Operating cash outflows before movement in working capital		(20,399)	(7,268)
(Increase)/decrease in trade and other receivables		(415)	62
Increase/(decrease) in trade and other payables		1,340	(2,535)
Net cash inflow/(outflow) from operating activities		(19,474)	(9,741)
Investing activities			
Purchases of property, plant and equipment	33	(117)	(114)
Proceeds on disposal of property, plant and equipment	33	2	–
Loans granted to other Group companies		(214,060)	(154,048)
Movement in funds on bank deposit		19,600	(19,600)
Interest received		14,671	4,349
Net cash used in investing activities		179,904	(169,413)
Financing activities			
Proceeds from loans		186,675	–
Proceeds on issue of shares		10,332	199,097
Net cash from financing activities		197,007	199,097
Net (decrease)/increase in cash and cash equivalents		(2,371)	19,943
Cash and cash equivalents at beginning of year		65,442	40,689
Effect of foreign exchange rate changes		(43)	4,810
Cash and cash equivalents at end of year		63,028	65,442

Notes to the Company Financial Statements

32 Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by the Act the separate financial statements have been prepared in accordance with International Financial Reporting Standards, under the accounting policies set out in note 2 to the Group financial statements.

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own income statement in these financial statements. The Company's loss for the year after tax was US\$9.5 million (2006: US\$2.12 million).

33 Property, plant and equipment

	Fixtures, fittings and equipment \$000	Motor vehicles \$000	Total \$000
Cost			
At 1 January 2006	109	–	109
Additions	77	38	115
Disposals	(3)	–	(3)
At 31 December 2006	183	38	221
Additions	117	–	117
Disposals	(7)	–	(7)
At 31 December 2007	293	38	331
Accumulated depreciation			
At 1 January 2006	29	–	29
Charge for the year	58	13	71
Disposals	(2)	–	(2)
At 31 December 2006	85	13	98
Charge for the year	129	15	144
Disposals	(5)	–	(5)
At 31 December 2007	209	28	237
Carrying amount			
At 31 December 2007	84	10	94
At 31 December 2006	98	25	123

34 Investments

The Company holds 100% of the issued share capital Imperial Energy Limited. The subsidiaries of the Company are detailed in note 14.

The investments balance at 31 December 2007 includes an amount of US\$4.39 million (2006: nil) in respect of IFRS 2 charges borne by the Company on behalf of its subsidiaries.

35 Trade and other receivables

	2007 \$000	2006 \$000
Other debtors	161	12
VAT receivable	298	131
Prepayments	370	271
	829	414

The Directors consider that the carrying amount of trade and other receivables approximates their fair value

36 Loan receivables from other Group entities

	2007 \$000	2006 \$000
Imperial Energy Limited	478,822	266,718
	478,822	266,718

Amounts receivable from Imperial Energy Limited are denominated in US dollars carry interest ranging from 3.5% to Libor + 4.85% (2006: Libor + 0.75%) per annum charged on the outstanding loan balances

The weighted average interest rates on paid during the year was 4.31% (2006: 6.07%)

37 Bank deposits

	2007 \$000	2006 \$000
Bank deposits	–	19,600

The deposit classified under bank deposits in the prior year was placed on deposit for a period of greater than three months. Such deposits matured on 22 January 2007

The Directors consider that the carrying amount of the deposits approximates their fair value

38 Cash and cash equivalents

	2007 \$000	2006 \$000
Cash at bank	53	27,458
Short-term deposits	62,975	37,984
	63,028	65,442

39 Trade and other payables

	2007 \$000	2006 \$000
Trade payables and accruals	4,240	1,014
Other payables	196	33
	4,436	1,047

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for Company trade purchases is 15 days

The Directors consider that the carrying amount of trade and other payables approximates to their fair value

Notes to the Company Financial Statements continued

40 Borrowings

	2007 \$000	2006 \$000
Current borrowings		
Loans from subsidiary (note 41) US\$ denominated	152,908	–
	152,908	–

During the year ended 31 December 2007, the Company subsidiary Imperial Energy (Jersey) Finance Limited (IEJFL) issued \$191.3 million 5.95% convertible bonds. Further details of the convertible bonds are provided in note 20.

The weighted average interest rate during the year was 10.15% (2006: nil).

41 Related party transactions

Intra Group loans outstanding were as follows:

	2007 \$000	2006 \$000
Imperial Energy Limited	478,822	266,718
Imperial Energy Finance (Jersey) Limited	(152,908)	–
	325,914	266,718

Payments to Directors are detailed in the remuneration report.

42 Share-based payments

Valuation and details of the Company's share-based payments can be found in note 28.

43 Financial instruments

Capital risk management

The Company follows same policy as the Group to manage capital and financial risk. Details are in note 29.

Externally imposed capital requirement

The Company is not subject to externally imposed capital requirements.

Gearing ratio

The Board reviews the capital structure of the Company. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end is as follows:

	2007 \$000	2006 \$000
Debt	152,908	–
Cash and cash equivalents	(63,028)	(65,442)
Loans to Group entities	(478,822)	–
Net debt	n/a	n/a
Net debt to equity ratio	n/a	n/a

Debt is defined as long- and short-term borrowings, as detailed in note 40.

Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

43 Financial instruments continued**Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements

Categories of financial instruments

	Carrying value	
	2007 \$000	2006 \$000
Financial assets		
Loans and receivables (including cash and cash equivalents)	542,679	352,174
Derivative financial instruments	-	183
Financial liabilities		
Borrowings and payables	(157,343)	(1,047)
Derivative financial instruments	-	(2,547)

Financial risk management objectives

The Company's financial risk management objectives are described in note 29

The Company's financial instruments as at 31 December 2007 comprise cash deposits and related party loans

Foreign exchange risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts where appropriate.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows

	Liabilities		Assets	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
UK sterling	(1,721)	(330)	70	58,578

At the year end 31 December 2007, the Group had no outstanding forward exchange contracts

Foreign currency sensitivity analysis

The Company is mainly exposed to the currencies of UK sterling

In accordance with IFRS 7, the impact of foreign currencies has been determined based on the balances of financial assets and liabilities at 31 December 2007. The sensitivity analysis includes only outstanding foreign currency denominated monetary items largely resulting from trade payables and receivables, and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the US dollar strengthens 10% against the relevant currency. For a 10% weakening of the US dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

If the US\$ had gained/(lost) 10% against all currencies significant to the Group at 31 December 2007 income would have been US\$0.2 million higher/(lower) (2006: US\$5.8 million lower/(higher)). There is no material effect on equity reserve other than those relating directly to movements in the income statement.

Notes to the Company Financial Statements continued

43 Financial instruments continued

Interest rate risk

The borrowings bear fixed weighted effective interest rate at 10.15%. All cash deposits and loans to Group entities bear interest rates linked to Libor and consequently are exposed to cash flow interest rate risk.

The Company's exposure to interest rates on financial assets and financial liabilities are detailed in the below liquidity risk management.

Sensitivity – a 50 base point increase in interest rate would increase the Company profit before taxation by US\$1 million (2006: US\$1.7 million).

Liquidity risk management

Liquidity risk is the risk that the Company will not have the sufficient funds to meet liabilities. Cash forecasts identifying the liquidity requirements of the Company regularly produced.

The following tables detail the Company's remaining interest-bearing financial assets and liabilities at the balance sheet date at 31 December 2007.

	Weighted average effective interest rate %	Less than 1 month \$000	3 months to 1 year \$000	Total \$000
2007				
Financial assets				
Cash and cash equivalents	5.05	63,028	-	63,028
Loans to Group entities (a)	4.31	-	478,822	478,822
Financial liabilities				
Borrowings – debt portion of convertible loan	10.15	-	(152,908)	(152,908)
		63,028	325,194	388,942
2006				
Financial assets				
Bank deposits	4.73	-	19,600	19,600
Cash and cash equivalents	4.77	65,442	-	65,442
Loans to Group entities*	6.07	-	266,718	266,718
Financial liabilities				
Borrowings		-	-	-
		65,442	286,318	351,760

* In 2007 amounts receivable to related parties of the Group carry interest ranging from 3.5% fixed rate to float rate at Libor + 4.85% (2006: Libor + 1%) per annum charged on the outstanding loan balances. The weighted average interest rate received during the year was 4.31% (2006: 6.07%).

At the end of 31 December 2007, the Company has no outstanding foreign currency contracts.

44 Events after the balance sheet date

See note 30.

Directors and Advisers

Directors

P M Levine (Executive Chairman)
S C Hopkinson (Chief Operating Officer)
J A Hamilton (Group Finance Director)
D V Kurochkin (Chief Financial Officer Russia)
E Kirsanova (Executive Director)
K P Forrest (Non-Executive Director)
P E Godec (Non-Executive Director)
R J Shepherd (Non-Executive Director)

Company Secretary

S S White

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United Kingdom

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Hoare Govett Limited
250 Bishopsgate
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United Kingdom

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London
EC1A 1HQ
United Kingdom

Registrars

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

Glossary

2D, 3D

two (three) dimensional (in relation to seismic surveys)

AIM

Alternative Investment Market

APSS

Annual Profit Sharing Scheme

bbl

barrel of oil

boe

barrel of oil equivalent

bopd

barrels of oil per day

boed

barrels of oil equivalent per day

C1

C1 category (Russian reserve system) represents the reserves of a deposit (or of a portion thereof) whose oil or natural gas content has been determined on the basis of commercial flows of oil or natural gas obtained in wells (with some of the wells having been probed by a formation tester) and positive results of geological and geophysical exploration of non-probed wells

C2

Category C2 (Russian reserve system) reserves are preliminary estimated reserves of a deposit calculated on the basis of geological and geophysical research of unexplored sections of deposits adjoining sections of a field containing reserves of higher categories and of untested deposits of explored fields. The shape, size, structure, level, reservoir types, content and characteristics of the hydrocarbon deposit are determined in general terms based on the results of the geological and geophysical exploration and information on the more fully explored portions of a deposit. Category C2 reserves are used to determine the development potential of a field and to plan geological, exploration and production activities

Capex

capital expenditure

CIS

the Commonwealth of Independent States

the Company/the Group

Imperial Energy Corporation plc

D&M or DeGolyer and MacNaughton

DeGolyer and MacNaughton, a Delaware corporation of the United States of America

E&E

exploration and evaluation

E&P

exploration and production

EOR

enhanced oil recovery

FTSE

Financial Times Stock Exchange

FSU

Former Soviet Union

HSE

health, safety and environment

IAS

International Accounting Standards

IFRS

International Financial Reporting Standards

kb/d

thousand barrels per day

km

kilometre

KPI

key performance indicator

LTIP

Long Term Incentive Plan

m³

cubic metre

mmbbls

million barrels of oil

mmboe

million barrels of oil equivalent

1P

Proved reserves

Proved reserves include reserves that are confirmed with a high degree of certainty through an analysis of the development history and/or volume method analysis of the relevant geological and engineering data. Proved reserves are those that, based on the available evidence and taking into account technical and economic factors, have a better than 90% chance of being produced

2P

Proved + Probable Reserves

Probable Reserves

Probable reserves are those reserves in which hydrocarbons have been located within the geological structure with a lesser degree of certainty because fewer wells have been drilled and/or certain operational tests have not been conducted. Probable reserves are those reserves that, on the available evidence and taking into account technical and economic factors, have a better than 50% chance of being produced.

3P

Proved + Probable + Possible reserves

Possible reserves

Possible reserves are those unproven reserves that, on the available evidence and taking into account technical and economic factors, have a 10% chance of being produced.

SPE

Society of Petroleum Engineers

t

tonne

TSR

Total Shareholder Return

water injection

A technique whereby water is pumped into the reservoir to maintain reservoir pressure and enhance oil recovery working interest with reference to reserves or production, that share of the gross amount to which the Group is entitled before taking account of the state share under the terms of the PSA or PSC (calculated after deduction of initial oil or gas).

workover

Major repairs or modifications to a well which restore or enhance production.