

Imperial Energy  
Corporation PLC

Annual Report 2004

505/12



## Background

Imperial Energy has been established to build, largely through acquisition, a Group specialising in oil exploration and production in the Commonwealth of Independent States.

The relative political stability, the potential of developing further material hydrocarbon resources and the demand for oil products have all further enhanced attractiveness of exploration & production in the region.

There remains significant opportunity for a small, quick-footed, technically competent and well-connected exploration & production Group to identify the niche opportunities both producing and in an investigative/exploration stage.

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## Financial Highlights

- ◆ Successful AIM listing in April 2004.
- ◆ Successful £20 million placing completed October 2004.
- ◆ Losses for the period were £1.4 million being 10.98p per share.
- ◆ Net assets at the year end were £20.23 million.

## Operational Highlights

- ◆ Rapid acquisition of a portfolio of large, well positioned acreage of great prospectivity in Western Siberia and Kazakhstan, equivalent in size to over 90 North Sea Blocks.
- ◆ Significant oil in place figures for Western Siberian acreage with a number of prospects identified.
- ◆ Aggressive, focused drilling and seismic programme on selected prospects with an estimated potential 1.5 billion barrels of oil in place commenced late 2004.
- ◆ Recent announcement of successful testing of the first of two re-entry wells on Nord Imperial, Block 77. The re-entry Dvoinoye has demonstrated stabilised post-fracking rates of 467 barrels per day, being in excess of the Board's expectations.

# Chairman and Chief Executive's Statement

**"2004 was a year of major progress. From incorporation, through admission to AIM, the acquisition of four excellent properties and the raising of £20 million, Imperial has developed rapidly within a short time frame."**

## Introduction

Imperial Energy Corporation PLC is a company focused on oil exploration and production in the CIS. Incorporated in February 2004 and admitted to AIM in April, the Company has made very significant progress within a short time frame. 2004 was a year of major progress with the Company reaching several key milestones as we seek to identify underdeveloped and/or previously unacknowledged areas of potential in the CIS.

During the period ended 31 December 2004, Imperial built up a balanced portfolio of properties within our target areas, principally in the oil rich Tomsk region of Western Siberia as well as in the Kostanai region in Kazakhstan. Together, these interests total some 22,000 square kilometres in size, the equivalent in size of over 90 North Sea Blocks.

Imperial's portfolio was mainly acquired by obtaining controlling shareholdings in the relevant licence holders and we now have controlling stakes in four interests: Sibinterneft, Allianceneftgaz and Nord Imperial in Russia and Sevkazgra in Kazakhstan. In all our interests it has been demonstrated that there is oil in the system.

The amounts of technical, potential hydrocarbon reserves within the Imperial acreage is very significant. Oil in place figures for the small number of prospects which are within the current drilling programme are estimated to be in excess of 1.5 billion barrels.

However, the challenge set for Imperial,

particularly in Western Siberia is not one of pure exploration but of assessment and appraisal and Imperial is focused primarily on demonstrating commercially deliverable and recoverable oil with good flow rates.

We put in place an aggressive winter 2004/2005 work programme and are pleased to report that preliminary results show that Imperial has achieved success in its initial objectives beyond the expectations of the Board in the selected areas drilled to date.

Whilst the programme is set to continue for a further three months, with final results only becoming known later in the year, the Directors see significant growth potential for Imperial's activities.

Imperial's strategy is to prove up commercial reserves on the acreage obtained through selective acquisitions in order to create and deliver shareholder value. Our investment criteria include:

- Identifying previously underdeveloped or little known acreage
- Oil to be present in the system
- Significant potential reserves available to be developed
- Good infrastructure
- The acquisition of majority or controlling stakes
- Reputable, stable partners
- Potential areas of attraction to major foreign oil companies in the future
- Entry price to give significant upside potential

Having first identified and acquired prospective acreage, by using the latest

seismic and drilling techniques. Imperial aims to develop the potential of its acreage in areas where, in Soviet times, prospectivity was either ignored or not fully explored.

#### **Financial Results**

In 2004 the main milestones comprised the admittance to AIM, the building up of Imperial's portfolio of interests and the placing of 12,500,000 shares raising £20 million (£18.8 million after expenses).

Accordingly in 2004 Imperial's losses for the period were £1.4 million being 10.98p per share. Net assets at the year end were £20.23 million.

The successful Placing, in October 2004, provided Imperial with the necessary funds to embark on its aggressive current working programme, the fruits of which are now starting to be realised.

#### **Dividend**

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

#### **Operations**

Imperial's operational activity in 2004 has been centred on the acquisition of its interests in Siberia and Kazakhstan, where the Company has initiated a major drilling and seismic programme.

Imperial has acquired effective controlling stakes in three assets in Siberia and one in Kazakhstan.

#### **Western Siberia**

##### **Sibinterneft (43% net interest with effective control)**

Sibinterneft, located in the Tomsk region of Western Siberia, was the first asset to be acquired in July 2004 and gave Imperial its platform in this oil prolific region. The presence of oil was identified through drilling and seismic in Soviet times. It has been independently estimated that on approximately 30% of the 6,700 square kilometres of the area on which data was obtained, there is some 250 million barrels of oil in place. Imperial paid US\$975,000 for its interest in Sibinterneft.

##### **Allianceneftegaz (51% net interest)**

Imperial's third acquisition in October 2004 was also located in the Tomsk region. It is situated adjacent to large producing Yukos and Sibneft fields with similar petroleum geology and extends across an area in excess of 8,000 square kilometres.

Some 32 wells were drilled in Soviet times, most showing evidence of oil and in excess of 4,000 km of seismic was shot which has now been reprocessed and reinterpreted by Imperial. The result was the identification of a number of significant prospects within the Allianceneftegaz acreage, having in aggregate very significant oil in place.

Imperial paid US\$4.95 million for its interest in Allianceneftegaz of which US\$1.75 million was paid in cash with the balance being paid in shares.

# Chairman and Chief Executive's Statement continued

## **Nord Imperial (80% net interest)**

Nord Imperial interests, similarly situated in the Tomsk region, were acquired at a Government auction in November 2004. Originally a 60% interest, the current 80%, a further 20% having been purchased for cash in December 2004, cost Imperial a total of US\$2.4 million (including the amount paid at auction).

Nord Imperial comprises two blocks. One, Block 77 of over 1,000 square kilometres is adjacent to the southern part of Sibinterneft, Block 74. The other, Block 69, extends over 2,000 square kilometres bordering the northern part of Alliancenneftgaz, Blocks 70 and 85.

Both Blocks in Nord Imperial are highly promising with technical oil in place in Block 69 alone estimated by Imperial to be substantially in excess of 1 billion barrels.

## **Kazakhstan, Sevkazgra (75% net interest)**

Extending to some 4,000 square kilometres, Sevkazgra, situated in the Kostanai region of northern Kazakhstan, is an intriguing prospect and was the second acquisition made by Imperial. Acquired for US\$100,000 cash in July 2004, the territory was the subject of exploration for minerals, coal and oil in Soviet times. Oil at shallow depths was found in some 25% of all wells drilled. However, in those times oil was not of predominant interest and the area was left unexplored, with no seismic investigation.

Having considered the geology, Imperial views this, admittedly speculative area, as a wildcat project but one with a potentially significant upside.

## **The Board of Imperial**

Despite its youth, Imperial has a strong Board. We have assembled a team of highly experienced executives including Dr Rupert Kidd, our Chief Operating Officer, an international exploration and production executive whose 26 years in the oil industry, the majority of which was with Lasmo where he held senior positions including responsibility for their operations in Pakistan and Colombia. Pierre Godec and Dr Ken Forrest, our independent non-executives, are also well-known industry names. Pierre Godec enjoyed a 32 year career in the international oil industry with Groupe Elf Aquitaine and gained extensive experience of the industry worldwide having held senior positions at Elf in the UK, Russia, France, USA, Canada, Kazakhstan, Nigeria and Norway. Dr Ken Forrest was formerly Director of Exports (Oil and Gas) to the DTI and Director of Russian and China Unit at Department of Energy.

We are further strengthening the Board with the appointment of Denis Capelson as Commercial Director. Denis has extensive experience in both Kazakhstan and Russia. Educated in America, gaining an MBA from the University of Chicago, he is based in our London office.

In accordance with the Articles of Association of the Company, all Directors retire and offer themselves for re-election at the forthcoming AGM to be held on 1 June 2005.

I would also like to recognise and emphasise the contribution made by all employees during the year. The success of Imperial is a team effort built on the expertise, enthusiasm and commitment of all our people.

## **Directors Authority to Issue Shares**

The Directors are seeking, at the forthcoming AGM, approval of the shareholders to issue and allot new Ordinary Shares in Imperial on a non-pre-emptive basis. The Directors will, subject to the approval being given, then have the authority to issue up to 20 million new Ordinary Shares, with an aggregate nominal

value of £500,000, each ranking *pari passu* with the existing shares of the Company. Any such issue, to be made within 12 months of the giving of the approval, would be on such conditions, at date and price as may be determined by the Board and the new Ordinary Shares could be allotted in consideration for cash or securities. On issue and allotment, application would be made for all such new Ordinary Shares to be admitted to trading on the Alternative Investment Market. If all the new Ordinary Shares, subject to the approval, are issued and fully subscribed the issued share capital of the Company will increase from 23,374,962 to 43,374,962 and the new Ordinary Shares will represent approximately 46 per cent of the then enlarged issued share capital of the Company.

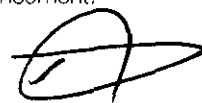
The Directors consider that this authority is appropriate to allow the Company, if required, to raise further moneys for working capital including in relation to forthcoming working programmes.

### Current Prospects and Outlook

The aggressive drilling and seismic programme currently under way is proving so far to be very successful and ahead of the Directors' expectations.

Since the period end we have identified oil in each of the two re-entries and the new well in Nord Imperial, Block 77, and this represents an important step towards achieving one of our key objectives of demonstrating commercially deliverable oil flow rates.

We will continue to focus on the early appraisal and commercialisation of the Siberian interests and with our ongoing aggressive drilling programme which has the potential for further significant value enhancement.



Peter Levine  
Chairman and Chief Executive  
19 April 2005

# Operational Review

**“On its acreage in the Tomsk region of Western Siberia, Imperial has identified a number of potential oil accumulations holding several billion barrels of oil in place. The Company’s objective for the winter 2004–2005 season is to demonstrate, using modern methods of drilling and testing, that this oil can be produced commercially.”**

## **Business Overview**

In 2004 Imperial Energy acquired controlling interests in a large acreage portfolio in the prolific oil bearing region of Tomsk in Western Siberia as well as in Kazakhstan.

Subsequent to the raising of funds through the placing of shares in October 2004, an aggressive drilling and seismic programme for Winter/Spring 2004/2005 was implemented.

At the time of publication of this Annual Report and Accounts, the first results of this work have proved very encouraging.

## **Tomsk Region, Western Siberia, Russia**

Imperial's position in the Tomsk region of Western Siberia now comprises gross exploration acreage of over 18,000 square kilometres, all operated by Imperial's subsidiaries. This is the equivalent of 70 typical North Sea Blocks. The acreage is



between or adjacent to producing oil fields mainly operated by Yukos and Sibneft, with typical field sizes in the range of 25 to 340 mmbbl recoverable with the largest field being over 1 billion barrels.

The geology changes gradually in this region and Imperial's acreage is similar to that of the adjacent producing fields. The productive reservoirs are mostly around 2,400 to 3,200 m depth. It is quite common to find multiple stacked pay zones. In Soviet times, a total of 70 exploration wells were drilled on Imperial's acreage, such that many of the structures have one or more existing wells. Many of these indicate the presence of oil but were not properly tested. In Soviet times the wells were drilled and tested with heavily overweight mud causing formation damage that inhibited flow from the relatively low permeability reservoirs. Old Soviet perforating guns only penetrated a few

centimetres into the formation while mechanical failures in testing were very frequent. Consequently many potentially commercial oil accumulations may have been overlooked.

The exploration season in the Tomsk region is during the Siberian winter, when the ground is frozen so that it is possible to move heavy equipment. Once rigs and supplies are in place it is possible to continue drilling into the Spring. In contrast, production and development drilling can continue all year round after surface facilities are constructed. Imperial put together an aggressive exploration programme for the 2004–2005 winter season in which the Company plans to drill three new exploration wells, re-enter and retest four old wells and shoot a total of approximately 1000 km of seismic in four areas. This is not strictly pure exploration but reappraisal of the previous drilling.

# Operational Review continued

Imperial's principal strategic objective for the 2004–2005 exploration season is to demonstrate, using modern methods of drilling and well completion and testing, the commercial deliverability of oil. This includes the use of deep penetration perforating guns and stimulation of the wells by fracing (artificial fracturing) to obtain commercial flow rates. Fracing of wells, now standard practice in the region, can generate a several fold increase in flow rates and is one of the principal reasons for the increase in production from many Russian fields. Imperial uses Russian drilling rigs but with the selective use of Western technology as appropriate.

The Winter programme is detailed in the table set out below.

Location	Mean Potential Oil in Place (STOOIP) MMBO	Commencement	Net Interest
<b>Nord Imperial Block 77</b> Western Siberia, Russia			
<b>New Well:</b> Snezhnaya 135	133	February 2005	80%
<b>Re-entry of old wells:</b> Snezhnaya 133 and Dvoynoye 2		January 2005	
<b>Allianceneftegaz Block 70</b> Western Siberia, Russia			
<b>New Well:</b> Maiskaya 392	402	March 2005	51%
<b>Nord Imperial Block 69</b> Western Siberia, Russia			
<b>New Well:</b> Severo-Festilvalnaya 3 and	843	May 2005	80%
<b>Re-entry of old well:</b> Severo-Festilvalnaya 1			
<b>Re-entry of old well:</b> Festilvalnaya 252	158	March 2005	80%

Imperial only quotes the potential oil in place on the specific prospects being evaluated, since the potential recovery from such reservoirs remains uncertain until commercial flow rates have been obtained. From the large number of these and other prospects already identified evidence suggests that the potential oil in place could be in excess of several billion barrels. Typical recovery factors in the region from the main producing reservoir, the Vasugan, are 30% to 35% with recovery factors a little lower from other deeper horizons.

**Sibinterneft** (*net interest 43%*)

Sibinterneft holds four exploration licences representing two blocks (74 and 95) which together cover some 6,700 square kilometres. The blocks are close to producing fields and to the main Transneft oil pipeline on the west side of the Ob River. A total of thirteen exploratory wells had previously been drilled in the licence area by a Russian state company. These confirm the presence of oil but, with poor drilling and testing techniques, no commercial flow rates were established.

Imperial has re-processed and re-interpreted in excess of 2000 km of seismic previously shot over the licence acreage. This resulted in identification of several potential prospects in which RPS Energy (Geological and Geophysical Consultants including Tri-Ikoda) have independently confirmed the

potential for significant volumes of oil in place to be in excess of 250 million barrels, solely in respect of the identified acreage. These prospects now require further delineation. In the 2004–2005 winter exploration season Imperial set out to acquire additional 415 km of new seismic commencing in January 2005. Work is still under way and based on the results of this seismic, the Company plans to select one or more prospects for drilling in the 2005–2006 winter season.

# Operational Review continued

## **Allianceneftegaz** (*net interest 51%*)

Allianceneftegaz holds nine individual exploration licences representing four separate blocks that cover some 8,000 square kilometres. The main part of the acreage blocks 70, 85 and 86 is located directly between producing Yukos and Sibneft oil fields with similar petroleum geology.

During 2004 Imperial commissioned the re-processing and re-interpretation of over 4,000 km of old seismic data and the evaluation of 32 wells drilled during Soviet times. An independent report by RPS Energy Services identified a number of prospects with a total of over 3 billion barrels of oil-in-place within the Jurassic interval alone. Although many wells demonstrate the presence of oil and small volumes have been recovered in tests, as

with the Sibinterneft blocks, most of the testing was inadequate.

During the 2004–2005 Work Programme Imperial is drilling a new exploration well, Maiskaya 392 on the North Maiskaya prospect, which is estimated by RPS Energy to hold 402 million barrels of oil in place. This well was spudded in March 2005 and work is ongoing. A second well, initially planned on the Verkhne-Vasuganskaya prospect, has been deferred until the following winter drilling season to enable us to use the contracted rig to drill a well on Block 69.

Imperial is also in the process of shooting 250 km of seismic, which commenced in January 2005, to delineate further prospects for drilling in the 2005–2006 Winter season.

## **Nord Imperial** (*net interest 80%*)

Since acquiring two blocks, Block 77 and Block 69, at auction on 18 November 2004, Imperial has moved very rapidly to put a substantial exploration programme in place during the 2004–2005 Winter drilling season.

Block 77 covers some 1,000 sq km and is situated adjacent to Imperial's Sibinterneft Block 74. In Soviet times nine exploration wells were drilled on the block. On the basis of the limited amount of exploration undertaken there are official C1 and C2 reserves of equivalent to at least 8.4 million barrels, of which 2.8 million barrels is C1. Imperial nevertheless considers that these C1 and C2 reserves and those on Block 69 should not be classified as proven or probable reserves in the Western sense until it can be demonstrated that they can be commercially produced. However, these Blocks were not acquired for just these reserves, but for their very much greater upside potential.

Block 69 covers some 2,700 sq km and is situated adjacent to Imperial's Alliancenneftegaz Blocks 70 and 85. In the past fourteen exploration wells have been drilled on the block. There are official C1 and C2 reserves of equivalent to 17.3 mmbo, of which 9.3 mmbo is C1.

Immediately following the acquisition, Imperial undertook a review of all available information and the results identified numerous oil-bearing prospects with potential oil-in-place figures in respect of Block 69 alone substantially in excess of 1 billion barrels. Based on the review, the Company designed a seismic exploration programme which includes 185 km of new seismic on Block 69 and 150 km of new seismic on Block 77 to be shot during the current work programme. In addition, the re-processing and re-interpretation of 1,200 km of old seismic on Block 77 and 3,100 km of old seismic on Block 69 has been commissioned.

The full measure of Imperial's enthusiasm for these blocks, however, is reflected in the rapid re-allocation of resources into a substantial drilling programme within the 2004–2005 season. On Block 77 this consists of re-entry and re-testing of two old wells using modern equipment and techniques: Snezhnaya 133 and a satellite to Snezhnaya, Dvoynoye-2, and the drilling of a new well, Snezhnaya 135. The current estimated oil-in-place of these prospects totals 133 mmbo. The re-entry work commenced in February 2005 and the new well was also spudded that month.

# Operational Review continued

## **Nord Imperial** *(net interest 80%)*

The re-entry Dvoynoye has demonstrated stabilised flow rates of some 467 barrels per day on a 10 mm choke over a 12 hour period. The oil quality is good at 33 degrees API and these rates are in excess of the Company's own expectations. It is estimated that pumped rates could be at least twice this figure.

The well stimulation of re-entry Snezhnaya 133 on the same Block is expected to take place in May.

The new well, Snezhnaya 135, has shown, from wire line logging and core analysis, net oil pay of 10 metres with encouraging permeability and porosity. The well stimulation is expected to take place in May.

The new seismic currently under way on Snezhnaya has confirmed structural closure of around 100 metre elevation.

On Block 69 two wells are being re-entered, workovers having commenced in March 2005: Festivalnaya 252, on a prospect which is estimated to contain 158 million

barrels of oil in place, and North Festivalnaya-1 on a prospect which is estimated to have 843 million barrels of oil-in-place. In addition, in view of the substantial potential of North Festivalnaya, a new well North Festivalnaya-3 is also planned to commence drilling on this prospect in early June 2005.

**Kazakhstan Sevkazgra (net interest 75%)**

The Sevkazgra oil exploration licence on the North Torgai Block covers more than 4,000 square kilometres of the relatively unexplored Kostanai province of northern Kazakhstan.

The licensed area is not covered by any modern seismic survey but in Soviet times some 222 shallow stratigraphic wells were drilled. Of those wells, 47 (21% of the total) found evidence of heavy oil and/or bitumen at shallow depths. The geology is considered to be similar to parts of the Western side of the Urals where large discoveries, such as the giant Orenburg field, have been made. The licence area has good infrastructure and transport links and is well situated for export to China.

**Outlook**

The recent results of Imperial's current working programme are very encouraging and we view the future with great confidence.

The programme that Imperial has put together for the first half of 2005 has begun to demonstrate the viability of commercial production within its assets. It is also a significant step towards confirming the

During 2005 the Company is planning seismic acquisition of 390 km due to begin in January 2005. In contrast to Western Siberia in the Kostanai province, it is possible to carry out exploration work all the year round as the area is flat agricultural land. Subject to positive results of the upcoming programme, the Company intends to shoot further infill seismic and, or drill an exploratory well later in 2005.

Overall, Sevkazgra remains a wildcat project and comes with the commensurate level of risk. Imperial therefore will approach the exploration on a measured, step-by-step approach.

substantial reserve potential of the Company's acreage in Western Siberia, whilst Imperial's Kazakhstan acreage offers exposure to an exciting new play.

Dr Rupert Kidd  
Chief Operating Officer

# Financial Review

## Results summary

The financial results for the period ended 31 December 2004 reflect the Groups set up, initial acquisitions and successful placing in October 2004.

## Institutional placings

On 5 April 2004 Imperial Energy Corporation PLC listed on the AIM market with the issue of 3,400,000 shares at 25 pence per share, raising £850,000.

On 12 October 2004, a further £20m was raised through an institutional placing of 12,500,000 shares at 160 pence per share.

## Acquisitions

Part of the funds raised were used to finance the Group's acquisitions during the period.

In July Imperial acquired an effective controlling stake (85% of a 51% interest) in LLC Sibinterneft for £532,000, the equivalent of \$975,000. Also in July the Group acquired a 75% stake in LLP North-Kazakhstan Geologo-Analytical Company Sevkazgra, holding licensed territories in Northern Kazakhstan, for £55,000, the equivalent of \$100,000.

In November it acquired a 51% stake in LLC Allianceneftgaz, which holds licensed territories in Western Siberia, for a consideration of £2,657,000, the equivalent of \$4.95 million. This was satisfied by the issue and allotment of up to 798,462 shares at 219 pence per share and £908,000, the equivalent of \$1.75 million, in cash.

In November it also acquired via its 60% subsidiary OOO Nord Imperial two new hydrocarbon exploration licences in the Tomsk region of Western Siberia, Russia. These licences were acquired for £458,113, the equivalent of \$900,000. It acquired a further 20% of OOO Nord Imperial in December for £779,000, the equivalent of \$1.5 million.

## Operating loss

The operating loss for the period was £1,662,000 which includes amounts attributable to Minority Interest of £128,000.

## Loss before and after tax and minority interest

The loss before and after tax and after minority interests of £1,372,000 included interest earned of £162,000. The interest earned reflects the Group's management of cash reserves.

The results include a foreign exchange loss of £199,000.

## Cash flow

Net cash outflow from operating activities was £2,439,000.

As of 31 December 2004, the Company had total cash balances of £13,823,000.

## Financial risks

The Group closely monitors the risks associated with currency exposures and seeks to manage these uncertainties on an ongoing basis. The Group remains committed to strong financial controls, cash management and prudent treasury policies.

Guy Smith ACA  
Company Secretary  
19 August 2005



**Directors**

P M Levine (Chairman and Chief Executive Officer)  
Dr R G W Kidd (Chief Operating Officer)  
D Capelson (Commercial Director)  
Dr K P Forrest (Non-Executive Director)  
P E Godec (Non-Executive Director)

**Company Secretary**

T G K Smith ACA

**Company Number**

5054461

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LS1 2DS  
United Kingdom

**London Operational Office**

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Chartered Accountants  
2 Whitehall Quay  
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LS1 4HG  
United Kingdom

**Nominated Adviser and Broker**

Canaccord Capital (Europe) Limited  
1st Floor  
Brook House  
27 Upper Brook Street  
London  
W1K 7QF  
United Kingdom

**Registrars**

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

# Report of the Directors

The Directors present their report together with audited financial statements for the period ended 31 December 2004. The Company was incorporated on 24 February 2004. On 5 April 2004 the Company was admitted to the Alternative Investment Market ("AIM") of the London Stock Exchange.

## Directors

The Directors who served during the period were as follows:

York Place Company Nominees Limited (appointed 24 February 2004) (resigned 24 February 2004)

P L Company Nominees Limited (appointed 24 February 2004) (resigned 18 March 2004)

P M Levine (appointed 1 March 2004)

Dr K P Forrest (appointed 18 March 2004)

P E Godec (appointed 30 July 2004)

Dr R G W Kidd (appointed 8 September 2004)

Directors appointed after the period end:

D Capelson (appointed 18 April 2005)

## Directors' Interests

	31 December 2004 Number of Shares
P M Levine	3,941,777
Dr K P Forrest	28,500
P E Godec	21,500
Dr R G W Kidd	50,000

## Biographical Information of Directors

### P M Levine

#### Chairman and Chief Executive Officer

Peter Levine, aged 49, a resident of Switzerland, graduated in jurisprudence from Trinity College, Oxford in 1977 and qualified as a solicitor in 1980 from when he specialised in international/corporate law. He is the Chairman of PLLG, an International Law firm which has offices in Russia, Kazakhstan, Switzerland, Ukraine and Hong Kong as well as in the United Kingdom. He is the Honorary Consul for the Republic of Kazakhstan in England as well as being the Co-Chairman, with Lord Fraser of Carmyllie, of the British-Kazakh Society whose Honorary Patrons are HRH the Duke of York and President Nursultan Nazarbayev of Kazakhstan. He is the international legal adviser to the Supreme Court of Kazakhstan. From 1998 he has been Chairman of the fully listed steel construction company Severfield-Rowen Plc having been its Deputy Chairman from 1993.

## Principal Activities

The principal activity of the Group is oil exploration. The Group operates through subsidiary undertakings, the details of which are listed in Note 12 to the accounts.

## Results and Dividends

The Group results for the period are set out on page 23 and show a loss for the period.

### Dr R G W Kidd

#### Chief Operating Officer

Rupert Kidd, aged 55, a resident of the United Kingdom, graduated in natural sciences from Cambridge University in 1971. He has an MSc in geophysics from Durham University and a PhD in geology from the University of East Anglia. He has some 26 years oil industry experience, joining Texaco in 1978 and then moving to Lasmo in 1982, where he became Country Manager in Colombia and in Pakistan, and subsequently Exploration and New Business Director for Lasmo North Sea. Latterly he has been Director, Acquisition and Divestment Consulting at IHS Energy, one of the leading suppliers of consulting services to the oil industry.

### Dr K P Forrest CBE

#### Non-Executive Director

Kenneth Forrest, aged 62, a resident of the United Kingdom, graduated in chemistry from Strathclyde University in 1965, gaining a PhD from that same university in 1968. In

1974 he joined the Department of Energy becoming Director of their China and Russian unit in 1984. In 1995 he was appointed Director of Exports (Oil and Gas) to the DTI and from May 2000 until he retired in 2002 was the Director of the Oil and Gas Business Directorate at Trade Partners UK. He is the Co-Chairman, with the Azeri Deputy Minister for Economic Development, of the Azerbaijan British Trade and Investment Council. Kenneth Peat Forrest was appointed CBE in 2002.

**P E Godec, Chevalier Legion d'Honneur, Non-Executive Director**

Pierre Godec, aged 60, a resident of Cyprus, graduated from Ecole des Hautes Etudes Commerciales in Paris in 1968. In 1968 he joined Groupe ELF Aquitaine where he held various positions at their Paris headquarters. In 1974, he became VP Finance/Treasurer for ELF North America and from 1979 he was CEO/MD of various

ELF international subsidiaries, including between 1990 and 1993 ELF Neftegaz, which operated in Russia and Kazakhstan. From 1995–2000 he was CEO/MD of ELF Petroleum and ELF Exploration in the UK and since 2000 he has been an international consultant to the oil industry.

**D Capelson  
Commercial Director**

Denis Capelson, aged 34, was born in Novosibirsk, Siberia, Russia, moved to the United States of America in 1989 and has extensive experience in both Kazakhstan and Russia. Educated in America, Denis read Economics at the University of Utah and went on to gain an MBA from the University of Chicago. Denis subsequently worked in Kazakhstan in the sphere of investment banking going on to work in the oil and gas services for International Energy Services Inc., a seismic and data processing company.

**Substantial Shareholders**

The following parties had interests of greater than 3% of the issued share capital of the Company at 31 March 2005:

	Number of Shares	%
P M Levine	3,941,777	16.86
A A Capelson	3,909,026	16.72
HSBC Global Custody Nominee (UK) Limited	1,463,410	6.26
Littledown Nominees Limited	1,407,000	6.02
Chase Nominees Limited	1,329,037	5.69
State Street Nominees Limited	937,194	4.01
The Bank of New York (Nominees) Limited	737,300	3.15

**Warrants in Issue**

As at 31 December 2004 the Company's nominated broker, Canaccord Capital (Europe) Limited, held warrants for 553,000 shares at 160 pence per share. On 24 February 2005 Canaccord exercised warrants over 276,500 shares.

**Review of the Business  
and Future Developments**

The Directors are satisfied with the results of both the Group and the Company and further details are set out in the Chairman's Statement.

**Interests in Contracts**

As disclosed in Note 21 Related Party Transactions, there have been contracts or arrangements during the financial period in which a Director of the Company was materially interested and which were significant in relation to the Group's business.

**Creditors Payment Policy and Practice**

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

# Report of the Directors continued

## Political and Charitable Contributions

There were no political contributions made by the Group during the period. Charitable contributions of £16,244 were made during the period to the Tomsk Jewish Centre Foundation for the restoration of the City Synagogue.

## Health, Safety and Environment

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

## Post-Balance Sheet Events

Details of post-balance sheet events are disclosed in Note 22 to these accounts.

## Share Capital

Two resolutions (Numbered 9 and 10) are to be proposed at the Annual General Meeting relating to or concerning Share Capital.

Resolution 9 in the Notice of Annual General Meeting is an Ordinary Resolution to authorise the Directors, pursuant to section 80 of the Companies Act 1985, to allot 20 million Ordinary Shares having an aggregate nominal value of £500,000 representing approximately 87 per cent of existing Share Capital.

Resolution 10 in the Notice of Annual General Meeting is a Special Resolution. By this Resolution the Directors are seeking approval of the shareholders to issue and allot new Ordinary Shares in Imperial on a non-pre-emptive basis. The Directors will, subject to the approval being given, then have the authority to issue up to 20 million new Ordinary Shares, with an aggregate nominal value of £500,000, each ranking *pari passu* with the existing shares of the Company. Such authority to issue will expire on the earlier of the conclusion of the Annual General Meeting to be held in 2006 or fifteen months after the date of the passing of this resolution and any such issue would be on such conditions, at date and price as may be determined by the Board and the new Ordinary Shares could be allotted in consideration for cash or securities. On issue and allotment, application would be made for all such new Ordinary Shares to be admitted to trading on the Alternative Investment Market. If all the new Ordinary Shares, subject to the approval, are issued and fully subscribed the issued share capital of the Company will increase from 23,374,962 to 43,374,962 and the new Ordinary Shares will represent approximately 46 per cent of the then enlarged issued share capital of the Company. The Directors consider that this authority is appropriate to allow the Company to raise further monies for working capital including in relation to forthcoming working programmes.

**Directors' Fees**

Resolution 8 is an Ordinary Resolution and relates to Directors' Fees. Although the Directors consider that the present limit of £100,000 is likely to be adequate for the immediate future, they consider it prudent to extend the authority in case circumstances make the payment of higher Directors' fees desirable.

**Going Concern Basis**

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

**Auditors**

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

**Statement of Directors' Responsibilities**

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the Group and of the Company and of the profit and loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

By order of the Board



P M Levine  
Chairman and Chief Executive Officer  
19 April 2005

# Corporate Governance Statement

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

This statement explains how the Directors applied the principles of the code during the period ended 31 December 2004.

## **The Board of Directors**

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

The Board currently comprises the Chairman and Chief Executive, Chief Operating Officer, Commercial Director and two Non-Executive Directors. The Non-Executive Directors are considered to be independent of management and free from any contractual relationships to the Group, thereby allowing them to exercise full independent judgement on any issue. The Directors' biographies appear on page 16 and demonstrate a range of relevant experience at a senior level. All Directors are able to take independent professional advice as appropriate at the Company's expense.

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

The following committees have been established:

## **Audit Committee**

The Audit Committee was appointed in January 2005. It comprises both Non-Executive Directors. Meetings will be held not less than twice a year. It will provide a forum for reporting by the Group's external auditor. It will review the half year and final accounts prior to their submission to the Board.

## **Remuneration Committee**

The Remuneration Committee was appointed in January 2005. It comprises both Non-Executive Directors. The committee will meet as required. Its responsibilities are to determine the terms and conditions of service of all Executive Directors including remuneration.

## **Nomination Committee**

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

## **Relationships with Shareholders**

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

## **Internal Control**

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

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

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

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

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

## Remuneration Committee

The Remuneration Committee was appointed at the Board meeting of 19 January 2005. The membership of the committee comprises the two Non-Executive Directors, Dr K P Forrest and P E Godec. It is expected that it will meet as required during the year.

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

## Total Level of Remuneration

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

## Basic Salaries

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

## Fees

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

## Terms of Appointment

The Executive Directors' service contracts are for an indefinite period but can be terminated with six months' notice by either side.

## Share Related Incentive Schemes

There are no share related incentive schemes for members of the Board or management in place although future consideration will be given to adopting these as the Company develops.

## Annual Remuneration of Directors

The remuneration paid to Directors in the period ended 31 December 2004 is shown below:

	Salary £'000s	Benefits £'000s	Fees £'000s	Shares £'000s	Total £'000s
P M Levine	—	—	80	—	80
Dr R G W Kidd	42	1	—	50	93
Dr K P Forrest	—	—	9	30	39
P E Godec	—	—	9	34	43
					255

# Independent Auditors' Report to the Shareholders of Imperial Energy Corporation PLC

We have audited the financial statements of Imperial Energy Corporation PLC on pages 23 to 36 for the period ended 31 December 2004. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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**

As described in the Statement of Directors' Responsibilities on page 19, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the 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 transactions with the Company is not disclosed.

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

comprises only the Chairman and Chief Executive's Statement, Operational Review, Financial Review, Report of the Directors, Corporate Governance Statement and Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2004 and of the loss of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly  
Registered Auditors  
Chartered Accountants  
Leeds  
19 April 2005



# Consolidated Profit and Loss Account



For the period ended 31 December 2004

	Notes	2004 £'000s
Administrative expenses	3	(1,662)
<b>Operating loss</b>		<b>(1,662)</b>
Interest Receivable	6	162
<b>Loss on ordinary activities before taxation</b>		<b>(1,500)</b>
Taxation	7	—
<b>Loss on ordinary activities after taxation</b>		<b>(1,500)</b>
Minority Interest		128
<b>Loss for the financial period</b>	17	<b>(1,372)</b>
<b>Loss per ordinary share — Basic</b>	8	<b>(10.98)p</b>
<b>— Diluted</b>	8	<b>(10.98)p</b>

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

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

# Supplementary Statements

## Consolidated Statement of Total Recognised Gains and Losses

For the period ended 31 December 2004

	2004 £'000s
Retained Loss for the period	(1,372)
Exchange differences on retranslation of net assets of foreign currency operations	—
Total gains and losses recognised for the period	(1,372)

## Reconciliation of Movements in Shareholders' Funds

For the period ended 31 December 2004

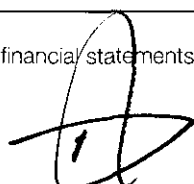
	Group 2004 £'000s	Company 2004 £'000s
Total recognised gains and losses for the year	(1,372)	(916)
New Share Capital Subscribed	577	577
Share premium on share issues less issue costs	21,021	21,021
Net additions to shareholders funds	20,226	20,682
Opening shareholders' funds	—	—
Closing shareholders' funds	20,226	20,682

# Balance Sheet

31 December 2004

	Notes	Group 2004		Company 2004	
		£'000s	£'000s	£'000s	£'000s
<b>Fixed assets</b>					
Intangible Assets	10		6,134		—
Tangible Assets	11		81		16
Investments	12		—		2,117
			6,215		2,133
<b>Current assets</b>					
Debtors due within one year	13	1,379		215	
Debtors due after one year	13	—		5,295	
Cash at bank and in hand		13,823		13,378	
		15,202		18,888	
<b>Creditors:</b>					
Amounts falling due within one year	14	(1,416)		(339)	
<b>Net current assets</b>			13,786		18,549
<b>Total assets less current liabilities</b>			20,001		20,682
<b>Minority interest</b>			225		—
<b>Net assets</b>			20,226		20,682
<b>Capital and reserves</b>					
Called up share capital	16		577		577
Share Premium account	17		21,021		21,021
Profit and loss account	17		(1,372)		(916)
<b>Shareholders funds</b>			20,226		20,682

The financial statements were approved by the Board on 19 April 2005



P M Levine  
Chairman and Chief Executive

The notes on pages 27 to 36 form part of these financial statements

# Consolidated Cash Flow Statement

For the period ended 31 December 2004

	Notes	2004 £'000s
Cash flow from operating activities	18a	(2,439)
Returns on investments and servicing of finance	18b	162
Capital expenditure and financial investment	18b	(1,483)
Acquisitions and disposals	18b	(2,266)
<b>Cash flow before financing</b>		<b>(6,026)</b>
Financing	18b	19,849
<b>Increase in cash in the period</b>		<b>13,823</b>

## Reconciliation of Net Cash Flow to Movement in Debt

		2004 £'000s
(Increase)/decrease in cash in the year	18c	(13,823)
<b>Movement in net funds in period</b>		<b>(13,823)</b>
<b>Net (funds)/debt at 31 December 2004</b>	18c	<b>(13,823)</b>

## 1 Accounting policies

### Basis of Preparation

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

The period covered by the statements is the 10 months from incorporation on 24 February 2004.

The financial statements have been prepared on a going concern basis. The Group's ability to continue as a going concern is contingent upon raising additional funds to cover exploration commitments and for use as working capital. If the Group is unable to raise additional funds, the going concern basis may not be appropriate with the result that the Group may have to realise its assets and extinguish its liabilities other than in the ordinary course of business and at amounts different from those stated in the financial report. In October 2004 the Company raised £20,000,000 from the placing of shares. The Directors expect that these funds will be exhausted by September 2005. The Directors plan for a further placing of shares to take place before September 2005 which is expected to raise the additional funds required.

Should the Directors be unable to raise further funds, they would consider how best to control costs and realise the Group's assets.

### Basis of Consolidation

The consolidated accounts incorporate the accounts of the Company and all its subsidiary undertakings throughout the period ended 31 December 2004, using the principles of acquisition accounting, includes the results of the subsidiary from its date of acquisition.

### Operating in the former CIS States

During the period ended 31 December 2004 all of the Company's business was conducted in the former CIS States through its investment in subsidiaries operating in the oil and gas industry. These operations, and those of other similar companies, are subject to the economic, political and regulatory uncertainties prevailing in the region.

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

Similarly, the region's laws and regulations concerning environmental assessments and clean-ups continue to

evolve. As they do, companies operating in the region may incur substantial costs in the future relating to past and current operations.

### Capitalisation of Oil Exploration Expenditure

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

### Other Tangible Assets and Depreciation

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

Equipment	— 30%
Motor Vehicles	— 25%

### Oil and Gas Reserves

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

### Investments

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

### Operating Leases

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

### Cash and Liquid Resources

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

### Foreign Currencies

#### Company

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

# Notes to the Financial Statements continued

## Group

The Balance Sheets and results of overseas subsidiaries are translated at the rate ruling at the Balance Sheet date. The resulting exchange differences are taken to the reserves. All other exchange differences are taken to the Profit and Loss Account.

## Deferred tax

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

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

## Issue expenses and Share Premium Account

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

## 2 Segmental Reporting

During 2004 the operations of the Group comprise one class of business, the exploration for hydrocarbon liquids.

Net Assets are analysed as follows

	Net Assets £'000s
United Kingdom	20,385
Russia	(129)
Kazakhstan	(26)
Cyprus	(4)
	<b>20,226</b>

The UK-based net assets mainly represent unallocated cash resources at the Balance Sheet date.

## 3 Operating Loss

This is stated after charging

	2004 £'000s
Auditors' remuneration — audit fees	30
Depreciation	3
Exchange differences	199

## 4 Directors Emoluments

	2004 £'000s
Directors' remuneration consists of:	
Fees and emoluments for management services	255
Highest paid director	
Fees and emoluments for management services	93

Further information on the remuneration of the Directors can be found in the Remuneration Report on page 21.

There were no contributions made to pension schemes.

## 5 Staff Costs

	2004 £'000s
Wages and salaries	258
Social security costs	30
	<b>288</b>

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

	2004 No.
UK	5
Russia	7
Kazakhstan	7
Total	<b>19</b>

## 6 Interest

	2004 £'000s
Bank interest receivable	162

## 7 Taxation

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

	2004 £'000s
Loss on ordinary activities before tax	(1,500)
Loss on ordinary activities before tax at the standard UK corporation tax rate of 30%	(450)
Effects of	
Expenses not deductible for tax purposes	11
Current period UK tax losses not utilised	362
Overseas tax losses not utilised	77
	<b>—</b>

## 8 Loss Per Share

The calculation of basic and diluted loss per ordinary share is based on the loss for the period of £1,372,000. The weighted average number of ordinary shares in issue during the period was 12,490,706.

## 9 Loss for the Financial Year

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own Profit and Loss Account in these financial statements. The Group loss for the period includes a loss after tax of £916,000 for the period ended 31 December 2004, which is dealt with in the financial statements of the parent Company.

# Notes to the Financial Statements continued

## 10 Intangible Fixed Assets

Group	Total £'000s
<b>Cost</b>	
Additions	6,134
<b>At 31 December 2004</b>	<b>6,134</b>
<b>Amortisation</b>	
Charge for period	—
<b>At 31 December 2004</b>	<b>—</b>
<b>Net Book Value at 31 December 2004</b>	<b>6,134</b>

## 11 Tangible Fixed Assets

Group	Fixtures, fittings and equipment £'000s	Motor vehicles £'000s	Total £'000s
<b>Cost</b>			
Additions	49	35	84
<b>At 31 December 2004</b>	<b>49</b>	<b>35</b>	<b>84</b>
<b>Depreciation</b>			
Charge for period	3	—	3
<b>At 31 December 2004</b>	<b>3</b>	<b>—</b>	<b>3</b>
<b>Net Book Value at 31 December 2004</b>	<b>46</b>	<b>35</b>	<b>81</b>
<b>Company</b>			
<b>Cost</b>			
Additions	19	—	19
<b>At 31 December 2004</b>	<b>19</b>	<b>—</b>	<b>19</b>
<b>Depreciation</b>			
Charge for period	3	—	3
<b>At 31 December 2004</b>	<b>3</b>	<b>—</b>	<b>3</b>
<b>Net Book Value at 31 December 2004</b>	<b>16</b>	<b>—</b>	<b>16</b>



## 12 Investments

	Investment in Subsidiary Undertakings £'000s	Total £'000s
<b>Cost and net book value</b>		
<b>Additions and at 31 December 2004</b>	<b>2,117</b>	<b>2,117</b>

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

Name	Country of Incorporation	Voting rights and proportion of ordinary share capital held	Nature of business
Imperial Energy Limited *	UK	100%	Operating Company
Imperial Energy Kostanai Limited	UK	100%	Intermediate Holding Company
Imperial Energy Tomsk	Cyprus	85%	Intermediate Holding Company
Imperial Energy Cyprus	Cyprus	100%	Intermediate Holding Company
R.K. Imperial Energy (Kostanai) Limited	Cyprus	100%	Dormant
OOO Imperial Energy	Russia	100%	Dormant
LLC Sibinterneft	Russia	51%	Oil exploration
LLC Allianceneftgaz	Russia	51%	Oil exploration
LLC Nord Imperial	Russia	80%	Oil exploration
LLP North-Kazakhstan Geologo-Analytical Company Sevkazgra	Kazakhstan	75%	Oil exploration

\* Direct holdings

All other investments are held indirectly

## 13 Debtors

	Group 2004 £'000s	Company 2004 £'000s
<b>Amounts falling due within one year</b>		
Other Debtors	119	116
Unpaid Share Capital	10	10
Prepayments	1,250	89
	<b>1,379</b>	<b>215</b>
<b>Amounts falling due after one year</b>		
Amounts owed by subsidiary undertakings	—	5,295

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

# Notes to the Financial Statements continued

## 14 Creditors — Amounts Falling Due Within One Year

	Group 2004 £'000s	Company 2004 £'000s
Trade Creditors	489	256
Taxes	104	83
Other	823	—
	<b>1,416</b>	<b>339</b>

## 15 Financial Instruments

An outline of the objectives, policies and strategies pursued by the Group in relation to financial instruments is set out in the financial review on page 14 of this report, and in Note 1 on page 27.

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

The interest rate risk profile of the Group's financial assets was as follows:

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

As at 31 December there was an amount of £780,000 outstanding payable in dollars.

## 16 Share Capital

	£
<b>Authorised</b>	
200,000,000 shares of 2.5p each	<b>5,000,000</b>
<b>Issued, allotted and fully paid</b>	
23,098,462 shares of 2.5p each	<b>577,462</b>

The Company was incorporated with an authorised share capital of £50,000, being 50,000 ordinary shares of £1 each, of which 2 were issued. On 1 March 2004 the 50,000 ordinary shares were subdivided into 2,000,000 ordinary shares of 2.5p each and the authorised share capital was increased by £4,950,000, being 198,000,000 ordinary shares of 2.5p.

On 1 March 2004 and 18 March 2004 new ordinary shares of 3,999,920 and 2,400,000 were issued for cash at 2.5 pence per share and 12.5 pence per share respectively.

On 5 April 2004 Imperial Energy Corporation PLC listed on the AIM market with the issue of 3,400,000 ordinary shares at 25 pence per share.

On 12 October 2004 12,500,000 ordinary shares were issued at 160 pence per share.

On 27 October 2004 798,462 ordinary shares were issued at 219 pence per share.

**17 Reserves**

	Share Premium Account £'000s	Profit and Loss Account £'000s
<b>Group</b>		
At 24 February 2004		
Loss for the period	—	(1,372)
Premium on shares issued	22,421	—
Placing costs	(1,400)	—
<b>As at 31 December 2004</b>	<b>21,021</b>	<b>(1,372)</b>
<b>Company</b>		
At 24 February 2004		
Loss for the period	—	(916)
Premium on shares issued	22,421	—
Placing costs	(1,400)	—
<b>As at 31 December 2004</b>	<b>21,021</b>	<b>(916)</b>

**18 Notes to the Group Cash Flow Statement**
**a) Reconciliation of losses to net cash inflow from operating activities**

	2004 £'000s
<b>Operating activities</b>	
Operating (loss)	(1,662)
Depreciation	3
Increase in debtors	(1,369)
Increase in creditors	589
<b>Net cash flow from operating activities</b>	<b>(2,439)</b>

# Notes to the Financial Statements continued

## 18 Notes to the Group Cash Flow Statement continued

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

	2004 £'000s
<b>Returns on investments and servicing of finance</b>	
Interest received	162
<b>Net cash outflow from returns on investments and servicing of finance</b>	162
<b>Capital expenditure and financial investment</b>	
Purchase of tangible fixed assets	(66)
Purchase of Intangible fixed assets	(1,417)
<b>Net cash outflow from capital expenditure and financial investment</b>	(1,483)
<b>Acquisitions and disposals</b>	
Purchase of subsidiary undertakings	18d (2,275)
Net cash acquired with subsidiary	18d 9
<b>Net cash outflow for acquisitions and disposals</b>	(2,266)
<b>Financing</b>	
Issue of ordinary share capital	21,249
Expenses of share issue	(1,400)
<b>Net cash inflow from financing</b>	19,849

### c) Analysis of net debt

	Cash flow £'000s	At 31 December 2004 £'000s
Cash at bank and in hand	13,823	13,823
Total	13,823	13,823

### d) Acquisitions

	LLP North-Kazakhstan Geologo-Analytical Company Sevkazgra £'000s	LLC Sibinterneft £'000s	LLC Alliance- neftegaz £'000s	LLC Nord Imperial £'000s	Total £'000s
<b>Net liabilities acquired:</b>					
Intangible fixed assets	45	826	3,067	778	4,716
Tangible fixed assets	18	—	—	—	18
Debtors	—	8	—	2	10
Cash at bank and in hand	—	9	—	—	9
Creditors	(5)	(353)	(468)	—	(826)
Minority shareholders interests	58 (4)	490 43	2,599 58	780 —	3,927 97
	54	533	2,657	780	4,024
<b>Satisfied by:</b>					
Cash	54	533	908	780	2,275
Shares issued	—	—	1,749	—	1,749
	54	533	2,657	780	4,024

## 18 Notes to the Group Cash Flow Statement continued

### Details of Acquisitions

LLC Sibinterneft was acquired in July 2004 for £533,000.

LLP North-Kazakhstan Geologo-Analytical Company Sevkazgra was acquired in July 2004 for £54,000.

LLC Allianceneftgaz was acquired in November 2004 for £2,657,000, of which £1,749,000 was paid in shares and the balance in cash.

LLC Nord Imperial was acquired in two parts, 60% on establishment of LLC Nord Imperial in October 2004 and a further 20% in December 2004; total consideration paid was £780,000.

## 19 Obligations Under Operating Leases

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

	<b>Licence rentals £'000s</b>
<b>Operating Leases which expire:</b>	
Within one year	—
In Two to Five years	124
	124

## 20 Commitments

### a) Licence Commitments

The Group has commitments in Russia to complete 5,491 km of seismic acquisition and to drill 25 wells over the five year term of its exploration licences.

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

### b) Options for future acquisitions

The Company has the option to acquire up to a further 24% of LLC Allianceneftgaz which can be triggered as and when a satisfactory amount of proven reserves are discovered. The cost of such acquisition is fixed using a value basis of \$7 per tonne (approx \$1 per barrel) of proven oil reserves and, whilst payable in cash, may also be satisfied at Imperial's discretion, by up to 50% in Imperial's shares valued at the then prevailing market price.

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

# Notes to the Financial Statements continued

## **21 Related Party Transactions**

The Group used the services of PLLG, an international law firm of which P M Levine is Chairman. P M Levine is also Chairman and Chief Executive of the Company and a shareholder. During the period ended 31 December 2004 PLLG charged the Group £364,364 for legal and professional advice. As at 31 December 2004 an amount of £68,505 was included within creditors.

To assist the Group during its start-up phase, PLLG has also provided administrative support and office space in all the Groups countries of operation. During the period rental and administrative charges totalled £97,397. As of 31 December 2004 an amount of £20,250 was included within creditors.

During the period the Group used the services of International Energy Services Inc, a company based in Houston, Texas, and its subsidiaries based in Russia and Kazakhstan. A A Capelson, a significant shareholder in the Group, is Chief Executive of International Energy Services Inc. During the period the International Energy Services Group charged the Group £1,065,000, for acquisition of seismic, reprocessing and interpretation.

As at 31 December 2004 Dr R G W Kidd, a Director, and Y Petzoukha, an employee, owed the Company £26,900 and £32,000 respectively for tax and national insurance paid on their behalf on the shares received as salary. These amounts were repaid at the start of January.

On 7 July 2004 the Company exercised its right to acquire an 85% interest in a 51% share block in the Russian company LLC Sibinterneft for a total consideration of US\$975,000. The right was originally granted under an agreement entered into on 22 March 2004, whereby the Company was granted by its Chairman, P M Levine and A A Capelson, who at the time of the transaction was a substantial shareholder interested in 33.67% of the Company, the right, at any time up to and including 31 December 2004, to acquire an effective controlling interest in LLC Sibinterneft. Total consideration for the Stake was divided equally between P M Levine and A A Capelson.

On 1 November 2004 the Company exercised its option to acquire 51% of the Russian Liability company LLC Allianceneftgaz for US\$4,950,000.

Comprised in the 51% Stake acquired was 15% of Allianceneftgaz which was owned, as to half by Imperial's Chairman, P M Levine and as to the other half by A A Capelson. Accordingly, they each received US\$725,000 of the total purchase consideration. P M Levine and A A Capelson received their respective proportion of the consideration in Imperial shares, being 180,901 ordinary shares each.

## **22 Post-balance sheet events**

On 31 January 2005 the Group transferred its ownership of OOO Nord Imperial to Imperial Energy Nord Limited (formerly Gonski Investments Limited), an intermediate holding company in Cyprus.

On 24 February 2005 warrants were exercised, for cash, over 276,500 ordinary shares of 2.5p each in the Company. These were exercised at a price of 160 pence per share.

# Notice of Meeting

NOTICE is hereby given that the Annual General Meeting of the Company will be held at 49 Berkeley Square, Mayfair, London, W1J 5AZ on 1 June 2005 at 12 noon for the following purposes:

1. To receive the report of the Directors and audited accounts for the financial period ended 31 December 2004.
2. To re-appoint Mr P M Levine as a Director.
3. To re-appoint Mr D Capelson as a Director.
4. To re-appoint Dr K P Forrest CBE as a Director.
5. To re-appoint Mr P E Godec as a Director.
6. To re-appoint Dr R G W Kidd as a Director.
7. To re-appoint Baker Tilly as auditors and authorise the Directors to fix their remuneration.

To consider and, if thought fit, pass the following Resolutions, of which Resolutions 8 and 9 will be proposed as Ordinary Resolutions and Resolution 10 will be proposed as a Special Resolution.

8. THAT the maximum aggregate fees which may be paid to the Directors in accordance with Article 27.1 of the Company's Articles of Association, be increased from £100,000 per annum to £200,000 per annum.
9. THAT the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Companies Act 1985) up to an aggregate nominal value of £500,000 such authority to expire on the earlier of the conclusion of the Annual General Meeting of the Company next following the passing of this resolution or fifteen months after the date of this resolution, save that the Directors may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and

may allot relevant securities pursuant to such an offer or agreement as if the authority conferred hereby had not expired.

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

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

10.2 the allotment (otherwise than pursuant to sub-paragraph 10.1) of equity securities up to an aggregate nominal amount of £500,000;

and this power shall expire on the earlier of the conclusion of the Company's next Annual General Meeting and fifteen months from the date of the passing of this resolution save that the Company may make an offer or enter into an agreement before the expiry of that date which would or might require equity securities to be allotted after that date and the Directors may allot equity securities in pursuance of such an offer as if the power conferred hereby had not expired.

Registered Office  
6/8 York Place  
Leeds  
LS1 2DS  
West Yorkshire  
United Kingdom

By order of the Board  
Peter Levine  
Chairman and Chief Executive  
19 April 2005

# Notice of Meeting continued

## Notes:

1. A member of the Company entitled to attend and vote at the above meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.
2. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he so wish.
3. A form of proxy is attached and to be valid must be completed and returned so as to reach the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, United Kingdom (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
4. As provided by Regulation 41(1) of the Uncertificated Securities Regulations 2001, only

those members registered in the register of members of the Company 48 hours before the time set for the meeting shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

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

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

Copies of the Directors' Service Contracts.



# Form of Proxy

(for use for the Annual General Meeting to be held on 1 June 2005)

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

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

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 1 June 2005 and at any adjournment thereof.

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

RESOLUTIONS	FOR	AGAINST	VOTE WITHHELD
1. To receive the accounts and reports of the Directors and auditors for the financial year ended 31 December 2004			
2. To re-appoint Mr P M Levine			
3. To re-appoint Mr D Capelson			
4. To re-appoint Dr K P Forrest CBE			
5. To re-appoint Mr P E Godec			
6. To re-appoint Dr R G W Kidd			
7. To reappoint Baker Tilly as auditors of the Company and to authorise the Directors to fix their remuneration			
8. To increase the maximum amount which may be paid as Directors' fees			
9. To authorise the Directors to allot securities up to a specified amount			
10. Special Resolution. To give the Directors power to allot securities for cash without first offering them to existing shareholders			

Signature ..... (Note 3)

Date ..... 2005

## NOTES

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

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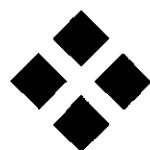
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Capita Registrars (Proxies)  
PO Box 25  
BECKENHAM  
Kent  
BR3 4BR

First fold

Third fold  
and tuck in flap opposite



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