

Desire

Petroleum plc

A N N U A L R E P O R T 2 0 0 4

Desire Petroleum plc is a UK-based public company which was floated on AIM in April 1998. The Group is involved in oil and gas exploration.

"I am pleased that Desire is now preparing to drill the major objectives identified by 3D-seismic survey."

Dr. Colin B Phipps, Chairman

"The interpretation of the 3D seismic survey concentrated on defining sandstone bodies at the level of the mature oil-source rock - considered the best area for finding oil accumulations"

Dr. Ian Duncan, Chief Executive

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A D V I S E R S

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Mrs Anna Ruth Neve BA

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AUDITORS

UHY Hacker Young

Chartered Accountants

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REGISTRARS

Capita IRG plc

34 Beckenham Road

Beckenham

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DIRECTORS

DR COLIN BARRY PHIPPS

Chairman

Aged 70, he is a petroleum geologist with over 40 years experience in oil exploration and production. From 1974–79 he was a Labour MP for Dudley West. He has wide industrial experience within the international natural-resources sector. He was, for ten years, Chairman of Clyde Petroleum plc.

DR IAN GORDON DUNCAN

Chief Executive Director

Aged 55, he is a petroleum geologist with over 25 years experience in the oil exploration industry. He advises the company on technical matters relating to drilling and production. He began his career with Esso before joining Clyde Petroleum plc where he was appointed a director in 1991; from 1990 to 1997 he was the Managing Director of Clyde's subsidiary in the Netherlands. He was appointed as an executive director of the company on 14 March 2005.

DR ALAN JOHN MARTIN

Non-Executive Director

Aged 71, he is a geologist with over 40 years experience in the oil exploration industry. He was successively General Manager Exploration at BP from 1979 to 1984 and Exploration Director of Clyde Petroleum plc from 1985 to 1993. From 1994 to 1996 he was an adviser to the Falkland Islands Government on establishing offshore oil and gas exploration.

STEPHEN LAWREY PHIPPS

Non-Executive Director

Aged 47, he is a non-executive director of Greenwich Resources plc and is also a director of Phipps & Company Limited.

WALTER IAN LOGAN FORREST

Non-Executive Director

Aged 66, he is a Chartered Accountant based in Geneva specialising in finance, banking and tax consulting. He is a director and officer of the following public companies: Caledonia Mining Corporation, Mengold Resources Inc, Georex SA, PolyMet Mining Corp., Belmore Resources Holdings plc and Viatrade plc.

DR DAVID HUW QUICK

Non-Executive Director

Aged 62, he is a petroleum geologist and geophysicist. He was Chief Executive of Greenwich Resources plc from 1989 - 2002.

To be Co-opted to the Board 1 May 2005:

DARWIN LEWIS CLIFTON OBE

Non-Executive Director

Aged 49, he is a Falkland Islander, and a former founding director of Desire Petroleum. From 1987-90 he was the Falkland Islands Government London Representative and he was twice elected to the Legislative and Executive Councils (1985-87 and 1997-2001). Currently managing director of Byron Marine Limited, a Falkland Islands incorporated, ship owning and ship-managing company.

ANDREW GUY WINDHAM

Non-Executive Director

Aged 55, he is a solicitor with over 20 years experience in the oil exploration industry. He began his career in the City before moving to Westland and then to Clyde Petroleum plc in 1983 where he was appointed a director in 1996. He joined Energy Africa Ltd. in 1998 and was appointed to its Board in 2001 as Commercial Director.

CHAIRMAN'S STATEMENT

Dear Shareholder,

Following the successful Share Placing and Open Offer, details of which were sent to shareholders on 14 February 2005, conducted by Seymour Pierce Limited the Company's Nominated Adviser and Broker, the Company is now preparing to resume drilling in the North Falkland Basin. The Share Placing and Open Offer was substantially over-subscribed and all 55,890,656 new shares were taken up. The new monies raised are not reflected in the Accounts for the year ended 31 December 2004, as they were raised post this date, and the Company now has, therefore, a much stronger balance sheet than that shown in these Results.

As has been announced, Rockhopper Exploration Limited has agreed to farm-in for up to a 15% working interest in Tranches C and D by paying up to 30% of the costs of the proposed three-well drilling programme.

Given the importance and complexity of operating a drilling programme in the North Falkland Basin, it was further announced that Dr Ian Duncan, already a non-executive director of the Company, had been made full-time Chief Executive and that Peak Well Management had been appointed to manage the drilling programme on the Company's behalf. Dr Duncan and I, together with Robert Lyons, the Managing Director of Peak Well Management, have recently returned from a visit to the Falklands to initiate the drilling programme. There are many legal, operational and logistical factors to cover before drilling can commence and these will take from six to eight months to put in place. I am pleased to report that we continue to receive the fullest help and support from the Falkland Island Authorities and from their advisor, the British Geological Survey.


In my Chairman's letter accompanying the Placing and Open Offer, I indicated that the Company had put out invitations to tender for a rig contract to drill the three-well programme, and that, because of the high, current oil prices, the rig market had become very tight. This has been borne out by the response to the tender invitations. However, a number of the responses are now the subject of discussion and negotiation and your Board remains hopeful that drilling will recommence in late 2005 or early 2006; shareholders will be kept informed of progress. The most important consideration will be not just the availability but also the suitability of the rig eventually contracted.

Although Dr Duncan is the first full-time employee of Desire, it is not your Board's intention to build up staff but, wherever possible, to outsource our requirements and maintain as low an overhead as possible. However, it has become clear that Dr Duncan will need increased specialist support at Board level and the composition of the Board has been reorganised to reflect this. Dr. John Martin, Dr. David Quick and Ian Forrest will be retiring from the Board at the Annual General Meeting on 24 May 2005. All three have given valuable service to the Company and I would like to thank them sincerely on behalf of all shareholders. As of 1 May 2005, Lewis Clifton, OBE and Andrew Windham will be joining the Board. Lewis Clifton is a resident of the Falkland Islands and will be playing an essential role both before and during the drilling programme; he was a member of the Board prior to the Company's merger with Gaelic Resources plc. Andrew Windham is a lawyer with considerable experience of all aspects of oil-company activity and already acts as a consultant to the Company. I would like to extend a warm welcome to both of them.

As a result of the appointment of Dr Ian Duncan as Chief Executive, and of the other Board changes, Stephen Phipps will become Chairman of the Audit Committee and Andrew Windham will become Chairman of the Remuneration and Appointments Committee.

Since the acquisition of the 3D seismic survey in 2004, the Company has made steady progress towards the resumption of drilling in the North Falkland Basin. The 3D seismic has had a major impact on the elucidation of the geology of the Basin and continuing work on its interpretation is revealing additional drilling targets which can be added to the Company's prospect inventory. The Company is now entering a very important phase of its development and, given that we have no staff, I shall be relying very heavily on the input of my colleagues on the Board. As in previous years, it is the intention of the Remuneration and Appointments Committee to recognise this input by allocating share options. I would like to thank all Board members for their continuing support in the Company's progress.

Yours sincerely,



Dr Colin B. Phipps

TECHNICAL REVIEW

Desire has a 100% interest in Tranches C, D, I and L and a 12.5% interest in Tranche F, in the North Falkland Basin as shown in Figure 1.

Rockhopper Exploration will earn up to a 15% interest in Tranches C and D by funding up to 30% of a three-well drilling programme.

Early in 2004, Desire acquired 804 km² of 3D seismic data in Tranches C and D. This survey was designed to test the model that major sandstone bodies had been deposited along the margins of the Basin.

Following processing of the seismic data, RPS Hydrosearch was commissioned to interpret the data, starting in July 2004.

The interpretation concentrated on defining sandstone bodies at the level of the mature oil-source rock, considered the best area for finding oil accumulations. Various techniques were employed, including mapping the variations in the amplitude of the seismic reflectors, and looking for geometries suggestive of sandstone fans, channels and deltas, deposited by rivers. Conventional mapping was also carried out looking for structural closures where oil might be trapped.

Five major prospects were identified on the 3D seismic data: Anna, Beth, Liz, Ninky and Rachel. These are in addition to the two major prospects mapped on the 2D seismic data: Ann and Pam, see Figure 2 overleaf.

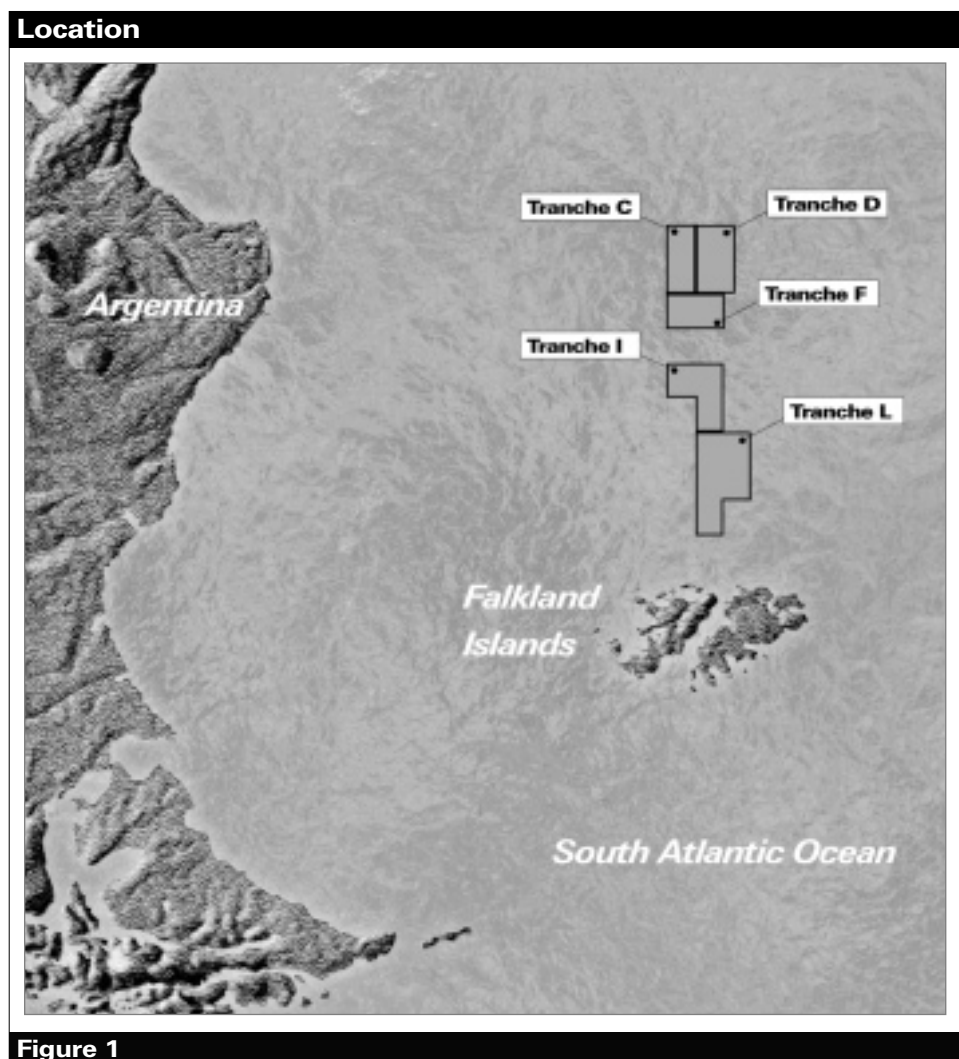


Figure 1

TECHNICAL REVIEW

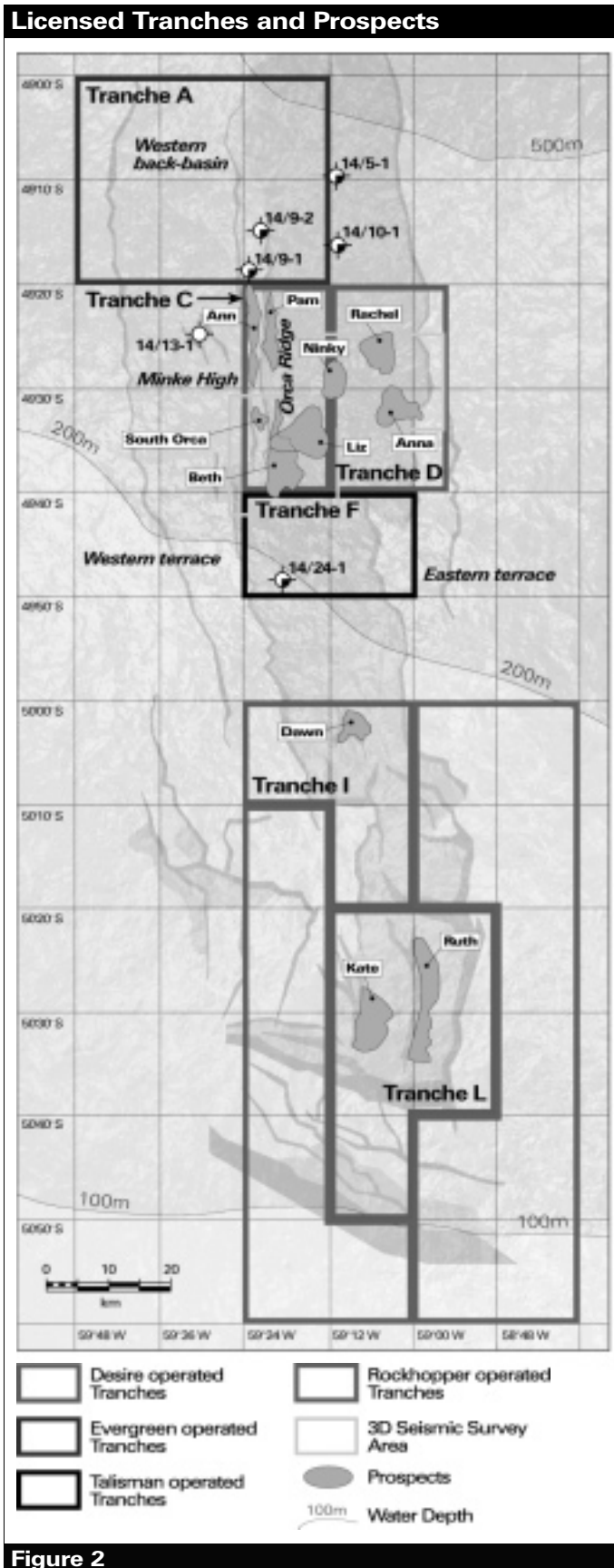


Figure 2

It is intended to drill three of these prospects in the next drilling campaign. Interpretation of the 3D seismic is continuing with a view to selecting the best three prospects and to selecting the best locations on these prospects.

Key information on these seven prospects is set out in Figure 3.

Details of the prospects most likely to be drilled are as follows:

1) LIZ - 3D DEFINED

The amplitude anomaly associated with Liz is indicative of a fan-delta deposited at the mouth of a major river, see Figure 4. This river system appears to be represented by a well-defined channel system showing good evidence of being filled with sand. The fan is detached from the updip channel and is enclosed laterally and vertically by the mature oil-source rock, thus creating the trap. This prospect is shown schematically in Figure 5. The Liz prospect is analogous to the major Girassol oil field offshore Angola.

It is hoped to select a location which will test both the Liz and Beth prospects with one well.

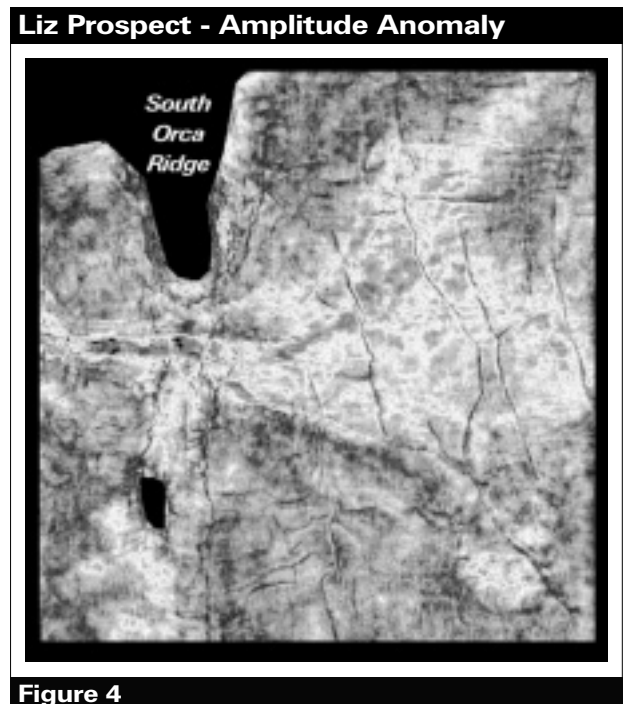


Figure 4

TECHNICAL REVIEW

Prospect Summary

Prospect	Depth metres	Area km ²	STOOIP mmbbls	Recoverable Oil mmbbls
3D defined				
1) Liz	2,600	80	2,200	660
2) Anna deep	4,000	21	760	228
Anna shallow		31	231	69
Anna total				297
3) Beth	2,700	48	908	272
4) Rachel shallow	2,100	32	236	71
Rachel deep	2,500	49	360	108
Rachel total				179
5) Ninky - 4 levels	2,000 to 2,900	4 to 19	408	122
2D defined				
6) Ann shallow	1,720	27	346	104
Ann deep	1,750	25	518	155
Ann total				259
7) Pam shallow	2,320	23	613	184
Pam deep	2,460	27	812	244
Pam total				428
			Total	2,217

Volumetrics based on deterministic calculations using best estimates for the reservoir parameters. The amount of recoverable oil is unrisks and is based on a notional recovery factor of 30%. STOOIP - stock tank original oil in place mm - million barrels.

Figure 3

Schematic illustration of the Environment of Deposition in the Liz Prospect Area

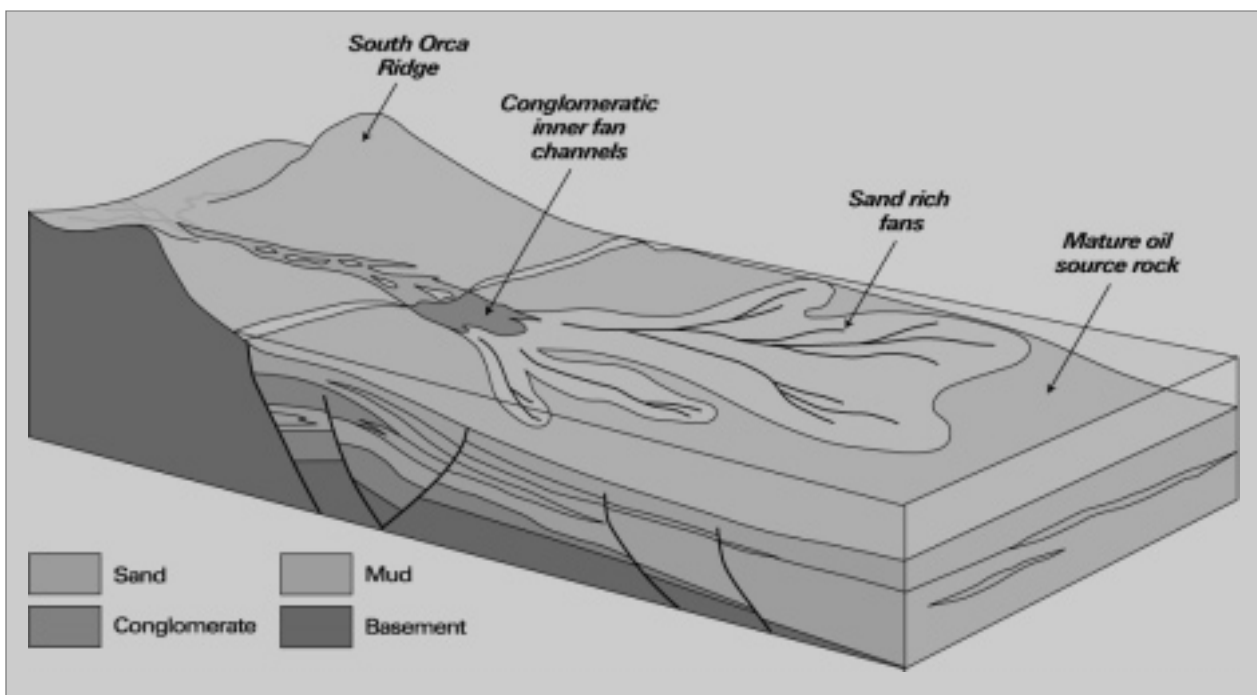


Figure 5

Anna Deep Prospect - Structure map

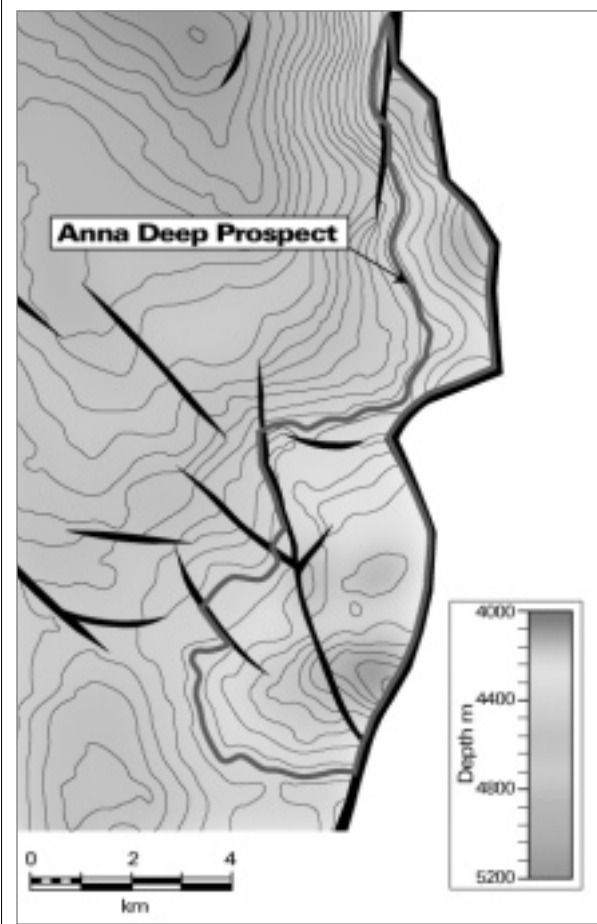


Figure 6

2) ANNA - 3D DEFINED

Anna is major fan, similar to the setting of the Brae oil field in the North Sea. The trap is a three-way dip closure bounded to the east by the large basin-margin fault scarp, see Figure 6. There is also a shallower prospect which can be tested by the same well.

3) RACHEL - 3D DEFINED

Rachel is another prospect with an amplitude signature indicative of a major fan and with a straight-forward conduit from the underlying mature oil source rock, see Figure 7.

Supporting evidence for Rachel being a fan, is the deep erosion, in the form of a canyon, shown on the adjoining basin margin.

Rachel Prospect - Amplitude Anomaly

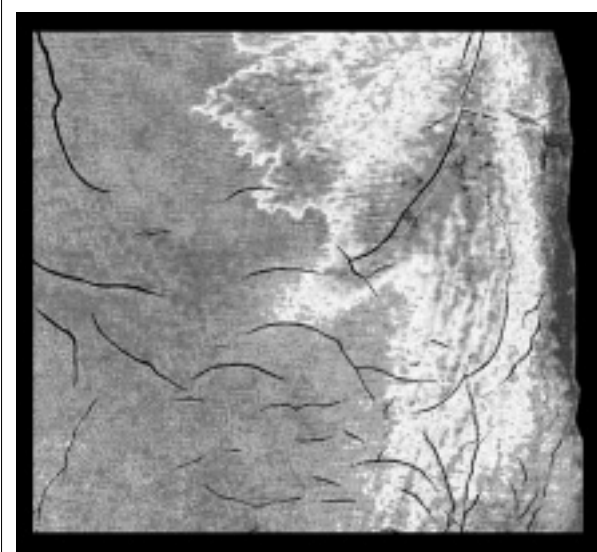


Figure 7

Beth Prospect - Structure map

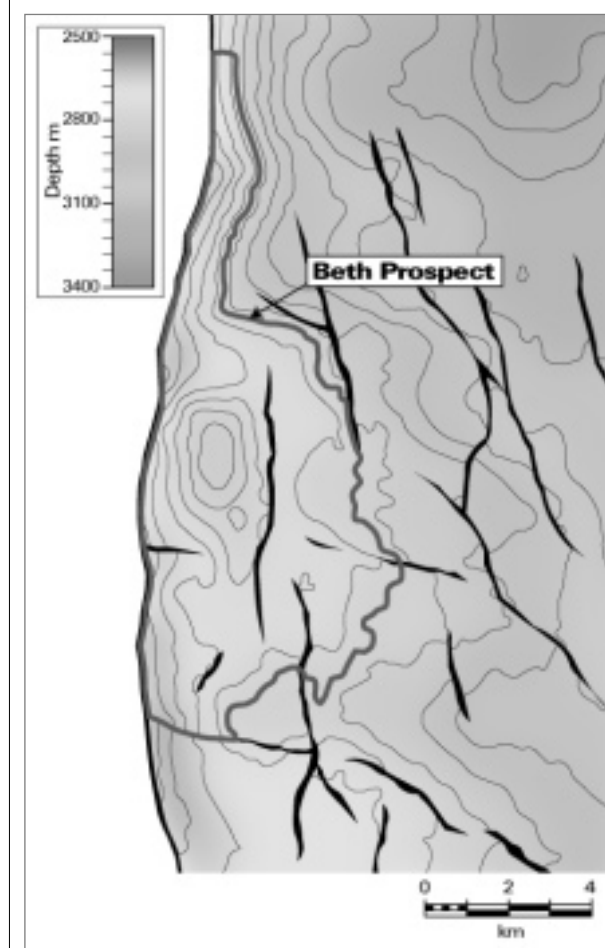


Figure 8

TECHNICAL REVIEW

This is also a dual-target prospect with a deeper objective below the main Rachel fan.

4) BETH - 3D DEFINED

Beth appears to be an earlier fan emanating from the same river channel as Liz. There is a three-way dip, fault-bounded closure associated with this fan, see Figure 8.

It is hoped to test this prospect in conjunction with Liz.

5) ANN - 2D DEFINED

In 1998 Amerada Hess drilled the 14/9-1 well which found good oil staining in an Aptian Sandstone. It is believed that this staining represents a relict oil leg and that an oil accumulation may exist updip in the Ann prospect in Tranche C, see Figure 9.

There are two further prospects, Pam and Ninky, ready to be drilled but, at the moment, these are unlikely to form part of the first three-well drilling programme.

DRILLING

Plans for the drilling programme are moving ahead. Following the rig tender, discussions are continuing with a view to obtaining a rig at the earliest possible opportunity. However, it should be noted that rig rates are increasing and rig availability is becoming tighter as more companies undertake drilling because of the current high oil price.

Peak Well Management, a major international company, based in Aberdeen, has been appointed to deliver the well engineering and the operations management for the drilling programme.

One of the requirements for drilling is a detailed investigation of the sea bed and shallow geology to identify potential hazards at the drilling locations. To aid with this investigation, all of the shallow 3D seismic data are being reprocessed.

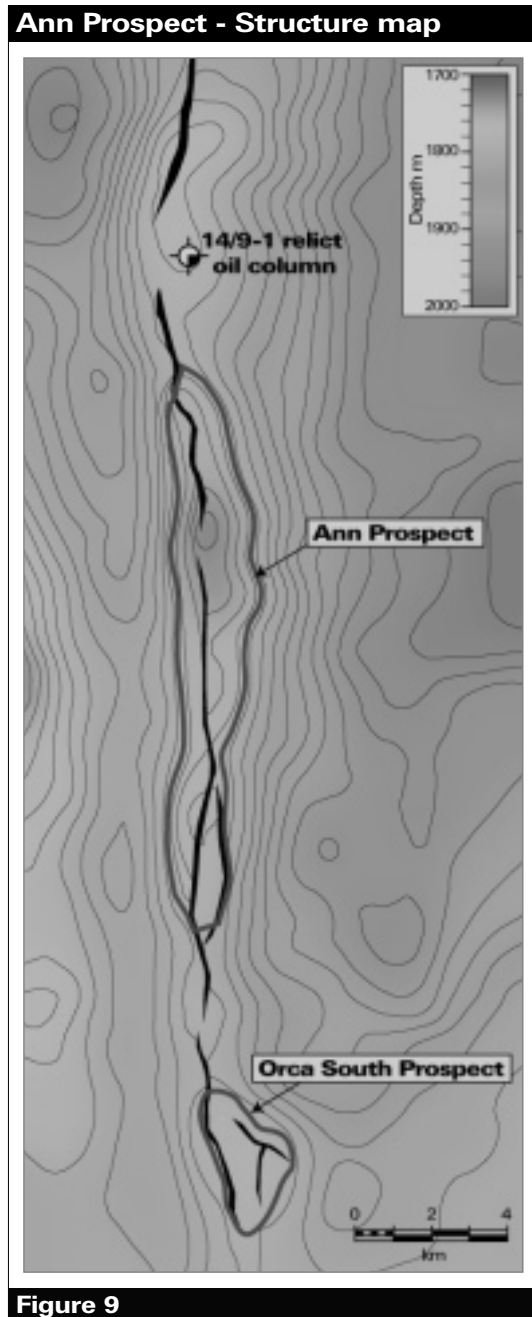


Figure 9

Based on the 6 wells drilled in 1998, we are a long way up the learning curve in terms of well planning, and straight-forward drilling is expected.

Environmentally, the water is not deep, 350-400 metres, and the weather is similar to the Central North Sea. Heavy-duty, deep-water rigs are not required to drill in this area. In addition, most of the targets are at reasonable depths, shallower than 3,000 metres.

REPORT OF THE DIRECTORS

The Directors submit their report and the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the Group for the year continued to be that of oil and gas exploration.

The Group sustained a loss before taxation of £646,000 in the year to 31 December 2004. The loss will be transferred to reserves.

A more detailed review of the activities and developments of the business is contained in the Chairman's Statement and the Technical Review.

DIVIDENDS

The Directors do not recommend payment of a dividend (2003:nil).

SHARE CAPITAL

On 21 January 2004, the Company issued 35,313,100 shares under a placing and 14,867,150 shares under an open offer. Both the placing and the open offer were at a subscription price of 10 pence per share, raising £4.2 million net of costs.

The authorised share capital was increased to £2,500,000 by the creation of an additional 110,000,000 Ordinary shares of 1 pence each.

Following the year end, on 11 March 2005, the Company issued 35,555,556 shares under a placing and 20,335,100 shares under an open offer. Both the placing and the open offer were at a subscription price of 45 pence per share, raising £24.4 million net of costs.

DIRECTORS AND THEIR INTERESTS

It is proposed that Mr D L Clifton and Mr A G Windham will be appointed as Directors of the Company. The remaining Directors whose names appear on page 3, were Directors throughout the year.

The interests of the Directors who served during the year in the ordinary shares of the Company are shown on pages 13 to 15.

Dr A J Martin, Mr W I L Forrest and Dr D H Quick retire at the Annual General Meeting and will not be seeking re-election.

Details of the Directors' interests in contracts with the Group are set out in note 20 to the Accounts.

SPECIAL BUSINESS – ANNUAL GENERAL MEETING RESOLUTIONS

Items 5 and 6 of the Notice of the forthcoming Annual General Meeting contain resolutions which renew and extend existing authorisations for a further year. The Directors believe that they should have the authorities proposed under items 5 and 6 in order to take advantage of business opportunities as they arise, thus maintaining a desirable degree of flexibility.

- a Under the Companies Act 1985 the Directors are prohibited from allotting securities of the Company without prior authorisation from shareholders to do so. The effect of this resolution is to give the Directors authority to allot relevant securities up to an aggregate nominal amount of £728,572 until the 2006 Annual General Meeting.

REPORT OF THE DIRECTORS

b The Companies Act 1985 also provides that, unless shareholders otherwise consent, all new equity securities to be offered for cash must first be offered to existing shareholders in proportion to their individual holdings. The effect of this resolution is to give the Directors authority, until the 2006 Annual General Meeting, to allot equity securities for cash other than to existing shareholders up to a limited aggregate nominal amount of £109,286.

SUBSTANTIAL SHAREHOLDINGS

As at 21 March 2005 the Company had been notified of the following holdings of 3% or more of its issued share capital:

	Number of ordinary shares	%
Phipps Et Company Limited	30,104,394	13.77
Barclayshare Nominees Limited	8,231,400	3.77
TD Waterhouse Nominees (Europe) Limited	7,076,155	3.24

CORPORATE GOVERNANCE

The Combined Code Principles of Good Governance and Code of Best Practice are not mandatory for companies traded on the Alternative Investment Market of the London Stock Exchange. However, the Directors are committed to applying the requirements of the Code where they are considered appropriate. This statement explains how the Group has applied the principles of the Code throughout the year.

The Board meets regularly and is responsible for the overall Group strategy, acquisition and divestment policy, approval of major capital expenditure and consideration of significant financing matters. It reviews the strategic direction of individual trading subsidiaries, their annual budgets, their progress toward achievement of these budgets and their capital expenditure programmes.

The Audit Committee was chaired by Mr W I L Forrest and included Dr A J Martin and Dr I G Duncan. On 14 March 2005, following his appointment as the Chief Executive Officer, Dr I G Duncan resigned from the Committee and Dr D H Quick was appointed in his stead. The Committee convenes twice a year and its terms of reference include the review of the Annual and Interim Accounts, accounting Policies of the Company and its subsidiaries, internal management and financial controls, and the planning, scope and results of the Auditors' programme. UHY Hacker Young attend the meetings at the request of the Committee.

Due to the nature and size of the Group at present it would not be appropriate for the Group to have its own internal-audit department reporting directly to the Audit Committee.

The Remuneration and Appointments Committee was chaired by Dr I G Duncan and include Dr A J Martin and Mr W I L Forrest. On 14 March 2005, following his appointment as Chief Executive Officer, Dr I G Duncan resigned from the Committee and Dr D H Quick was appointed in his stead. The Committee's responsibilities include the consideration and approval of the terms of service, nomination, remuneration and benefits of the Company's Directors.

The Board, as a whole, determines the remuneration of the Non-Executive Directors.

INTERNAL CONTROL

The Board, which presently comprises the Chairman, the Chief Executive Officer and non-executive Directors, is responsible for ensuring that the Group maintains adequate internal control over the business and its assets. There is an agreed schedule of matters requiring referral to the Board. These matters include the Group's corporate strategy, acquisitions and disposals, approval of major capital expenditure, treasury policy and risk-management policies. Procedures have been formalised where the Directors may need to take independent professional advice.

REPORT OF THE DIRECTORS

On the wider aspects of internal control, relating to operational and compliance controls and risk management, as included in provision D.2.1 of the Code, the Board, in setting the control environment, now identifies, reviews, and reports on the key areas of business risk facing the Group. These procedures have been in place throughout the current financial year.

There is close day-to-day involvement by the Directors in all of the Group's activities. This includes the comprehensive review of both management and technical reports, the monitoring of foreign exchange and interest-rate fluctuations, environmental considerations, government and fiscal policy issues, employment and information technology requirements and cash-control procedures. Regular attendance at joint-venture meetings and frequent site visits are made whenever appropriate. In this way, the key-risk areas can be monitored effectively and specialist expertise applied in a timely and productive manner.

RELATIONS WITH SHAREHOLDERS

The Group is active in communicating with both its institutional and private investors and responds to queries received verbally or in writing. General meetings, at which Directors are introduced and available for questions, provide further opportunities for dialogue.

CREDITOR PAYMENT POLICY

It is the policy of the Group to ensure that all of its suppliers of goods and services are paid promptly and in accordance with contractual and legal obligations. At 31 December 2004 there were 28 (2003 - nil) days purchases remaining unpaid.

POLITICAL CONTRIBUTIONS AND CHARITABLE DONATIONS

The Group made no political contributions or charitable donations during the year.

AUDITORS

In accordance with section 384 of the Companies Act 1985, a resolution is to be proposed at the Annual General Meeting for the re-appointment of UHY Hacker Young as the Auditors of the Company.

This report was approved by the Board on 22 April 2005 and signed on its behalf by

Mrs A R Neve BA
Secretary

REPORT OF THE REMUNERATION AND APPOINTMENTS COMMITTEE

REMUNERATION AND APPOINTMENTS COMMITTEE

The Remuneration and Appointments Committee, which comprises three Non-Executive Directors, meets as required. The Chairman and other Directors may also attend meetings but are not involved in any matter relating to themselves.

The Group considers that it has applied the Combined Code throughout the year regarding remuneration committees. In formulating remuneration policy the Committee gives full consideration to the best-practice provisions section of the code.

REMUNERATION POLICY

The remit of the Committee is to advise on all aspects of the remuneration packages of Directors.

The policy of the Committee is to ensure that the remuneration packages offered are competitive and designed to attract, retain and motivate Directors of a high calibre.

The Directors' Service Contracts are for an indefinite period but can be terminated with six-months' notice by either party.

The Directors' appointments are not pensionable.

Details of Directors' emoluments are set out in note 4 to the Accounts.

DIRECTORS' INTERESTS

The interests (all of which are beneficial) of the Directors who served during the year, and their families, in the ordinary shares of the Company are shown below, together with their share options, shown next page, under the Desire Petroleum plc Unapproved Share Option Scheme.

	Ordinary Shares		
	21 March 2005 1p ordinary shares	31 December 2004 1p ordinary shares	1 January 2004 1p ordinary shares
Dr C B Phipps	2,840,000	2,840,000	340,000
Dr A J Martin	744,032	744,032	519,032
Dr I G Duncan	332,826	321,714	199,714
Mr S L Phipps	32,944,394	32,388,838	26,670,238
Mr W I L Forrest	1,457,953	1,446,793	1,221,793
Dr D H Quick	1,467,816	1,467,816	1,242,816

Mr S L Phipps' interest is through his shareholding in Phipps & Company Limited.

At 31 December 2004, Dr D H Quick's interest in 1,372,816 (2003 - 1,147,816) shares is through his shareholding in QM Marketing Limited

Dr C B Phipps and Mr S L Phipps have an interest (included above) in 2,840,000 (31 December 2003 - 2,840,000) shares through their interest in the Phipps & Company Retirement Benefit Scheme.

At 31 December 2004, 261,515 of Mr W I L Forrest's beneficially-owned shares were held by Panares Resources Inc. in which Mr Forrest is interested. Panares held a total of 427,983 shares of which 143,932 shares were in the name of Rock Nominees Limited.

At 31 December 2004, the interest of Dr I G Duncan included 107,143 (2003 - 107,143) held by Chase Energy Limited of which he is a director and shareholder. His interest also includes 92,571 (2003 - nil) shares held by Hargreave Hale Nominees Limited.

REPORT OF THE REMUNERATION AND APPOINTMENTS COMMITTEE

DIRECTORS' INTERESTS *(continued)*

SHARE OPTIONS	At		Granted in year	At		Exercise price	Exercise period
	1 January 2004	Reorganisation in year		31 December 2004			
Dr C B Phipps	555,555	(555,555)	-	-	18p	up to 8 September 2007	
	-	803,349	-	803,349	15.53p	up to 8 September 2007	
	250,000	(250,000)	-	-	12.25p	7 May 2005 to 6 May 2009	
	-	361,511	-	361,511	11.56p	7 May 2005 to 6 May 2009	
	-	-	250,000	250,000	13.75p	7 May 2007 to 7 May 2011	
Dr A J Martin	250,000	(250,000)	-	-	12.25p	7 May 2005 to 6 May 2009	
	-	361,511	-	361,511	11.56p	7 May 2005 to 6 May 2009	
	-	-	250,000	250,000	13.75p	7 May 2007 to 7 May 2011	
Dr I G Duncan	250,000	(250,000)	-	-	12.25p	7 May 2005 to 6 May 2009	
	-	361,511	-	361,511	11.56p	7 May 2005 to 6 May 2009	
	-	-	250,000	250,000	13.75p	7 May 2007 to 7 May 2011	
Mr S L Phipps	250,000	(250,000)	-	-	12.25p	7 May 2005 to 6 May 2009	
	-	361,511	-	361,511	11.56p	7 May 2005 to 6 May 2009	
	-	-	250,000	250,000	13.75p	7 May 2007 to 7 May 2011	
	2,500,000	(2,500,000)	-	-	8p	23 June 2003 to 23 June 2010	
	-	3,615,111	-	3,615,111	8.62p	23 June 2003 to 23 June 2010	
Mr W I L Forrest	277,777	(277,777)	-	-	18p	up to 8 September 2007	
	-	401,689	-	401,689	15.53p	up to 8 September 2007	
	277,777	(277,777)	-	-	1R18p	up to 26 October 2005	
	-	401,678	-	401,678	0.202	up to 26 October 2005	
	250,000	(250,000)	-	-	12.25p	7 May 2005 to 6 May 2009	
	-	361,511	-	361,511	11.56p	7 May 2005 to 6 May 2009	
	-	-	250,000	250,000	13.75p	7 May 2007 to 7 May 2011	
Dr D H Quick	277,777	(277,777)	-	-	18p	up to 8 September 2007	
	-	401,689	-	401,689	15.53p	up to 8 September 2007	
	250,000	(250,000)	-	-	12.25p	7 May 2005 to 6 May 2009	
	-	361,511	-	361,511	11.56p	7 May 2005 to 6 May 2009	
	-	-	250,000	250,000	13.75p	7 May 2007 to 7 May 2011	

REPORT OF THE REMUNERATION AND APPOINTMENTS COMMITTEE

SHARE OPTIONS *(continued)*

No options were exercised by any Director in the year.

No options lapsed during the year.

The share-option reorganisation during the year was carried out as a result of the placing and open offer in January 2004 under which 50,178,750 new shares were issued. The original options and exercise prices have been restated such that the potential percentage holding, in the Company, of the options are the same as prior to the share issue.

The market price of the shares on 31 December 2004 was 59p and the range during the year was 10p to 66p.

Mr S L Phipps' interest includes share options granted over 3,615,111 (2003 - 2,500,000) shares which are beneficially held by Phipps & Company Limited in which Mr S L Phipps is interested as a director and shareholder.

Other than shown above, no Director had any interest in the shares of the Company or any of its subsidiaries at 31 December 2004.

This Report was approved by the Board on 22 April 2005 and signed on its behalf by

Dr D H Quick
Chairman of the Remuneration and
Appointments Committee

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The following statement, which should be read in conjunction with the Report of the Auditors set out on page 17, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the Accounts.

The Directors have responsibility for ensuring that the Group keeps accounting records which disclose, with reasonable accuracy, the financial position of the Group enabling them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have a general responsibility to take reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

In accordance with the Companies Act 1985, the Directors are required to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial period and of the profit or loss for that period.

The Directors consider that, in preparing the financial statements, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed.

After making enquiries, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going-concern basis in preparing the Accounts.

On behalf of the Board

Dr C B Phipps
Chairman

INDEPENDENT REPORT OF THE AUDITORS TO THE MEMBERS OF DESIRE PETROLEUM PLC

TO THE SHAREHOLDERS OF DESIRE PETROLEUM PLC

We have audited the financial statements of Desire Petroleum Plc for the year ended 31 December 2004 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Directors' emoluments disclosure contained within the Report of the Remuneration and Appointments Committee and the related notes. 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 was 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's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

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

We report to you our audit 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 and other members of the Group 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 Advisers, Chairman's Statement, Corporate Governance Statement and Report of the Remuneration and Appointments Committee. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

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

UHY Hacker Young
Registered Auditor
Chartered Accountants
22 April 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2003 £000	2004 £000
Oil exploration costs	3	(62)	(56)
Administrative and other expenses	3	(462)	(627)
Operating loss		(524)	(683)
Write down of investments		(5)	-
Loss on ordinary activities before interest		(529)	(683)
Interest receivable	6	2	38
Interest payable	6	(1)	(1)
Loss on ordinary activities before taxation	9	(528)	(646)
Taxation	7	-	(6)
Loss for the financial year	17	(528)	(652)
Loss per ordinary share - Basic	8	(0.47)p	(0.41)p

Movements on reserves are shown in note 17 to these Accounts.

All operating income and operating losses relate to continuing activities.

There is no difference between the results as disclosed above and the results on an historical cost basis.

The notes on pages 22 to 33 form part of these financial statements.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2004

	2003 £000	2004 £000
Loss for the financial year	(528)	(652)
Currency-translation difference on foreign currency, net investment	(1)	-
Total recognised gains and losses for the year	(529)	(652)

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2004

	2003 £000	2004 £000
Total recognised gains and losses for the year	(529)	(652)
New share capital subscribed	-	4,708
Net (decrease)/increase in shareholders' funds	(529)	4,056
Opening shareholders' funds	2,355	1,826
Closing shareholders' funds	1,826	5,882

The notes on pages 22 to 33 form part of these financial statements.

BALANCE SHEET

AT 31 DECEMBER 2004

	Note	The Group		The Company	
		2003 £000	2004 £000	2003 £000	2004 £000
Fixed assets					
Tangible fixed assets	10	-	3	-	3
Intangible fixed assets	11	2,348	5,508	2,348	5,508
		2,348	5,511	2,348	5,511
Current assets					
Debtors due within one year	13	36	41	29	33
Investments		1	-	-	-
Cash at bank and in hand		46	459	25	446
		83	500	54	479
Creditors					
Amounts falling due within one year	14	(605)	(129)	(543)	(65)
Net current assets (liabilities)		(522)	371	(489)	414
Total assets less current liabilities		1,826	5,882	1,859	5,925
Capital and reserves					
Called-up share capital	16	1,125	1,627	1,125	1,627
Share premium account	17	16,744	20,950	16,743	20,949
Merger reserve	17	13,343	13,343	-	-
Profit and loss account	17	(29,386)	(30,038)	(16,009)	(16,651)
Equity shareholders' funds		1,826	5,882	1,859	5,925

These Accounts were approved by the Board on
22 April 2005 and signed on its behalf by:

Dr C B Phipps

Chairman

The notes on pages 22 to 33 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2003 £000	2004 £000
Net cash outflow from operating activities	19 (a)	(138)	(1,069)
Returns on investments and servicing of finance	19 (b)	1	37
Capital expenditure and financial investment	19 (b)	(15)	(3,163)
Cash outflow before financing		(152)	(4,195)
Financing			
Issue of ordinary share capital (net of costs)		-	4,708
Loan repaid		-	(100)
Increase/(decrease) in cash in the year	19 (c)	(152)	413
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the year	19 (c)	(152)	413
Movement in net funds in the year		(152)	413
Net funds at the beginning of the year	19 (c)	198	46
Net funds at the end of the year	19 (c)	46	459

The notes on pages 22 to 33 form part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

31 DECEMBER 2004

1. ACCOUNTING POLICIES

The Accounts are based on the following policies which have been consistently applied:

BASIS OF PREPARATION

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

BASIS OF CONSOLIDATION

The Group accounts consolidate the accounts of the Holding Company and all its subsidiary undertakings, all of which were made up to 31 December 2004.

GOODWILL

Goodwill is defined as the excess of the consideration paid over the fair value of net identifiable assets acquired. From 1 January 1997 goodwill is attributed to the separate licence interests acquired and amortised on a straight-line basis over the expected remaining useful economic life of the related licences, currently ranging from 2 to 9 years. Where events or circumstances are present which indicate that the carrying value of goodwill may not be recoverable, the Company records a provision to write down goodwill to its estimated recoverable amount.

CONSORTIA

In addition to holding licenses on its own account, the Group is a member of consortia. As explained below, the Group's proportionate share of the consortia costs are included in intangible fixed assets.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation, less estimated residual value of each asset, over its expected useful life, as follows:

Equipment and fixtures	20% straight line basis
------------------------	-------------------------

CAPITALISATION OF OIL AND GAS EXPENDITURE

The Group applies the full-cost method of accounting under which all expenditure relating to the acquisition, exploration, appraisal and development of oil and gas interests, including an appropriate share of overheads, is capitalised. Capitalised costs are amortised on a unit of production basis. The Board regularly reviews the carrying values of intangible assets and writes down capitalised expenditure to levels it considers to be prudent. If no discoveries are made, the accumulated capitalised costs will be written off through the profit and loss account.

INVESTMENTS

Investments in subsidiary undertakings are shown at cost less provisions for estimated impairments in value.

FOREIGN CURRENCIES

Transactions denominated in foreign currencies are translated at the exchange rate ruling at the transaction date or, if appropriate, at the rate in related forward-currency contracts. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the Balance Sheet date. Differences thereon are included in the profit and loss account. 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 reserves.

NOTES ON THE FINANCIAL STATEMENTS

31 DECEMBER 2004

1. ACCOUNTING POLICIES *(continued)*

TAXATION

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting policies. Full provision is made for the tax liability on all timing differences in accordance with FRS 19. Deferred tax balances have not been subject to discounting.

FINANCIAL INSTRUMENTS

The Group uses certain financial instruments in its operating and investing activities that are appropriate to its strategy and circumstances.

Financial instruments currently comprise cash and short-term debtors and creditors. The Group regularly reviews the funding opportunities available to it in order to finance its operations, including considering the use of borrowings, as well as equity, to fund short-term cash requirements.

The main risks arising from the Group's present use of financial instruments are currently risk relating to the Group's non-sterling cash resources. The addition of any borrowings to the Group's portfolio of financial instruments will introduce interest-rate risk.

The Company has taken advantage of the exemptions available under FRS 13 for disclosures relating to short-term debtors and creditors.

2 PRODUCTION COSTS INCURRED

Pre-production costs incurred, or provided, in Oil and Gas Exploration Activities for the year ended 31 December 2004 were as follows:

	Falkland Islands £000
Acquisition of unproved properties:	
Licence costs	56
Exploration and appraisal costs	3,160
Total costs (includes costs capitalised of £3,160,000)	3,216

NOTES ON THE FINANCIAL STATEMENTS

31 DECEMBER 2004

3 OPERATING EXPENSES

	2003	2004
Oil exploration costs	£000	£000
Operating leases - other assets	62	56
<hr/>		
Administrative and other expenses		
Auditors' remuneration - audit fees	19	22
- other services	5	4
Directors' fees	85	85
Farm-out campaign costs	13	-
Foreign-exchange loss (net)	5	1
Legal and professional fees	99	135
Management fees	201	337
Miscellaneous expenses	17	28
Travel and entertaining	17	15
Loss on disposal of fixed assets	1	-
	<hr/>	<hr/>
	462	627

4 DIRECTORS

	2003	2004
The emoluments of the Directors were as follows:	Fees	Fees
	£000	£000
Dr C B Phipps	20	20
Mr S L Phipps	15	15
Dr A J Martin	15	15
Dr I G Duncan	5	5
Mr W I L Forrest	15	15
Dr D H Quick	15	15
	<hr/>	<hr/>
	85	85

Further information on the remuneration of Directors and their share options can be found in the Remuneration and Appointments Committee's report on pages 13 to 15.

Information on related-party transactions is disclosed in note 20 to these Accounts.

NOTES ON THE FINANCIAL STATEMENTS

31 DECEMBER 2004

5 STAFF COSTS - DIRECTORS AND EMPLOYEES	2003 £000	2004 £000
Social security costs	2	1

The average monthly number of employees, including Directors, during the year was as follows:	2003 Number	2004 Number
Directors	6	6

6 INTEREST	2003 £000	2004 £000
Bank Interest received	2	38
Other loan interest payable	1	1

7 TAXATION	2003 £000	2004 £000
(a) Analysis of charge in the period		
Current tax:		
Current tax in the period	-	6
(b) Factors affecting tax charge for the period		
The tax assessed for the period is different from the standard rate of corporation tax in the UK of 19% (2003 - 19%)		
Loss on ordinary activities	(528)	(646)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2003 - 19%)	(100)	(123)
Effects of:		
Expenses carried forward	100	129
	-	6

(c) Factors that may affect future tax charges

The Company is carrying forward an amount of tax-deductible expenditure under the assumption that it will have income from oil exploration in the future.

No deferred tax is provided on this expenditure as it is not reasonably certain that the income from this source will materialise.

The amount currently available for offset against future revenue is £18 million.

NOTES ON THE FINANCIAL STATEMENTS

31 DECEMBER 2004

8 LOSS PER SHARE

The calculation of basic earnings per ordinary share is based on a loss of £652,000 (2003: loss £528,000) and on 159,664,501 (2003: 112,500,552) ordinary shares, being the weighted-average number of ordinary shares in issue during the year.

As the Group reported a loss for the period then, in accordance with Financial Reporting Standard Number 14, the share options in issue are not considered dilutive.

9 LOSS FOR THE FINANCIAL YEAR

Desire Petroleum plc has not presented its own profit and loss account, as permitted by section 230 of the Companies Act 1985. The loss for the financial year

dealt with in the accounts of the Holding Company amounts to £642,000 (2003: loss £514,000).

10 TANGIBLE FIXED ASSETS

<i>The Group and Company</i>	Equipment and fixtures £000
Cost	
At 1 January 2004	-
Additions	3
At 31 December 2004	3
Depreciation	
At 1 January 2004	-
Charges for the year	-
At 31 December 2004	-
Net book value at 31 December 2004	3
Net book value at 31 December 2003	-

NOTES ON THE FINANCIAL STATEMENTS

31 DECEMBER 2004

11 INTANGIBLE FIXED ASSETS

<i>The Group</i>	Goodwill	Oil and Gas Interests	Total
Cost	£000	£000	£000
At 1 January 2004	941	2,348	3,289
Additions	-	3,160	3,160
At 31 December 2004	941	5,508	6,449
Amortisation			
At 1 January 2004	941	-	941
Charges for the year	-	-	-
At 31 December 2004	941	-	941
Net book value at 31 December 2004	-	5,508	5,508
Net book value at 31 December 2003	-	2,348	2,348

The Group's oil and gas interests all relate to the Falkland Islands.

<i>The Company</i>	Oil and Gas Interests
Cost	£000
At 1 January 2004	2,348
Additions	3,160
At 31 December 2004	5,508
Net book value at 31 December 2004	5,508
Net book value at 31 December 2003	2,348

The Company's oil and gas interests all relate to the Falkland Islands.

NOTES ON THE FINANCIAL STATEMENTS

31 DECEMBER 2004

12 INVESTMENTS

	2004
<i>The Company</i>	£000
Cost at 1 January 2004 and at 31 December 2004	1,088
Provision at 1 January 2004 and at 31 December 2004	(1,088)
<hr/>	
At 1 January 2004 and at 31 December 2004	-

Particulars of the subsidiary undertakings at 31 December 2004 were as follows:

Name of subsidiary	Holding	Proportion of voting rights and shares held	Country of Incorporation	Nature of business
Gaelic Resources plc	Ordinary shares	100%	Republic of Ireland	Holding company
European Hydrocarbons Limited	Ordinary shares**	100%	Channel Islands	Hydrocarbon exploration
Interoil Limited	Ordinary shares*	99.80%	England	Technology marketing company
Gaelic Resources (Turkey) Limited	Ordinary shares*	100%	British Virgin Islands	Non-trading
Anglo Scandinavian Petroleum plc	Ordinary shares*	100%	England	Non-trading
European Hydrocarbons Holdings Limited	Ordinary shares*	100%	Channel Islands	Holding company

*Held in the name of Gaelic Resources plc.

**Held in the name of European Hydrocarbons Holdings Limited.

NOTES ON THE FINANCIAL STATEMENTS

31 DECEMBER 2004

13 DEBTORS DUE WITHIN ONE YEAR

	<i>The Group</i>		<i>The Company</i>	
	2003 £000	2004 £000	2003 £000	2004 £000
Other debtors	7	38	-	30
Prepayments and accrued income	29	3	29	3
	36	41	29	33

14 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	<i>The Group</i>		<i>The Company</i>	
	2003 £000	2004 £000	2003 £000	2004 £000
Trade creditors	-	48	-	48
Other loan (see note 20)	100	-	100	-
Corporation tax	-	6	-	6
Other tax and social security creditors	15	1	15	1
Other creditors	48	50	5	-
Accruals	442	24	423	10
	605	129	543	65

15 DERIVATIVES AND FINANCIAL INSTRUMENTS

Financial assets

The Group has cash deposits and short-term debtors.

The currency profile of the Group's cash deposits at 31 December 2004 was:

	Total £000
Currency	
British Pound	439
Euro	4
Falkland Island Pound	16

Financial liabilities

The Group has no financial liabilities other than short-term creditors.

NOTES ON THE FINANCIAL STATEMENTS

31 DECEMBER 2004

16 SHARE CAPITAL	2003	2003	2004	2004
<i>The Group and Company</i>	Number	£000	Number	£000
Authorised	of shares	of shares	of shares	of shares
Ordinary shares of 1p each	140,000,000	1,400	250,000,000	2,500

Allotted, called-up and fully-paid Ordinary 1p shares
Number

At 1 January 2004 112,500,552
 Issued in year 50,180,250

At 31 December 2004 **162,680,802**

Ordinary 1p shares
£000

As at 1 January 2004 1,125
 Issued in year 502

At 31 December 2004 **1,627**

On 21 January 2004 the authorised share capital was increased to £2,500,000 by the creation of an additional 110,000,000 Ordinary shares of 1 pence each.

On 21 January 2004, the Company issued 35,313,100 shares under a placing and 14,867,150 shares under an open offer. Both the placing and the open offer were at a subscription price of 10 pence per share. In this respect the Company raised £4.2 million net of costs.

Share options

The share options in issue at 31 December 2004 were as follows:

Date of Issue	Number of shares at 1 January 2004	Reorganisation during the year	Number of shares granted in the year	Number of shares at 31 December 2004	Exercise price	Exercise period
4 October 1999	2,333,329	(2,333,329)	-	-	18p	up to 8 September 2007
4 October 1999	-	3,373,994	-	3,373,994	15.53p	up to 8 September 2007
4 October 1999	1,555,555	(1,555,555)	-	-	1R18p	up to 26 October 2005
4 October 1999	-	2,249,333	-	2,249,333	0.202	up to 26 October 2005
7 May 2002	1,600,000	(1,600,000)	-	-	12.25p	7 May 2005 to 6 May 2009
7 May 2002	-	2,313,600	-	2,313,600	11.56p	7 May 2005 to 6 May 2009
26 June 2003	2,500,000	(2,500,000)	-	-	8p	23 June 2003 to 23 June 2010
26 June 2003	-	3,615,000	-	3,615,000	8.62p	23 June 2003 to 23 June 2010
27 May 2004	-	-	1,600,000	1,600,000	13.75p	7 May 2007 to 7 May 2011

The share options reorganisation during the year was carried out as a result of the placing and open offer in January 2004 under which 50,180,250 shares were issued. The original

options and exercise prices have been restated such that the potential percentage holding, of options in the Company, is the same as prior to the share issue.

NOTES ON THE FINANCIAL STATEMENTS

31 DECEMBER 2004

17 RESERVES

<i>The Group</i>	Merger Reserve £000	Share Premium Account £000	Profit and Loss Account £000
At 1 January 2004	13,343	16,744	(29,386)
Retained loss for the year	-	-	(652)
Share issue in the year	-	4,206	-
At 31 December 2004	13,343	20,950	(30,038)

Following the implementation of Financial Reporting Standard 10, the former goodwill write-off reserve has been amalgamated with the profit and loss account.

<i>The Company</i>	Share Premium Account £000	Profit and Loss Account £000
At 1 January 2004	16,743	(16,009)
Share issue in the year	4,206	-
Retained loss for the year	-	(642)
At 31 December 2004	20,949	(16,651)

18 COMMITMENTS

Operating leases

Annual Group and Company obligations under operating leases are as follows:

	2003 Land and buildings £000	2004 Land and buildings £000
Expiring:		
Between two and five years	62	56

NOTES ON THE FINANCIAL STATEMENTS
31 DECEMBER 2004

19 NOTES TO THE GROUP CASH FLOW STATEMENT

	2003	2004
	£000	£000
a) Reconciliation of operating profit to operating cash flows		
Operating loss	(524)	(683)
(Increase)/decrease in debtors	23	(5)
(Decrease)/increase in creditors	263	(381)
Net cash outflow from operating activities	(238)	(1,069)
b) Analysis of cash flows		
Returns on investments and servicing of finance	£000	£000
Interest received	2	38
Interest paid	(1)	(1)
Net cash flow from returns on investments and servicing of finance	1	37
Capital expenditure		
Payments to acquire tangible fixed assets	-	(3)
Payments to acquire intangible fixed assets	(15)	(3,160)
Proceeds from sale of fixed assets	-	-
Net cash outflow for capital expenditure	(15)	(3,163)
c) Analysis of changes in net funds	At 31	At 31
	December	December
	2003	2004
	£000	£000
Cash at bank and in hand - net funds	46	459

NOTES ON THE FINANCIAL STATEMENTS

31 DECEMBER 2004

20 RELATED PARTY TRANSACTIONS

The Group entered into transactions with the following companies in which certain of the Directors were materially interested:

<i>Company</i>	<i>Related Party</i>
Phipps & Company Limited	Dr C B Phipps and Mr S L Phipps
Aconite Partners Limited	Dr A J Martin
Chase Energy Limited	Dr I G Duncan
Molard Financial Management Services SA	Mr W I L Forrest
QM Marketing Limited	Dr D H Quick

The transactions with the Group during the year were as follows:	Total 2003 £000	Services as a Director £000	Management services £000	Consultancy services £000	Total 2004 £000
Phipps & Company Limited	236	35	337	-	372
Aconite Partners Limited	15	15	-	-	15
Chase Energy Limited	26	5	-	32	37
Molard Financial Management Services SA	15	15	-	-	15
QM Marketing Limited	15	15	-	-	15

At 31 December 2004 the following amounts were included in creditors:	2003 £000	2004 £000
Phipps & Company Limited	322	-
Aconite Partners Limited	23	-
Chase Energy Limited	11	-
Molard Financial Management Services SA	23	-
QM Marketing Limited	23	-

In the year to December 2003 the company received a loan from Phipps & Company Limited of £100,000. The loan	attracted an interest rate of 3% per annum above base and was repaid in January 2004.
--	---

21 POST BALANCE SHEET EVENTS

On 11 March 2005 the company issued 55,890,656 Ordinary shares of 1 pence each under an open offer and share placing at a price of 45 pence per share. It is intended that the net

proceeds of the share issue, approximately £24.4 million, will be used principally to conduct a three-well exploration drilling programme on Tranches C and D in the North Falkland Basin.

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Sixth Annual General Meeting of Desire Petroleum plc will be held at the Reform Club, 104 Pall Mall, London, SW1Y 5EW on 24 May 2005 at 5.30pm for the following purposes:

ORDINARY BUSINESS

- 1) To receive and approve the Reports of the Directors and Auditors and the Accounts for the year ended 31 December 2004.
- 2) To elect Mr D L Clifton as a Non-Executive Director.
- 3) To elect Mr A G Windham as a Non-Executive Director.
- 4) To re-appoint UHY Hacker Young as Auditors of the Company and to authorise the Audit Committee to determine their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following as an ordinary resolution:

- 5) That the Directors be generally and unconditionally authorised, in accordance with section 80 of the Companies Act 1985, to allot relevant securities (as defined in that section) up to a maximum aggregate nominal amount of £728,572 such authority to expire (unless renewed) at the Company's Annual General Meeting in 2006 but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after this security expires.

To consider and, if thought fit, to pass the following resolution as a special resolution:

- 6) That, subject to resolution 5 after being passed, the Directors be given power in accordance with section 95 of the Companies Act 1985 (the 'Act') to allot securities (as defined in section 94 of the Act) for cash pursuant to the

authority conferred by that resolution as if Section 89(1) of the Act did not apply to the allotment, provided that this power is limited to:

- a) the allotment of equity securities in connection with an offer (whether by way of a rights issue, open offer or otherwise) to the holders of ordinary shares of the Company in proportion (as nearly as may be) to their respective holdings of ordinary shares, subject only to exclusions or other arrangements which the Directors may deem necessary or expedient to deal with fractional entitlements, or any legal or practical problems arising in any territory or the requirements of any regulatory body or stock exchange, or any other matters; and
- b) the allotment (otherwise than under paragraph (a) above) of equity securities up to an aggregate nominal amount of £109,286.

By order of the Board

Mrs A R Neve
Secretary

Notes:

- 1) A member entitled to attend and vote may appoint one or more persons (who need not be members) to attend and, on a poll, vote on their behalf.
- 2) To be valid, the instrument appointing a proxy together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must reach the Company's registrars, Capita IRG plc, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time appointed for holding the meeting.
- 3) Copies of the Directors' service contracts will be available for inspection at the Company's registered office during usual business hours on any weekday (except Saturdays and public holidays) from the date of this notice until the conclusion of the above meeting.

DESIRE PETROLEUM PLC

FORM OF PROXY

For use only by holders of ordinary shares having the right to attend and vote at the Annual General Meeting of the Company to be held at The Reform Club, 104 Pall Mall, London, SW1Y 5EW on 24 May 2005 at 5.30pm.

I/We of
(BLOCK CAPITALS PLEASE)

being a Member/Members of Desire Petroleum plc appoint the Chairman of the meeting or

..... of

as my/our proxy to vote and act for me/us on my/our behalf at such Annual General Meeting and at any adjournment thereof in connection with the following resolutions of which notice has been given.

Resolution Ordinary business

1	To receive and approve the Reports of the Directors and Auditors and the Accounts for the year ended 31 December 2004.	For / Against*
2	To elect Mr D L Clifton as a Director of the Company.	For / Against*
3	To elect Mr A G Windham as a Director of the Company.	For / Against*
4	To re-appoint UHY Hacker Young as auditors of the Company and to authorise the Audit Committee to determine their remuneration.	For / Against*

Resolution Special business

5	To authorise the Directors to allot shares up to a maximum nominal value of £728,572.	For / Against*
6	To disapply the statutory pre-emption rights set out in S.89(1) Companies Act 1985 up to a maximum aggregate nominal value of £109,286.	For / Against*

(*Strike out whichever is not desired)

Signed: Dated:

NOTES:

- 1 A person entitled to attend and vote is entitled to appoint a proxy or proxies to attend and on a poll to vote instead of him or her. A proxy need not be a member of the Company. To be valid, the instrument appointing a proxy together with the power of attorney or other authority (if any) under which it is signed (or a notariially certified copy thereof) must reach the Company's registrars, Capita IRG plc, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time appointed for holding the meeting.
- 2 A person who has appointed a proxy may nevertheless attend the meeting and vote, in which case any votes cast by proxy will be superseded.
- 3 You may, if you wish, delete the words 'Chairman of the meeting' and substitute the name(s) of your choice. If you do so, you must initial such an alteration.
- 4 In case of a corporation this form must be executed under its common seal or under the hand of an officer or other representative duly authorised in writing.
- 5 In the case of joint holders, the signature of any one of them will suffice, but the names of all joint holders should be shown. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the registrar of members in this respect of the joint holding.

THIRD FOLD & TUCK IN EDGE

Please
Affix
Stamp

Capita IRG plc
34 Beckenham Road
Beckenham
Kent BR3 4TU

SECOND FOLD

FIRST FOLD

TEAR ALONG DOTTED LINE