

DESIRE

PETROLEUM plc



PLACING

BY

SG SECURITIES (LONDON) LTD

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The Directors, whose names, addresses and durations appear on page 4, accept responsibility for this document. To the best of the knowledge of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and this document makes no omission likely to affect the import of such information. Under no circumstances should the information contained in this document be relied upon as being accurate at any time after Admission.

This document is an Admission Document and has been drawn up in accordance with paragraphs 16.10 and 16.11 of the Rules of the London Stock Exchange. It does not constitute a prospectus and has not been registered with the Registrar of Companies.

An investment in Desire Petroleum plc involves a degree of risk and, in particular, potential investors' attention is drawn to the Petroleum Engineers' Report in Part II and the Risk Factors in Part III of this document.

Desire Petroleum plc

(Incorporated in England and Wales under the Companies Act 1985)
(Registered number: 01695110)

Placing of
12,000,000 ordinary shares of 1p each
at a price of 125p per share

Admission to the Alternative Investment Market

Nominated Adviser and Nominated Broker
SG Securities (London) Ltd

Application has been made for the Ordinary Shares of the Company in issue following the Placing to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with his or her own independent financial adviser.

The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of these securities to the Official List. Further, the London Stock Exchange has not itself approved the contents of this document.

It is expected that dealings in the Ordinary Shares will commence on 17 April 1998.

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DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

"Act"	Companies Act 1985, as amended
"Admission"	the admission of the Ordinary Shares in issue following the Placing to trading on AIM
"Admission Document"	this document being a document required to be published by the Company in accordance with rule 16.10 of the Rules of the London Stock Exchange
"AIM"	the Alternative Investment Market of the London Stock Exchange
"Board"	the board of Directors
"Desire" or "Company"	Desire Petroleum plc
"Designated Area"	the area offshore the Falkland Islands designated for oil exploration, as explained in the paragraph headed "The prospects for oil in the Falklands" in Part I
"Directors"	the directors of the Company
"FOSA"	the Falklands Offshore Sharing Agreement dated 29 August 1997 described in the paragraph headed "Falklands operators' arrangements" in Part I
"Governor"	the officer for the time being administering the Government of the Falkland Islands
"Joint Operating Agreements" or "JOAs"	the two agreements dated 26 February 1998 between the members of the LASMO Consortium, a summary of whose main terms is contained in paragraph 2 of Part V
"LASMO"	LASMO International Limited, a subsidiary of LASMO plc
"LASMO Consortium" or "Consortium"	the consortium comprising, amongst others, LASMO and the Company
"London Stock Exchange"	London Stock Exchange Limited
"Official List"	the Official List of the London Stock Exchange
"Ordinary Shares"	ordinary shares of 1p each in the capital of the Company
"Placing Agreement"	the agreement dated 8 April 1998 between the Company, the Directors, Phipps & Company Limited and SGSL, details of which are set out in paragraph 8 of Part VI
"Placing Price"	125p per Ordinary Share
"Placing Shares"	the 12,000,000 new Ordinary Shares being issued by the Company pursuant to the Placing
"Placing"	the placing of the Placing Shares pursuant to the Placing Agreement
"SGSL"	SG Securities (London) Ltd
"Share Option Scheme"	the Desire Petroleum plc Unapproved Executive Share Option Scheme, details of which are set out in paragraph 1 of Part VI

DIRECTORS, SECRETARY AND ADVISERS

Directors	<p>Dr Colin Barry Phipps BSc, PhD, FGS, FResPet, C. Geol. <i>(Executive Chairman)</i></p> <p>Sir Rex Masterman Hunt CMC, BA <i>(Non-Executive Deputy Chairman)</i></p> <p>Darwin Lewis Clifton MSc, MResPet <i>(Non-Executive Director)</i></p> <p>Stephen Lawrence Phipps BSc <i>(Non-Executive Director)</i></p> <p>Dr Alan John Martin BSc, PhD, FGS <i>(Non-Executive Director)</i></p> <p>Dr Ian Gordon Duncan BSc, PhD, FGS, C. Geol., FResPet <i>(Non-Executive Director)</i></p>
Company Secretary, Registered Office and Directors' business address	<p>Anna Ruth Neve BA Maison Court Maison Malvern Worcestershire WR13 5NZ</p>
Nominated Adviser and Nominated Broker	<p>SG Securities (London) Ltd Exchange House Princes Street Broadgate London EC2A 2DD</p>
Auditors and Reporting Accountants	<p>Hacker Young Chartered Accountants St. James Building, 79 Oxford Street Manchester M1 6FJ</p>
Petroleum Engineers	<p>Gattney, Cline & Associates Ltd Bentley Hall Blacknest, Alton Hampshire GU34 4PU</p>
Solicitors to the Company	<p>Osborne Clarke 50 Queen Charlotte Street Bristol BS1 1JE</p>
Solicitors to the Placing	<p>Ashurst Morris Crisp Broadwalk House 5 Appold Street London EC2A 2HA</p>
Bankers	<p>Barclays Bank plc Swansea Business Centre Pockets Wharf Last Burrows Road Maritime Quarter Swansea SA1 3XL</p>
Registrars	<p>IRG plc Balfour House 390-398 High Road Hford Essex IG7 1NQ</p>

PLACING STATISTICS

Placing Price	125p
Number of Ordinary Shares in issue following the Placing and reduction of share premium account	47,330,000
Market capitalisation at the Placing Price*	£59.2 million
Number of Ordinary Shares being placed	12,000,000
Value of the Placing Shares at the Placing Price	£15.0 million
Net proceeds of the Placing receivable by the Company	£14.4 million
Percentage of the enlarged issued share capital being placed*	25.4%

Notes

The market capitalisation at the Placing Price and the percentage of the enlarged issued share capital being placed have been calculated on the basis that the share capital reorganisation (including the proposed reduction of share premium account) described in Part I of this document has been completed at the date of Admission.

EXPECTED TIMETABLE

Dealings in the Ordinary Shares commence	17 April 1998
Stock credited to CRLSI accounts	17 April 1998
Definitive share certificates despatched	24 April 1998

KEY INFORMATION

The following information should be read in conjunction with the full text of this document from which it is derived. In particular, recipients of this document should consider the Petroleum Engineers' Report in Part II and the statement of Risk Factors in Part III.

THE COMPANY'S BUSINESS

Desire is an independent oil and gas exploration company registered in the United Kingdom. Desire was established in May 1996 to participate in the first round of petroleum production licensing offshore the Falkland Islands.

Desire has a 25 per cent interest in the licences of Tranches C and D, as a member of the I ASMO Consortium, and a 100 per cent interest as operator in the licences of Tranches I and L. Desire is therefore interested in a gross 30 blocks with a gross area of 7,957 square kilometres, representing a net 21 blocks with a net area of 5,542 square kilometres.

The current activities of Desire are entirely concentrated upon Tranches C, D, I and L. These activities comprise, together with I ASMO as operator of Tranches C and D, the acquisition and interpretation of detailed seismic data, the selection of the first drilling location and preparations for the drilling of the first well on Tranche C during 1998.

The Company will, in the normal course of its business, look at other opportunities both offshore the Falklands and potentially outside of the Falklands where the Directors consider that they are able to utilise their collective expertise and considerable experience.

The Directors intend to pursue a strategy of maximising the use of the Company's resources to find hydrocarbons whilst minimising overheads, thereby offering shareholders the optimum gearing to exploration success.

KEY STRENGTHS

The Directors consider Desire's key strengths to be as follows:

- Experienced management with established industry track record and strong links with the Falkland Islands
- Participating interests in four of the seven licences awarded with exposure to 30 of the 48 blocks for which licences were awarded
- Considerable acreage position in a virgin basin containing a number of seismically identified large structures which may have potential for hydrocarbon discoveries.

DIVIDEND POLICY

The Directors intend to devote the Company's cash resources to its exploration activities. Unless and until income and distributable reserves are generated through the production of oil the Company will not be in a position to pay any dividends. The Directors will consider the Company's dividend policy as and when the Company is in a position to pay dividends.

PROSPECTS

Whilst it must be stressed that there can be no certainty that economic accumulations of oil will in fact be discovered offshore the Falkland Islands, the Directors believe that the Company offers high gearing to exploration success in the North Falklands Basin. The Directors further believe Tranches C, D, I and L in the North Falklands Basin, based upon the geometry of seismically indicated structures, have the exploration potential hypothetically to

contain hydrocarbons. In relation to Tranches C and D, such structures could hypothetically contain gross mean volumes of hydrocarbons of approximately 2.7 billion barrels of oil equivalent, providing the relevant geological parameters prove to exist.

Nevertheless the area offshore the Falkland Islands is presently untrilled and is, therefore, virgin territory for oil exploration. The Directors believe that detailed seismic lines do, however, indicate geological conditions which may be suitable for the generation, migration and entrapment of oil and gas in economic accumulations. In addition, the geological structures around the Falkland Islands exhibit certain features closely analogous to those of the northern North Sea.

Desire intends to acquire detailed seismic on Tranches I and L and will evaluate these data with a view to determining whether or not to drill an exploration well on these Tranches. If an exploration well is successful in Tranches C, D, I or L, and the LASCO Consortium develops Tranches C and D or Desire decides to develop Tranches I and L, not only will additional capital be required but the Company will need to develop its own infrastructure. It is most likely that the costs of such a development would be large enough to require a complete reassessment of the Company's future funding requirements as well as a change in the management structure of the Company.

PART 1

INFORMATION ON THE COMPANY

INTRODUCTION

Desire is an independent oil and gas exploration company registered in the United Kingdom, with interests offshore the Falkland Islands. Named after H.M.S. Desire, the ship whose captain made the first recorded sighting of the Falkland Islands in 1592, Desire was established by Phipps & Company Limited, Sir Rex Hunt and Mr Lewis Clifton in May 1996 to participate in the first round of petroleum production licensing offshore the Falkland Islands. In February 1997 Desire was successful in its application for exploration acreage and was awarded the interests in Tranches C, D, I and L of the Designated Area.

Three of the Directors have a long history of association with the Falkland Islands. The Deputy Chairman, Sir Rex Hunt, is a former Governor of the Falkland Islands and has retained an active involvement and interest in the Islands since his retirement as Governor. He and two other Directors, Lewis Clifton and Colin Phipps, are Officers or Trustees of Falklands Conservation, an environmental and wildlife conservation body. Lewis Clifton is a Falkland Islands resident and an elected member of both the Executive and Legislative Councils.

HISTORY AND DEVELOPMENT

The initial application consortium formed to apply for exploration acreage in the Falkland Islands comprised Desire, LASMO, Union Texas South Atlantic Inc and AIS Norsk Svalbardolje (a Norwegian company). At that time, Desire held a 20 per cent. interest in this consortium with the other members holding interests of 50 per cent., 20 per cent. and 10 per cent. respectively.

In May 1996 Desire made an offer for subscription of partly paid shares in order to raise £570,000 to fund its proportion of the initial application costs of the original consortium. Also in May 1996 the members of that consortium entered into a study and bidding agreement which outlined the strategic principles to be adopted by the consortium as part of the licensing round and which designated LASMO as operator. In the event, the original consortium did not proceed to make applications and, in August 1996, its membership changed. The result of that change meant that LASMO increased its interest to 62.5 per cent. with Clyde Expro plc taking 12.5 per cent. and Desire taking 25 per cent. At the same time Desire made applications for additional licences as sole operator.

The licensing round resulted in the award to Desire of participating interests in four of the seven licences granted, being a 25 per cent. interest in Tranches C and D, as a member of the LASMO Consortium, and a 100 per cent. interest as operator in Tranches I and L. This provides Desire with exposure to 31 of the 48 blocks for which licences were awarded. Desire entered into two Joint Operating Agreements (which set out the rights and obligations of the members in respect of the licences awarded and the operations to be carried out under those licences) with the other members of the Consortium on 26 February 1998. The principal terms of the Joint Operating Agreements are summarised in paragraph 2 of Part V.

STRATEGY AND OPERATIONS

Having created a pure exploration company, the Directors intend to pursue a strategy of maximising the use of Desire's resources to find hydrocarbons whilst minimising overheads, thereby offering shareholders the optimum gearing to exploration success. The Company currently has no exploration activities beyond those detailed below in relation to its Falkland Islands acreage. However, the Company will in the normal course of its business look at other

opportunities both offshore the Falklands and potentially outside of the Falklands where the Directors consider that they are able to utilise their collective expertise and considerable experience. The Directors believe that Desire offers an attractive investment opportunity as it has been successful in acquiring major percentage interests and a considerable acreage position in a virgin basin containing a number of seismically indicated structures with the potential to contain hydrocarbons if the relevant geological parameters prove to exist. In addition and as discussed in the paragraph below headed "The fiscal system," the Directors consider that the Falklands offer attractive terms of taxation for licensees during the production period and an operating environment which is well within the industry's current operating capabilities. Desire also has very experienced partners in Tranches C and D and would consider seeking, where appropriate, similar partners in respect of Tranches E and F.

The following is a table summarising Desire's concessions and licence interests:

<i>Tranche</i>	<i>Block Numbers</i>	<i>Total Area (km²)</i>	<i>License Interest</i>
E	25/3, 25/4, 25/5, 25/8, 25/9, 25/10	1,588	100%
F	25/15, 25/20, 25/25, 26/11, 26/12, 26/13, 26/16, 26/17, 26/18, 26/21, 26/22, 26/23	3,149	100%
C	14/12, 14/13, 14/14, 14/17, 14/18, 14/19	1,613	25%
D	14/15, 14/20, 15/11, 15/12, 15/16, 15/17	1,613	25%

In terms of size, Tranches C, D and F each comprise the equivalent of 6 North Sea Blocks and Tranche E comprises the equivalent of 12 North Sea Blocks. Desire is therefore interested in a gross 30 blocks with a gross area of 7,957 square kilometres representing a net 21 blocks with a net area of 5,542 square kilometres.

The 12 blocks in Tranches C and D were awarded to the Consortium on the basis of a work commitment involving additional detailed seismic acquisition followed by the drilling of one or more exploration wells. The 18 blocks in Tranches E and F were awarded to Desire on the basis of a work commitment involving more detailed seismic acquisition, but there is currently no firm commitment to drill a well in the first 5-year phase of exploration.

The current activities of Desire are concentrated upon Tranches C, D, E and F. Those activities comprise, together with LASMO as operator of Tranches C and D, the acquisition and interpretation by the relevant operator of detailed seismic data, the selection of the first drilling location and preparations for the drilling of the first well on Tranche C during 1998.

Tranches C and D were applied for by the LASMO Consortium because they over-lie the main north-south trending sedimentary basin which the Directors believe may contain the principal potential for oil generation in the deepest part of the basin. Detailed analysis of the 3,850 kilometres of seismic coverage of Tranches C and D (2,750 kilometres of seismic acquired since the licence award) by the Consortium has identified nine drillable structures that, based upon seismically defined geometry, have the exploration potential hypothetically to contain volumes of hydrocarbons ranging from 68 million to 1,300 million barrels of oil equivalent (gross mean volumes of 2.7 billion barrels) providing the relevant geological parameters prove to exist. The LASMO Consortium is in the process of acquiring site surveys over four potential drilling sites, one of which is planned to be drilled in the second or third quarter of 1998. Pursuant to the FOEA, the drilling rig Borgny Dolphin has been contracted to carry out drilling operations in the North Falklands Basin. The rig is due to arrive on site for drilling in the second quarter of 1998 with the first well to be drilled by Amerada Hess in Tranche A immediately north of Tranche C. Following completion of the Amerada Hess well, the LASMO Consortium will drill its first well in the region on Tranche C.

The LASMO Consortium is not obliged to drill an exploration well in Tranche D as a condition of preserving its rights to extend into the second exploration phase but in Tranche C it is required to drill an exploration well within the first 3 years of the licence period. Two further

exploration wells are required to be drilled by year 5 if it wishes to extend into the second exploration phase, but only if evidence is found of a working petroleum charge and if an economically significant prospect is identified. A description of the production licence terms and exploration phases is contained in paragraph 1 of Part V.

Specified conditions are set out in the licences in relation to environmental issues: for example, the licence for Tranche C contains obligations to protect local wildlife and to submit an oil spill contingency plan along specified requirements. Further details of factors affecting exploration are set out on page 16 of this document.

Licences in respect of Tranches I and L were applied for by Desiro because they lie up-dip from what the Directors believe to be the principal area of potential oil generation. Furthermore the Directors consider that Tranches I and L offer prospects in an additional basin. Additional seismic has been purchased over these Tranches and has been interpreted. Desiro is committed to acquiring further seismic, which it intends to do later in 1998, but there is currently no commitment to drill a well during the first five year phase of exploration. However, should the results of drilling on other Tranches be encouraging, Desiro would consider drilling during this phase. Desiro will nevertheless be required to drill an exploration well during this phase if it wishes to extend its licences into the second 7 year exploration phase, but only if evidence is found of a working petroleum charge and an economically significant prospect is identified in the relevant or any adjacent Tranche. Analysis of the existing 1,264 kilometres of widely-spaced seismic lines on these Tranches is insufficient to identify drilling prospects but has identified 26 drilling leads. These tend to be smaller in size than the drilling prospects identified on Tranches C and D and, based upon seismically defined geometry, have the exploration potential hypothetically to contain volumes of hydrocarbons ranging from 50 to 250 million barrels of oil equivalent. The Directors believe that in total these volumes could amount to in excess of one billion barrels of oil equivalent if the relevant geological parameters prove to exist.

If the LASMO Consortium develops Tranches C and D or if Desiro decides to develop Tranches I and L, not only will additional capital be required but the Company will also need to develop its own infrastructure. It is most likely that the costs of such a development would be large enough to require a complete reassessment of the Company's future funding requirements as well as a change in the management structure of the Company.

THE FALKLAND ISLANDS

The Falkland Islands comprise about 340 islands, the two largest being East and West Falkland. Stanley, the capital, lies on the southern shore of Stanley Harbour in East Falkland. The total land area is some 12,173 square kilometres (4,701 square miles), comparable to Northern Ireland. The archipelago is about 480 km (300 miles) from the nearest point in South America. The coastline is indented, with many natural harbours, and surrounding waters are iceberg free.

The Falkland Islands, which have no indigenous population, were first sighted by the English seaman Captain John Davis in 1592 and the first recorded landfall was made by Captain John Strong in 1690. Argentina invaded the Islands in April 1982 and occupied them for ten weeks. The Islands were retaken by British Forces after an armed conflict.

The population of 2,200 is predominantly of British descent. In addition, there is a British military garrison of about 1,200 people including associated contractors. About 1,650 people live in Stanley, the only town; the remainder live in settlements in the surrounding countryside. The language is English.

The Falkland Islands are an overseas territory of the UK and have considerable autonomy. Her Majesty Queen Elizabeth II is the Head of State and is represented by the Governor. The Governor presides over the Government of the Falkland Islands and is advised in the exercise of his functions by an Executive Council of three of the eight elected Legislative Councillors and two ex officio members (the Chief Executive and Financial Secretary). Lewis Clifton is a member of both the Executive and Legislative Councils.

The democratically elected Legislative Council has the power to make laws for the territory, including, for example, in relation to taxation, but responsibility for defence and foreign affairs rests with the British Government. The Commander, British Forces Falkland Islands, is responsible locally for the defence and security of the territory. The local administrative point of contact for the oil exploration industry is the Director of Minerals, a Falkland Islands Government official, based in Stanley.

The Falkland Islands' economy has traditionally been agricultural, with only limited industry, and a growing offshore fishing industry. The Falkland Islands have an annual GNP of about £20 million. Despite the absence of an extensive indigenous industry, the Directors believe that the Falkland Islands have an infrastructure network capable of sustaining at least the early phases of oil exploration.

THE PROSPECTS FOR OIL IN THE FALKLANDS

An area of over 400,000 square kilometres was identified by the Falkland Islands Government as the Falkland Islands Designated Area for oil exploration. The Designated Area was divided into quadrants, based on one degree of latitude and one degree of longitude, and each quadrant comprises 31 blocks of 12' of latitude by 13' of longitude, exactly as for the UK Continental Shelf. Between 6 and 21 blocks make up a Franchise. 19 Franchises were originally offered for licence applications and licences were awarded in respect of 7 Franchises.

The Designated Area is presently undrilled and is, therefore, virgin territory for oil exploration. The Directors believe that detailed seismic lines do, however, indicate geological conditions which may be suitable for the generation, migration and entrapment of oil and gas in economic accumulations. In parts the geological structures around the Falkland Islands exhibit features closely analogous to those of the northern North Sea. It must be stressed, however, that there is no certainty that economic accumulations will in fact be discovered. A description of the regional geology and prospects for oil exploration is set out in the Petroleum Engineers' Report in Part II of this document.

If economic accumulations of oil exist, the large number of blocks comprising each Franchise greatly increases the probability of successful exploration. The history of oil exploration has shown that the largest oilfields are commonly discovered first in newly explored basins and that the greatest rewards tend to go to those companies that are among the first to explore.

THE LICENSING ARRANGEMENTS

Exploration for petroleum on the Falkland Islands Continental Shelf is governed by Falkland Islands Law. The provisions of the various ordinances and regulations are entirely independent of UK laws and regulations, although largely based upon them. Under the terms of the Offshore Petroleum (Licensing) Regulations 1985, the Government of the Falkland Islands invited applications for petroleum production licences in respect of 19 Franchises of blocks. Applications could be made by any applicant for any number of Franchises.

As in the United Kingdom, the award of licences was discretionary and competitive, judged upon the work programmes submitted, applicants' geological knowledge of the area and their technical and financial competence. The licence holders had to appoint an operator acceptable to the Government to organise, supervise and be responsible for all activities. An operator is not allowed to commence any survey or commence, abandon or recommence the drilling, or completion for development, of any well without the consent of the Government. Good oilfield practices have to be observed at all times and licence holders must comply with additional conditions to the licences as detailed in Petroleum Operations Notices issued from time to time by the Government. In addition, the production licence regulations require the holder to supply copies of all data to the Government.

Under the terms of the production licences, licences can be held for a total of 37 years, comprising 3 exploration phases of 5, 7 and 10 years respectively and an exploitation period of up to 35 years. Approval for exploration can only be given upon the acceptance of a development plan, which is to be submitted at any time during the exploration period of 22 years. Fifty per cent. of the acreage of each licence as at the end of each of the first two exploration phases must be relinquished after each such phase. If, however, during the first phase, any exploration wells are drilled, an additional 10 per cent. of the acreage can be retained for each of the first 3 wells and all of the acreage can be retained if a fourth well is drilled. The third exploration phase of ten years allows for further exploration and appraisal drilling. Entry to the third exploration phase requires a renewed drilling commitment on the exploration acreage and is therefore on a drill or drop basis.

The exploitation phase of production licences will last for 35 years to allow full exploitation of any resources; the period can be extended at the discretion of the Governor. Development approval for a projected field can be sought at any time during the tenure of a production licence. An application for development approval must describe the boundaries of a potential field and any extension of the licence for the 35 year period will be limited to that area. The licence is automatically terminated if no development plan is submitted in the first 22 years.

The following table details the results of the licensing round which were announced by the Falkland Islands Government in November 1996.

Falkland Islands Licence Awards

FRANCHISE	LICENSEE
A	Amerada Hess 25%, Fina 25%, Murphy 25%, Teekoku 20%, Argos Energygreen 5%
B	Shell 70%, Agip 30%
C	LASMO 62.5%, Desire 25%, Clyde 12.5%
D	LASMO 62.5%, Desire 25%, Clyde 12.5%
F	IPC 50%, Sands 50%
I	Desire 100%
L	Desire 100%

THE FISCAL SYSTEM

The following is intended as a general guide and is based on the Directors' understanding of current Falkland Islands law.

The fiscal system applicable to production licences compares favourably with that of other countries and comprises an acreage rental that will be imposed during the exploration phases, followed by a revenue-based royalty on production and includes a profits and gains based corporation tax. There are no signature bonuses, back-in rights, local market discounts or production sharing elements to the fiscal system. The regime is predominantly profits based and the Directors believe that the Government is committed to ensuring that the overall tax system remains attractive and conducive to attracting future investment.

Acreage rentals

Acreage rentals are payable annually in advance for each square kilometre of a Production Licence. Acreage rentals rise incrementally in exploration phases two and three, but the overall cost to the licence holder may be reduced through a combination of acreage relinquishments and payment discounts for wells drilled. During exploration phase one (the first five years), exploration acreage rental is US\$30 per square kilometre per annum.

At the end of year five there may be relinquishment of up to 50 per cent. of acreage and any relinquishment would reduce the amount upon which rental is payable. If acreage is retained because of drilling in the first exploration phase, the acreage rentals are discounted as follows:

Year	Rental	Rental on 1 well drilled
6	US\$300	\$150 if 2 approved wells already drilled
7	US\$375	\$225 if 3 approved wells already drilled
8	US\$525	\$300 if 4 approved wells already drilled
9	US\$600	\$300 if 4 approved wells already drilled
10	US\$675	\$300 if 4 approved wells already drilled
11	US\$675	\$300 if 4 approved wells already drilled
12	US\$675	\$300 if 4 approved wells already drilled

At the end of year 12 there is a mandatory relinquishment of 50 per cent. of remaining acreage, reducing further the acreage upon which rental is payable. Rentals for the third exploration phase are:

Year	Rental
13	US\$1,500
14	US\$2,250
15	US\$3,000
16	US\$3,750
17	US\$4,500
18	US\$5,250
19	US\$6,000
20	US\$6,750
21	US\$7,500
22	US\$8,250

Development approval for a projected field can be sought subject to a direction by the Governor. Once development consent has been given by the Governor the exploration acreage rental on that portion of the licence area is replaced with a rental of \$375,000 per annum, payable only until the first royalties are paid from production. This escalation of annual rental fees for defined oilfields is designed to encourage the rapid development of any reserves.

Production

The Directors believe that the Falkland Islands fiscal regime, which is based largely on profits, is competitive. The detailed taxation legislation for petroleum is contained in The Taxes Ordinance 1997 while the provisions of the Model Clauses relating to the royalty are contained in the Offshore Petroleum Licensing Regulations 1998.

A royalty of nine per cent. is payable on the market value of any petroleum won. The Model Clauses provide that the royalty of nine per cent. may be reduced by the Falkland Islands Government at its discretion. Royalties will be payable in respect of six-month periods ending 30 June and 31 December.

Both companies which are resident and those which are non-resident in the Falkland Islands for tax purposes may be liable to Falkland Islands corporation tax. Companies which are not resident in the Falkland Islands and which do not have a branch or agency in the Falkland Islands will not be liable to corporation tax on profits or gains which do not have a source in the Falkland Islands and which are not effectively connected with a business carried on in the Falkland Islands. All profits and gains from exploration or exploitation activities in Falkland Island controlled waters and exploration or exploitation rights will be treated as arising in respect of a business carried on in the Falkland Islands. It is an obligation of a production licence that a licensee must establish a permanent establishment of a kind and nature approved by the Governor prior to commencing production. The Directors believe that the

status of such permanent establishment has not yet been determined by the Governor and could include requiring the licensee to become resident in the Falkland Islands for tax purposes.

The standard rate of corporation tax in the Falkland Islands is currently 32.5 per cent. Profits and gains arising in respect of petroleum exploration activities or the exploitation of petroleum rights ("exploration or exploitation activities") will be treated as being "ring fenced" for Falkland Islands corporation tax purposes from any other activities carried on by that company. This is a two-way ring fence for tax and relief purposes and means that losses relating to exploration and exploitation activities cannot be set off against profits on other activities and losses on other activities cannot be used to off-set profits from exploration or exploitation activities. Such ring fencing is generally at the company level rather than at a project level, which means that expenditure on one field within the Designated Area may be set off against profits on another field.

A company carrying on exploration and exploitation activities will be entitled to a deduction against ring fenced income as trading expenses for expenditure incurred on petroleum exploration and appraisal and intangible drilling costs (ie. those capital costs which are not attributable to the acquisition of plant and machinery). Expenditure incurred on the acquisition of plant and machinery for the purposes of exploration and exploitation activities will qualify for writing down allowances at a rate of 25 per cent. per annum on a reducing balance basis.

A revised Double Taxation Relief Arrangement (the "Arrangement") between the United Kingdom and the Falkland Islands which came into force in respect of corporation tax in the United Kingdom on 1 April 1997 and in the Falkland Islands on 1 January 1997 contains special provisions for offshore activities. Any offshore activities in the Falkland Islands Designated Area carried on for a period exceeding 30 days in aggregate in any 12 month period will be treated as a permanent establishment in the Falkland Islands for the purposes of the Arrangement and a company carrying on such activities may be liable to corporation tax in the Falkland Islands on the income, profits or gains attributable to that permanent establishment. In accordance with United Kingdom law, credit will be available against corporation tax payable in the United Kingdom for any corporation tax paid in the Falkland Islands computed by reference to the same income, profits or gains. The Falkland Islands has not agreed any double taxation arrangements with countries other than the United Kingdom.

Under Falkland Islands law, any gain realised by a shareholder on the disposal of unquoted shares in a company which derive their value directly or indirectly from exploration or exploitation rights may be liable to tax in the Falkland Islands as income to the extent that the shares derive their value from such exploration or exploitation rights. Shares which are listed on AIM will be treated as unquoted for these purposes. It should be noted that there is no exemption from such Falkland Islands tax liability for UK resident shareholders notwithstanding that they may be exempt from UK tax (eg. certain institutional shareholders such as pension funds). The Arrangement provides that if a shareholder who is treated as resident in the UK for the purposes of the Arrangement is liable to tax in the Falkland Islands on any gain realised on the disposal of unquoted shares in a company deriving their value from exploration or exploitation rights, and that a shareholder is also liable to UK tax in respect of that disposal, credit will be given against any liability to tax on chargeable gains in the UK for tax payable in the Falkland Islands computed by reference to the same gains.

A company must notify the Falkland Islands' tax authorities within thirty days of any disposal of unquoted shares in that company which derive their value from exploration or exploitation rights as mentioned above, giving particulars of the disposal. If any Falkland Islands tax payable in respect of that disposal by a person not resident in the Falkland Islands remains unpaid, the Falkland Islands tax authorities can seek to recover that unpaid tax from certain

other persons, including the person who owns the exploration or exploitation rights (for example, the company itself)

LASMO CONSORTIUM ARRANGEMENTS

A summary of the main terms of the JOAs is set out in paragraph 2 of Part V of this document. Desre has a 25 per cent. interest in the LASMO Consortium with respect to Tranches C and D and is therefore liable for 25 per cent. of the costs of the Consortium. LASMO is the operator for the Consortium, which has a joint operating committee representing its members. Desre is entitled to appoint a representative to this joint operating committee and resolutions of the joint operating committee generally require 65 per cent. affirmative voting.

The JOAs set out the rights and obligations of the members of the Consortium (being LASMO, Desre and Cyclic Expro plc) in respect of the licences awarded and the operations to be carried out under those licences. Specifically, the JOAs cover exploration, production, treatment and storage and transportation of petroleum. The activities of the Consortium are funded by LASMO making advance monthly cash calls from the Consortium members. In addition, the JOAs set out the authorities and duties of the operator, the rights of the participants and the creation of joint operating committees which determine the location and timing of the operations required under the minimum work programme set out in the licences.

FAULKLANDS OPERATORS' ARRANGEMENTS

On 29 August 1997 LASMO, as operator of Tranches C and D, entered into the FOSA with Amerada Hess (Falkland Islands) Limited, Shell Petroleum Development Limited and IFC, Falklands Limited. Each of these companies is party to a separate licence agreement in the Falkland Islands and is the operator of its own respective Tranche. Having identified common requirements for the sharing of services, equipment and materials in relation to offshore exploration, development and drilling activities these companies entered into the FOSA in the interest of optimising cost savings. The type of services of common interest include rig hire, drilling services, health and safety and environmental matters, aviation, oil spill contingency studies and services.

Under the FOSA a steering committee is established to consider any request from one of the operators to procure a contract and if more than one operator wishes to pursue the proposal a work group will be appointed to investigate and report its findings to the steering committee. An operator is not required to participate in a contract but those that do not will not share the contract nor any benefits arising. The operators bear their own costs for the steering committee and any work group.

An example of the implementation of the FOSA is that the costs relating to the transportation of the Bognny Dolphin rig will be shared by the members of the FOSA and the rig will be used in turn by all members of the FOSA to drill their respective wells over the next two years. The Bognny Dolphin rig has been contracted under the FOSA and is due to arrive in the Falkland Islands in April 1998. Five wells are planned to be drilled by FOSA members: the first on Tranche A in April/May 1998 by Amerada Hess and the second on Tranche C in June/July 1998 by the LASMO Consortium.

Whilst not a signatory to the FOSA, Desre has potential obligations under it as a member of the LASMO Consortium. For example, although LASMO as operator is liable to the other parties to the FOSA for the Consortium's share of the FOSA costs, in the event of default by any member of the Consortium in meeting its proportion of the Consortium's share of these costs, the other members of the Consortium are obliged to make good the resulting shortfall. Should Desre develop Tranches E and F as operator, it will be entitled to become a party to the FOSA in its own right.

FACTORS AFFECTING EXPLORATION

The Offshore Minerals Ordinance 1994 contains a number of provisions in relation to the protection of the environment, as does the Marine Environment (Protection) Ordinance 1995. Further provisions designed to protect the environment are set out in individual production licences.

The climate of the Falkland Islands is similar to that of north-east Scotland. The Islands are at about 52° S, a similar latitude south as London and Calgary are north. Winters tend not to be as severe as in some parts of the UK but they are longer. Summers are not quite as warm as the UK but the Falkland Islands enjoy more hours of sunshine than London.

The offshore climate favours exploration for most months of the year. Past experience of seismic surveying in the area suggests that the amount of weather down-time may vary with locality as well as season. Drilling, however, can take place all year round. The water depths offshore are similar to the UK Continental Shelf and the industry has a history of successfully operating in such conditions.

There are restrictions imposed on exploration, but not drilling activities due to fishing. Significant stocks of *Illex* and *Loligo* squid are fished in Falklands waters. Finfish are also trawled in substantial quantities. The *Illex* squid shoals in particular are migratory and are fished from January to June by more or less stationary jigging vessels in large fleets. The *Illex* are fished to the north and north-west of the Islands while the *Loligo* are fished to the south and south-west. The sale of fishing licences provides the largest single source of income for the Falkland Islands.

Priority is given to the fishing fleets over seismic fleets for short periods and the following restrictions are placed on geophysical survey activities around the Islands:

- 1) no surveying is allowed within 12 miles of the coastline unless by special arrangement on an individual case basis;
- 2) no surveying is allowed in the area of the currently licensed Tranches I and L from 1 February to 31 May; and
- 3) surveying may be allowed in the area of the currently licensed Tranche C from 1 February to 31 May dependent on the fishing season and whether there are quantities of *Illex* squid on the 200 metre isobath.

Care has to be exercised by all operators during seismic acquisition to ensure that no damage is done to the potential catch of the fishing fleets.

The Falkland Islands are a haven for many wildlife species including penguin, albatross and other sea birds, seals and whales. All marine mammals are protected under the Marine Mammals Protection Ordinance 1992. Some parts of the coastline and many of the small islands are designated as protected areas. In addition there are numerous wrecks in inshore waters dating back to the last century when the Falklands played an important role as a repair port for ships damaged while rounding Cape Horn. A number of wrecks lying within Falkland waters result from both the World War I Battle of the Falkland Islands and the 1982 conflict between Britain and Argentina but no wrecks are known to lie within the area currently covered by production licences.

Whilst systematic sampling has recently begun, little is known about the precise nature of seabed sediments. The seabed appears in general to be hard and is generally seen as a strong seismic reflector. Apparent bottom simulating reflectors have been observed, suggesting the possibility of gas hydrates. There are no pipelines, stationary subsea military installations, dedicated shipping lanes or operating phone cables in the offshore area. Military manoeuvres are possible at any time but are usually structured so as not to interfere unduly with exploration work.

DIRECTORS AND MANAGEMENT STRUCTURE

Dr Colin Phipps (63) (Executive Chairman)

Dr Phipps is a petroleum geologist with over 40 years of experience in the oil industry. He has overall responsibility for technical and corporate matters and day-to-day responsibility for the management of the Company. He was Chairman of Clyde Petroleum plc from 1983 to 1993 and is currently Chairman of Greenwich Resources plc and of Recycling Services Group plc, which are quoted on the Official List and AIM respectively. He has been involved with the Falkland Islands since 1973 and has been a Trustee of Falklands Conservation since 1980. He was a Member of Parliament from 1973 to 1979.

Sir Rex Hunt (71) (Non-Executive Deputy Chairman)

Sir Rex Hunt has a long association with the Falkland Islands. He was Governor from 1980 to 1985 and, since his retirement, has retained an active involvement and interest in the Islands. He is currently Vice-President of Falklands Conservation, Chairman of the Falkland Islands Association, a Trustee of the UK Falkland Islands Trust and Chairman of the Shackleton Scholarship Fund. Sir Rex was knighted in 1982.

Lewis Clifton (41) (Non-Executive Director)

Mr Clifton is a resident of the Falkland Islands. He was the representative of the Falkland Islands Government in the UK from 1987 to 1990 and a member of the Falkland Islands Legislative and Executive Councils from 1985 to 1987. He is a Trustee of Falklands Conservation and of the UK Falkland Islands Trust. He is a director of Byron Marine Limited, a limited company registered in the Falkland Islands which acts as an agent for the Company, the IASMOG Consortium and for IFC. He was re-elected to membership of both the Legislative and Executive Councils in October 1997.

Stephen Phipps (40) (Non-Executive Director)

Mr Phipps is Dr Phipps' son and owns 25 per cent. of Phipps & Company Limited. He is a non-executive director of Greenwich Resources plc and of Recycling Services Group plc. He is also a vice president of Solomon Brothers International Limited.

Dr John Martin (64) (Non-Executive Director)

Dr Martin is a petroleum geologist with over 40 years of experience in the oil exploration industry. He was successively General Manager Exploration at BP from 1979 to 1981 and exploration director of Clyde Petroleum plc from 1985 to 1993. From 1991 to 1996 he was an adviser to the Falkland Islands Government on establishing offshore oil and gas exploration.

Dr Ian Duncan (48) (Non-Executive Director)

Dr Duncan is a petroleum geologist with over 20 years of experience in the oil exploration industry. He will advise 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, and from 1994 to 1997 he was the managing director of Clyde's subsidiary in the Netherlands.

The Company is still at an early stage of development with the majority of its operations being of an exploration nature. Accordingly, the Board consists principally of non-executive directors. Day-to-day management of the Company is undertaken by Phipps & Company Limited (a company managed by Dr Phipps but owned by Dr Phipps' adult children under the terms of a Management Services Agreement, a summary of which is contained in paragraph 7(c) of Part VI of this document). This agreement includes the provision of technical services, company secretarial services, administrative and office services, accounting and book-keeping services and the provision of office space and equipment. It also includes the provision of the services of Dr Colin Phipps as a Director. The agreement is for a minimum period of one year from 1 April 1998 and is renewable automatically thereafter unless terminated by not less than six months' notice.

In addition, the Company has established a technical committee comprising Dr Phipps, Dr Martin and Dr Duncan which undertakes all decisions with respect to the technical, geological, exploration and potential development aspects of the business and represents the Company at the EASMO Consortium meetings.

Following Admission, the Board will continue to review the management structure of the Company with a view to appointing executive directors and full time employees at an appropriate stage in the development of the Company's activities.

DIVIDEND POLICY

The Directors intend to devote the Company's own resources to its exploration activities. Unless and until income and distributable reserves are generated through the production of oil the Company will not be in a position to pay any dividends. The Directors will consider the Company's dividend policy as and when the Company is in a position to pay dividends.

CORPORATE GOVERNANCE

The Directors intend to comply, in so far as is applicable to the Company, with the Code of Best Practice on the Financial Aspects of Corporate Governance introduced by the Cadbury Report and the recommendations of the Greenbury Report relating to directors' remuneration.

The Board has established an audit committee and a remuneration committee, each of which has written terms of reference. The audit committee, of which Dr Ian Duncan is currently the chairman, comprises the independent non-executive Directors excluding Dr Colin Phipps and Stephen Phipps and will meet at least twice a year. It will be responsible for ensuring that the financial performance of the Company is properly monitored and reported on and for meeting the auditors and reviewing any reports from the auditors regarding accounts and internal control systems. The remuneration committee, of which Sir Rex Hunt is chairman, comprises the same independent non-executive Directors and will meet on an *ad hoc* basis. It will review the remuneration and incentive arrangements for the Directors and the terms of the Management Service Agreement in the light of the performance of the Company.

SHARE CAPITAL REORGANISATION

Prior to Admission the Company's share capital comprised 1,375,000 A Ordinary Shares of 1p each, fully paid and 5,500,000 partly paid B Ordinary Shares of 1p each. These B Ordinary Shares were issued at a premium of 90p per share and a total of 35p per share has been paid by shareholders. The intention was to make further calls on the B Ordinary Shares over a period of years as and when additional funding was required by the Company.

However the success of the Company in its applications for production licences has resulted in the need for higher levels of funding within a shorter period than was originally envisaged. Accordingly the Directors have decided that the Company's future funding should be obtained through the Placing and that the liability attached to the B Ordinary Shares in respect of unpaid premium totalling 65p per share should therefore be extinguished. The Directors have been advised that, having regard to, amongst other considerations, Falkland Islands taxation, this can best be achieved through a reduction of share premium account authorised by shareholders and sanctioned by the High Court in England. The necessary shareholder authorities have been given and it is expected that the final court hearing to sanction the reduction will take place before the end of May 1998. Following the court order sanctioning the reduction, each B Ordinary Share will be converted into an Ordinary Share ranking *pari passu* in all respects with the existing Ordinary Shares and application will be made for the new Ordinary Shares resulting from the conversion to be admitted to AIM.

Capitalisation issues of shares have taken place in order to compensate the holders of A Ordinary Shares for the extinguishment of the liability of the holders of B Ordinary Shares

in respect of unpaid premium and so as to achieve a share structure appropriate for the flotation. Subsequently, the A Ordinary Shares have been converted into Ordinary Shares. Further details of these capitalisation issues and of the Directors' intentions in the unlikely event of the reduction of share premium account not being sanctioned by the court, are contained in paragraph 3 in Part VI of this document.

REASONS FOR THE PLACING

In order to provide financial flexibility and to enable the Company to continue to fully exploit the exploration opportunities open to it, the Directors consider that it is appropriate to seek a flotation of the Company on AIM.

The Directors believe that the Company has reached an exciting stage in its development with good prospects for potential oil generation in the North Falklands Basin. The net proceeds of the Placing will therefore be used to fund the Company's share of exploration expenditure on Tranches C and D over the next two years and to acquire additional seismic on Tranches E and F.

Furthermore, the Directors believe that a large acreage position and a substantial percentage working interest in a virgin basin with large seismically defined structures exposes investors to exciting opportunities and substantial gearing to potential exploration success.

DETAILS OF THE PLACING

No existing shareholders are selling shares in the Placing. The Company is issuing 12,000,000 new Ordinary Shares by way of the Placing to raise approximately £11.1 million net of expenses. The Placing Shares will represent approximately 25.4 per cent. of the enlarged issued share capital of the Company following the Placing and reduction of share premium account. The Placing is fully underwritten by SC&SL and is conditional upon, amongst other things, Admission becoming effective. Details of the Placing Agreement are set out in paragraph 8 of Part VI of this document.

Following the Placing and reduction of share premium account, the Directors will be interested in an aggregate of 1,389,600 Ordinary Shares, representing approximately 2.9 per cent. of the enlarged issued share capital of the Company. The Directors and Phipps & Company Limited, holding in total 30.3 per cent. of the enlarged issued share capital, have undertaken not to dispose of any of their existing shareholdings at any time prior to the first anniversary of Admission other than with the consent of SC&SL in certain limited circumstances, as specified in the Placing Agreement.

PART II

PETROLEUM ENGINEERS' REPORT

GCA

Gaffney, Cline & Associates Ltd

The Directors
Desire Petroleum plc
Malton Court
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WR13 5NZ

The Directors
SC Securities (London) Ltd
Exchange House
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Broadgate
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EC2A 2DD

8 April 1998

Dear Sirs

REVIEW OF TRANCHES C, D, I AND L OFFSHORE THE FALKLAND ISLANDS

Introduction and Summary

In accordance with an instruction letter from Desire Petroleum plc ("Desire" or "the Company") and SC Securities (London) Ltd dated 26 March 1998 Gaffney, Cline & Associates Ltd ("GCA") has reviewed the interests owned by Desire in the Falklands offshore Tranches C, D, I and L. These properties are located offshore some 40 to 160 kilometres north of the Falkland Islands in water depths of 100 to 400m. None of the licences held by Desire contain accumulations of hydrocarbons which have been tested by drilling. This assessment is effective as at 8 April 1998.

GCA has been instructed to review the interpretations and work programmes proposed by Desire only from the point of view of their technical adequacy and appropriateness to the level of prospectivity envisaged for the holdings. GCA has also reviewed the timing and content of the work plan and can confirm that it is consistent with the existing contractual obligations of the licences as we currently understand them. GCA has not performed a detailed review of the costs associated with the proposed work programmes and is not in a position to comment on the validity of the cost estimates or the procedures used to estimate them.

The evaluation completed by GCA has been based primarily on an audit of data and interpretations supplied by Desire and LASMO International Ltd ("LASMO"), the operators of the respective licences, on or before the 8 April 1998. In addition to supplying detailed documentation of their evaluations, Desire has given GCA full access to any additional data as requested by GCA. Reflecting the nature of an audit, GCA has reviewed Desire and LASMO's approach for the evaluation of the exploration potential of the areas and considered it to be technically reasonable.

GCA is an independent energy consultant whose speciality includes the evaluation of the exploration potential of sedimentary basins. GCA has also considerable experience in the evaluation and planning of exploration work programmes and has acted as independent

advisors to government bodies regarding petroleum legislation and exploration licence commitments. In the preparation of this report, GCA has maintained and continues to maintain a strict consultant-client relationship with Desire. The partners and directors of GCA have been and continue to be independent of Desire in the services that they provide to the Company, including the opinions expressed herein. Furthermore, the partners and directors of GCA have no interest in any assets or share capital of Desire or in the production of the Company.

Discussion

Licence Details

The production licences that represent the total exploration asset base of Desire are located due north of the Falkland Islands in water depths between 100 and 400 metres. Desire's interests are split between 4 licences defined as Tranches C, D, J and L (Figure 1). All of these licences were awarded as part of the First Offshore Falkland Licensing Round in February 1997. Desire is the operator and only equity holder in Tranches J and L. Tranches C and D are operated by LASMO and Desire holds a 25 per cent. equity in each. In total the licences cover some 7,957 square kilometres.

The work commitments associated with Tranches C and D, which encompass 3,220 square kilometres, call for the acquisition of 2,500 kilometres of 2D seismic in the first year. This commitment has been fulfilled. One firm exploration well on a predefined prospect is also required under the terms of the licence. Three possible locations have been identified and a rig has been contracted to drill the well. The drilling activity is planned to commence in the second quarter of 1998. Contingent on the initial drilling results and seismic mapping, a further two wells may be required during years 3 to 5 of the licence period. Should a potentially commercial discovery be made the licence terms require the acquisition and processing of a 3D seismic survey for reservoir delineation during years 6 to 12.

Tranches J and L combined encompass an area of 4,737 square kilometres and have a firm work commitment that requires the operator to purchase all of the existing seismic data in the Tranches acquired by Spectrum Energy. This data has been purchased and interpreted. The operator is additionally required to acquire 1,200 kilometres of new 2D seismic in the two areas, 500 kilometres in J and 700 kilometres in L. There is also a firm requirement to complete processing tests on at least one seismic line from the existing data set. In addition to the above seismic work programme the operator is also required to review all data that exists on or off seeps and slicks in the licence areas. At the date of this letter, all of these commitments remain to be fulfilled but have been budgeted for in 1998. Contingent on the results of these firm commitments the operator may also be required to reprocess all of the initial Spectrum Energy seismic data and acquire a further 800 kilometres of 2D seismic data, 200 kilometres in J and 300 kilometres in L. Conditional on the identification of prospects of sufficient size, and evidence of a working petroleum charge within the Tranches, the operator may be required to drill one exploration well in each Tranche. A further commitment to drill a well in each Tranche would be required if the operator wished to retain any part of the licensed area after the completion of the first phase of the licence commitments.

It should be noted that the contingent well commitments attached to the C and D and J and L Tranches are not tied specifically to the results of exploration activity within the individual Tranches. It is therefore possible that the licensees may be required to drill additional wells to those initially planned, as a result of successful exploration activity in adjacent Tranches despite unsuccessful exploration activity in Desire's licences.

Regional Geology and Prospectivity

The Production licences held by Desire are located in the North Falkland Basin, the most northerly of the four sedimentary basins that surround the Falkland Islands (Figure 2). The four basins are considered to have developed during a multi-phase rifting event that provided

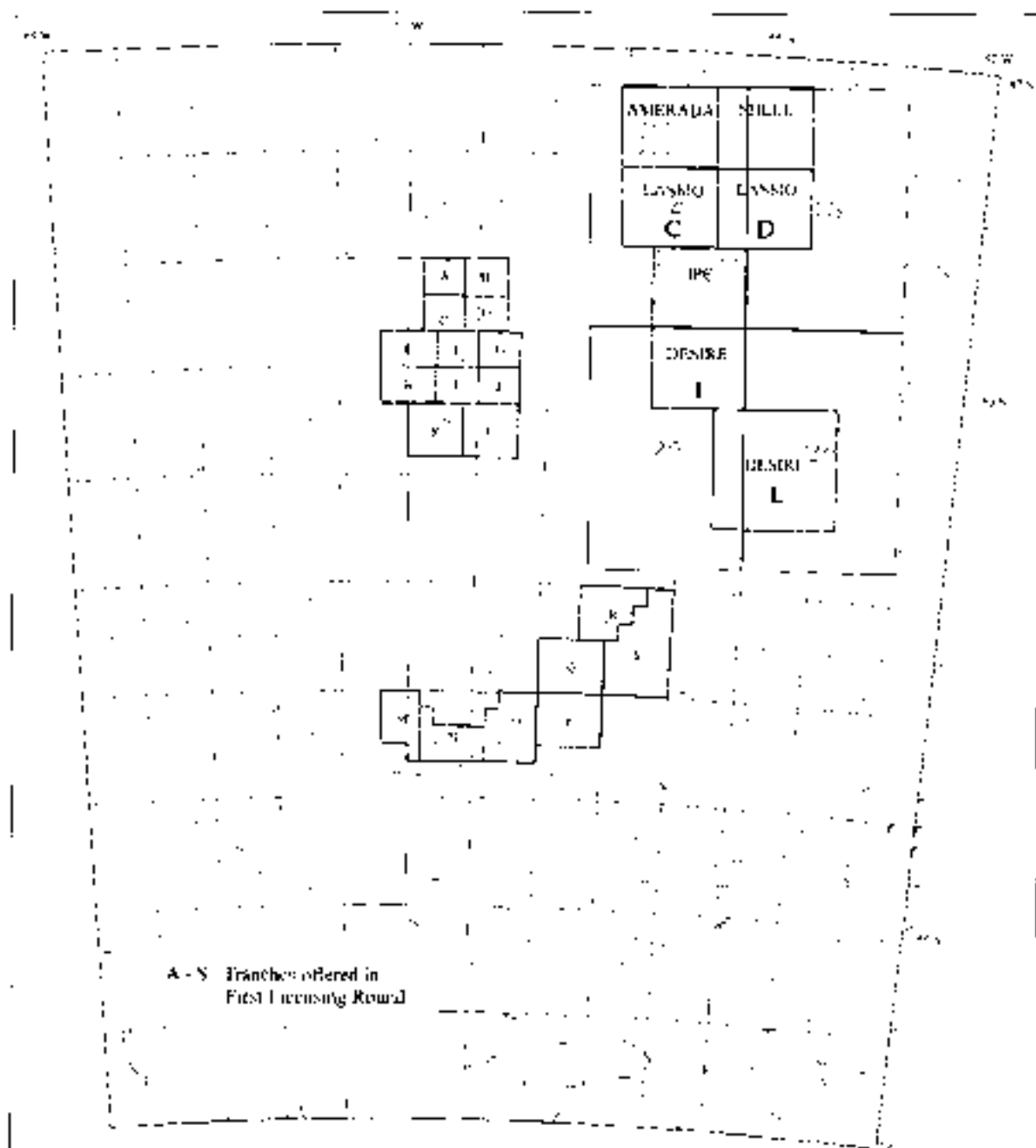


Figure 1 Licences awarded in the First Licensing Round
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the break up of the Gondwanaland super continent. Due to the lack of well penetrations in the area the exact age of the rifting and the nature of the sedimentary deposits within the basin are not known. However by analogy to other basins in the region, which have been tested and are known to be associated with the Gondwanaland breakup, the rifting events and their associated sediments are believed to be Triassic to Early Cretaceous in age. The rifting is considered to have ceased during the Valanginian period and the remaining Cretaceous and Tertiary sediments were deposited during a phase of passive thermal subsidence. During the early Tertiary, deposition in the basin was interrupted by a period of uplift that is thought to be associated with the Andean compression. The latter compression may also be responsible for minor inversion structures seen from seismic within the North Falklands Basin.

There are at present no wells in the whole of the offshore Falklands region. It is not possible directly to tie seismic events within the franchises held by Desire to outcrops on the islands or to distant well control either offshore Argentina or in Deep Sea Drilling Project (DSDP) research wells drilled east of the Falkland Islands, in consequence the nature of the sedimentary succession within the licence areas held by Desire is unknown. It is thus not possible to consider the holdings in terms of proven and probable reserves.

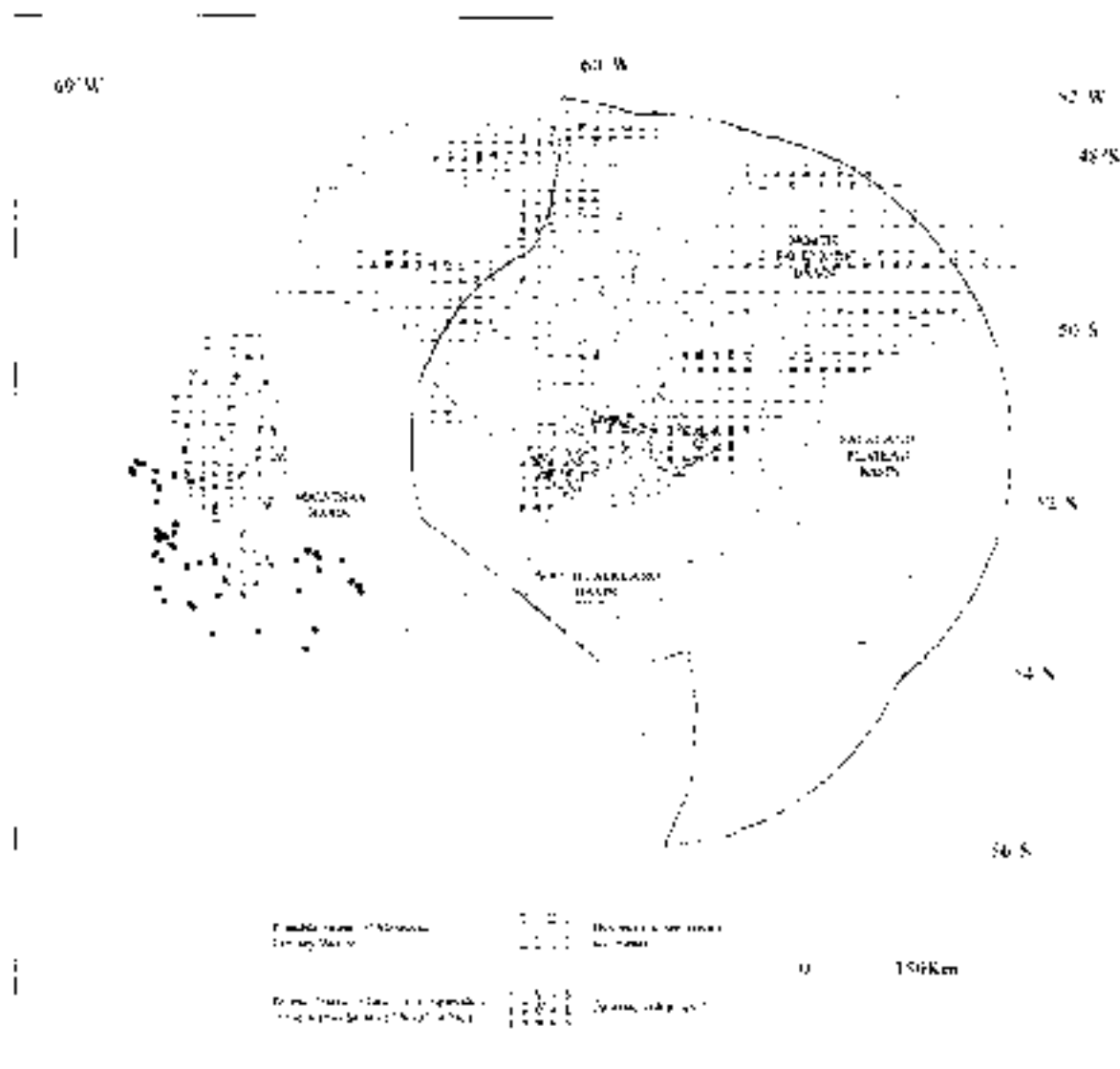


Figure 2 – Sedimentary Basins in the Falkland Area

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For the purposes of evaluating the potential of such opportunities, common practice in the oil industry is to consider all of the individual elements that are required for a working petroleum system to be present in the basin. Each element is considered separately and an estimate made regarding the probability that they would be present in the area of interest. This is done either directly, based on the available seismic control, or indirectly on the basis of available evidence from related analogous basins in the region. The seismically based evidence carries a relatively high degree of confidence, whereas the evidence based on regional analogy is much more speculative in nature and its application to the acreage in question is more uncertain.

On the basis of the seismic data the presence of structural closures is considered as demonstrated in Tranches C and D. These features show varying degrees of structural relief and areas of closure but are sufficiently robust to allow drilling locations to be defined. Evaluation work in Tranches I and L is less advanced; however, a number of structural leads have been identified that might be developed into drillable prospects with more evaluation of the seismic data. Although the operators have reviewed the seismic data for evidence of direct hydrocarbon indicators such as bright spots, flat-spots and gas chimneys no evidence of these has been recorded.

The operators have evaluated the possible presence of hydrocarbon source rocks within the licensed areas and the evidence for their presence is based on regional analogy. Working petroleum systems are proved in the Malvinas and Magallanes basins to the west, the San Jorge Basin to the north west and within a number of the South African offshore basins. It should be noted, however, that no commercial production has been established from the Malvinas basin to date, although the area or the basin adjacent to the Falklands offshore has been the subject of industry interest in the recent past. The basins offshore South Africa are not currently regarded as major hydrocarbon provinces. Additional note should be taken of the fact that although the basins discussed here can reasonably be considered as possible analogies to the North Falkland Basin they were located hundreds and in some cases thousands of kilometres from the licence areas at the time of the deposition of the potential source rocks. The presence of active source rocks in these basins can not be taken as a clear indication that source rocks will be present in the North Falkland Basin which is structurally very different from them.

The lack of well control over the age of the basin fill has resulted in conflicting interpretations as to the likely stratigraphic level of the proposed source intervals. At present both Desire and LASMO's interpretation of the stratigraphic level of the syn-post-rift boundary places the younger of the potential source rocks much deeper than the interpretation proposed by the British Geological Survey (BGS). The model proposed by LASMO would allow significant volumes of oil to be generated given the presence of heat flows typical of sedimentary basins. However the model proposed by the BGS would require unusually high heat-flows in order for significant volumes of oil to be generated from the younger potential source. It must be accepted therefore that even if an oil prone source rock is present in the North Falklands Basin it is by no means certain that it will have generated significant volumes of hydrocarbons.

The presence of reservoir intervals has also been evaluated on the basis of regional analogy and the application of sequence stratigraphic analysis. There is good agreement between the various published interpretations of likely reservoir intervals and those proposed by Desire and LASMO. Reservoirs are considered possible in both the early and late synrift sequences and the early post rift succession. Over much of Tranches C and D any early synrift reservoirs are likely to be too deeply buried to be of commercial interest; however, these may represent additional potential in Tranches I and L where they are likely to be preserved at a shallower level.

The older sediments outcropping on the Falklands, and basement rock flanking the grabens, contain sufficient coarse quartz grains to provide a possible supply of coarse clastic material within the synrift fill. However, the rift sediments have undergone a long period of burial and preservation of good effective porosity within such sandstones, especially any associated with volcanics, is an important element of risk. Seismic velocities from this section, utilised in processing the 1993 and 1995 Spectrum data, are highly variable but are in general quite high. This is more typically associated with indurated, lower porosity sediments. Reprocessing of data further north suggests that lower velocities are a better representation of the data and hence synrift fill may be less compacted than the early seismic processing implies.

The quality of the possible post-rift reservoirs is also unknown. The most persistently occurring reservoir intervals in the basins used for regional analogy are lower Cretaceous

sandstones related to the initial period of marine transgression which followed the cessation of rifting. Reservoirs of this type are proved in both the Magallanes and Malvinas basins in Argentina. Although commercial production has been established from these sands in the Magallanes Basin, the oil-bearing sands of this type encountered in the Malvinas Basin were much poorer in quality. The poor quality of these sands is considered to be a significant contributing factor to the lack of commercial success of the discoveries in the Malvinas Basin.

Again it is reasonable to draw analogies to the reservoir intervals discussed above when considering the prospectivity of the North Falkland Basin. However the success or failure of such plays in adjoining basins can not be taken as a clear indication of the success or failure of similar plays in the licensed areas held by Desire because the geology of these areas may prove to be very different.

In summary the presence of all of the elements that are required for a working petroleum system have been demonstrated to be present within related basins that might reasonably be considered to have an analogous history to the area covered by Desire's licences. In some of the analogue basins all the elements have combined to produce commercial hydrocarbon accumulations. Within Desire's acreage however, only the presence of structural closure is demonstrated. All other aspects required for the formation of commercial accumulations of oil are, as of yet, unproven and are the subject of speculation.

Planned Work Programme

All six of the oil companies that operate the oil exploration licences in the North Falklands Basin, although holding independent interests, have been working together to minimise costs. In addition five out of the six have entered into pre-trade agreements regarding their exploration wells in order to maximise the exchange of technical information and understanding. This practice should allow the exploration potential of the area to be evaluated in the most time and cost effective manner. The work programmes associated with the licences held by Desire are appropriate in terms of the prospectivity that the areas offer, and the technical work completed so far appears correctly focused on the key issues of uncertainty. In addition the work completed by LASMO is sufficiently flexible to allow the choice of the final drilling location to be changed to reflect the results of the preceding wells to be drilled by Amerada Hess on Tranche A.

Economic aspects of either the proposed work programme or future potential development schemes are outside the scope of this audit. GCA is able to affirm, however, that given the location and environmental conditions in the area, there are no factors which have been identified that would suggest that petroleum developments in this area would experience difficulties that are outside the current capabilities of the industry.

In summary GCA is satisfied that the technical work carried out to date by both Desire and LASMO in the respective Tranches has been completed in a manner that is appropriate for the opportunities under consideration and both have utilised technology and procedures that are consistent with good industry practice. GCA can also confirm that the future work programmes, as currently planned by the respective operators, appear to be correctly focused and directed towards investigating the key areas of uncertainty.

Base of Opinion

This assessment has been conducted within the context of GCA's understanding of the regulations that currently apply to these properties. However, GCA is not in a position to attest to property title, financial interest relationships or encumbrances thereon for any of the appraised properties.

It should be understood that any determination of possible prospectivity, particularly involving frontier areas of oil exploration such as this, may be subject to significant variations over short periods of time as new information becomes available and perceptions change.

Yours Faithfully
GATFNEY, CLINE & ASSOCIATES LTD

John McGhee BSc(Eng)
Group Chief Executive of Gafney, Cline & Associates
Director, Gafney, Cline & Associates Ltd
Director, Gafney, Cline & Associates International Ltd (OCA Holding Company)

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BSc(Eng.) Chemical Engineering,
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40 years experience in industry
Member of:
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Society of Petroleum Engineers
Geological Society of Malaysia
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PART III

RISK FACTORS

General Exploration Risks

The attention of potential investors is drawn to the fact that ownership of shares in the Company involves a variety of risks. All potential investors should carefully consider the entire contents of this document including, but not limited to, the factors described below before deciding whether or not to subscribe for Placing Shares. The information below does not purport to be an exhaustive list or summary of the risks affecting Desire. There may be additional risks of which the Directors are not aware. Investors should consider carefully whether an investment in the Company is suitable for them, in the light of the matters referred to in this document, their personal circumstances and the financial resources available to them.

Oil exploration and production involves a high degree of risk, especially where, as in this case, the licensing round was the first to take place in the Falkland Islands and no exploration drilling has been carried out. In particular:

- an investment could be affected adversely by changes in economic, political, administrative, taxation or other regulatory factors, whether under English Law or in the UK (where the Company is registered) or under the laws of, or in, the Falkland Islands;
- Desire's success is entirely dependent on a successful exploration and production programme. There is no guarantee of success in any of these phases, nor is there any guarantee that economic accumulations of oil exist in the Designated Area. If at any stage the Company is precluded from pursuing the exploration and production programme or decides not to continue it, it is likely that the Ordinary Shares will cease to have any material value, subject only to any distribution of any surplus funds to shareholders after payment of all of the Company's creditors; and
- Desire's profitability will be subject to the normal risks inherent in exploring for and producing oil, many of which are outside the control of the Company and will also be dependent on the market price of oil, which can fluctuate significantly, according to world market conditions. The geographic location of the Company's assets and the lack of any existing infrastructure may also result in any oil produced by Desire being sold at a discount to the world market price of oil.

Operational and Environmental Risks

Desire's oil and gas operations are subject to all of the operating hazards and risks normally inherent in drilling for and producing oil and gas. These include the possibility of fires, earthquake activity, explosions, blowouts, cratering, oil spills or seepage, gas leaks, over-pressurised formations, unusual or unexpected geological conditions and the absence of economically viable reserves. These hazards may result in cost overruns, substantial losses and/or exposure to substantial environmental pollution, personal injury claims and loss of life. Such hazards can also severely damage or destroy equipment, surrounding areas or property of third parties.

Desire's business is also subject to extensive and changing environmental and safety laws and regulations governing plugging and abandonment, the discharge of materials into the environment and otherwise relating to environmental protection. As with any entity with interests in property, the Company may also be subject to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations.

Market Risks

Desire's business may be affected by the general risks associated with all companies in the oil and gas industry. The availability of a ready market for oil and gas to be sold by Desire (assuming a successful exploration programme) and the prices received for the Company's oil and gas production depend on numerous factors, many of which are beyond its control and the exact effects of which cannot be accurately predicted. Such factors include general economic and political activities (including the extent of governmental regulation and taxation), the availability of transportation capacity (including the proximity and capacity of oil and gas pipelines) and the availability and pricing of other competitive fuels. No assurance can be given that, should price changes occur, Desire would be able to find markets for its oil and gas or that purchasers under existing contracts would not attempt to abrogate them.

Foreign Exchange Risks

As an international oil company, most of Desire's sales and a significant proportion of its costs are denominated in US dollars although it will report in Sterling. As a result, a number of foreign currency effects may arise from exchange rate movements.

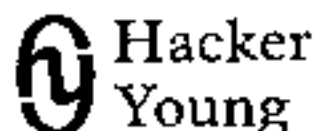
Insurance Cover

Having regard to the current activities of the Company and the fact that at present the Company has no employees, the Directors do not consider it necessary or appropriate for the Company to have in place any insurance other than keyman assurance with respect to Dr Colin Phipps, directors and officers' liability insurance, that which will be in place through the IOAs and is in place through the EOSA. Although the Directors believe that this insurance is adequate to meet industry practice with respect to its operations, in certain circumstances this insurance may not provide adequate cover. The occurrence of an event that is not fully covered by insurance could have a material adverse effect on the operations and financial position of the Company. Moreover, there can be no assurance that Desire will be able to maintain adequate insurance in the future at rates that it considers reasonable.

PART IV

ACCOUNTANTS' REPORT ON DESIRE PETROLEUM PLC

The Directors
Desire Petroleum plc
Maltham Court
Maltham
Malvern
Worcestershire WR13 5NZ



The Directors
SG Securities (London) Ltd
Exchange House
Finsbury Street
Broadgate
London EC2A 2DD

8 April 1998

Dear Sirs

DESIRE PETROLEUM PLC ("DESIRE")

We report on the financial information set out below. This financial information has been prepared for inclusion in the Admission Document relating to Desire dated 8 April 1998.

Basis of preparation

The financial information set out below is based on the audited financial statements of Desire for the two periods ended 31 December 1997 after making such adjustments as we considered necessary.

Responsibility

Such financial statements are the responsibility of the Directors of Desire who approved their issue.

The Directors of Desire are responsible for the contents of the Admission Document dated 8 April 1998 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statement of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Intangible fixed assets

The realisation of intangible fixed assets is dependent on the discovery and development of commercial quantities of oil and/or gas as explained in note 6. Our opinion is not qualified in this respect.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document dated 8 April 1988, a true and fair view of the state of affairs of Desinc as at the dates stated and of its results, cash flows and recognised gains and losses for the periods then ended.

Consent

We consent to the inclusion in the Admission Document dated 8 April 1988 of this report and accept responsibility for this report.

PROFIT AND LOSS ACCOUNTS

		<i>Period Ended 31 December</i>	
		1997	1996
	Year	£	£
Other operating income	2	47,221	4,779
Profit on ordinary activities before taxation		47,221	4,779
Taxation	5	<u>(11,418)</u>	<u>—</u>
Profit on ordinary activities after taxation and retained for the period	12	<u>35,803</u>	<u>4,779</u>

Movements in reserves are shown in the notes to the financial information

STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES

		<i>Period Ended 31 December</i>	
		1997	1996
		£	£
Profit attributable to shareholders		35,803	4,779
Formation expenses		<u>—</u>	<u>(24,974)</u>
Total recognised gains and losses for the period		<u>35,803</u>	<u>(19,974)</u>

BALANCE SHEETS

	Note	At 31 December	
		1997	1996
		£	£
Fixed assets			
Intangible assets	6	1,656,335	722,300
Current assets			
Debtors	7	2,718	68,881
Cash at bank and in hand		355,089	72,614
		<u>357,807</u>	<u>141,495</u>
Creditors: amounts falling due within one year	8	<u>(59,560)</u>	<u>(320,017)</u>
Net current assets/(liabilities)		<u>298,247</u>	<u>(178,522)</u>
Total assets less current liabilities		<u>1,954,582</u>	<u>543,779</u>
Capital and reserves			
Called up share capital	10	68,750	68,750
Share premium account	11	1,845,250	1,845,250
Uncalled unpaid share premium	11		(1,375,000)
Profit and loss account	12	<u>40,582</u>	<u>4,779</u>
Total shareholders' funds	9	<u>1,954,582</u>	<u>543,779</u>

CASH FLOW STATEMENTS

	Note	Period Ended 31 December			
		2017		2016	
		£	£	£	£
Net cash (outflow)/inflow from operating activities	15		(159,024)		255,915
Capital expenditure and financial investment					
Purchase of intangible fixed assets			(934,034)		(722,301)
			(1,093,058)		(466,386)
Financing					
Issue of share capital		1,375,000		539,000	
			1,375,000		539,000
Increase in cash in period			281,942		72,614

NOTES ON FINANCIAL INFORMATION

1. Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Consortium

In addition to holding licences on its own account Desire is a member of a consortium comprising itself, TASMCO and Claude-Explo plc ("the Consortium"). The respective interests of the participants in the Consortium are 25 per cent, 62.5 per cent, and 12.5 per cent.

These accounts include Desire's proportionate share of the costs of the Consortium's transactions.

Capitalisation of oil and gas expenditure

Desire 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 as an intangible fixed asset.

Deferred taxation

Deferred taxation is provided on the liability method in respect of the taxation effect of all timing differences to the extent that tax liabilities are likely to crystallise in the foreseeable future.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

All the differences are capitalised.

1996 figures

The 1996 figures are for the accounting period from 6 March 1996 to 31 December 1996.

2. Operating profit

	1997	1996
Operating profit is stated after crediting		
Interest receivable	47,221	4,779

3. Directors

The emoluments of the Directors were as follows:

	1997	1996
	£	£
<i>Executive</i>		
Dr Colin Barry Phipps	20,000	12,214
<i>Non-executives</i>		
Sir Rex Masterton Hunt	15,000	9,161
Mr Darwin Lewis Clifton	15,000	9,161
Mr Stephen Lawrey Phipps	15,000	9,161
Dr Alan John Martin	10,000	—
	<u>75,000</u>	<u>30,697</u>

4. Other expenditure

	1997	1996
	£	£
Overriding leases - other assets	71,923	78,198
Auditors remuneration		
- audit fees	4,000	4,000
- other services	1,000	850
	<u>76,923</u>	<u>83,048</u>

5. Taxation

	1997	1996
	£	£
Corporation tax on profit on ordinary activities at 21.24%	<u>11,418</u>	<u>—</u>

6. Intangible fixed assets

<i>Oil and gas interests</i>		500
<i>Cost</i>		—
1 January 1997		722,801
Additions		934,034
31 December 1997		<u>1,656,835</u>
Additions during the period and at 31 December 1996		<u>722,801</u>

The Directors remain confident that the licences will be commercially viable but the value of these assets will remain uncertain until oil and/or gas are found in commercial quantities.

7. Debtors

	1997	1996
	£	£
Amounts falling due within one year		
Other debtors	2,718	68,881
	<u>2,718</u>	<u>68,881</u>

8. Creditors: amounts falling due within one year

	1997	1996
	£	£
Bank overdrafts	533	-
Trade creditors	10,216	159,854
Corporation tax	11,418	-
Accruals and deferred income	37,363	168,163
	<u>59,530</u>	<u>328,017</u>

9. Reconciliation of movements in shareholders' funds

	1997	1996
	£	£
Profit for the financial period	35,803	4,779
New share capital subscribed	1,375,000	563,750
Formation expenses	-	(24,750)
Net addition to shareholders' funds	<u>1,410,803</u>	<u>543,779</u>
Opening shareholders' funds	543,779	-
Closing shareholders' funds	<u>1,954,582</u>	<u>543,779</u>

10. Share capital

	1997		1996	
	Number of shares	£	Number of shares	£
Authorised				
'A' ordinary shares of 1p each	2,000,000	20,000	2,000,000	20,000
'B' ordinary shares of 1p each	8,000,000	80,000	8,000,000	80,000
	<u> </u>	<u>100,000</u>	<u> </u>	<u>100,000</u>
Allotted called up and fully paid				
'A' ordinary shares of 1p each	1,375,000	13,750	1,375,000	13,750
Allotted called up and fully paid				
'B' ordinary shares of 1p each	5,500,000	55,000	5,500,000	55,000
	<u> </u>	<u>68,750</u>	<u> </u>	<u>68,750</u>

Desire was incorporated with an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1 each, of which one share was issued.

By a resolution of the shareholders passed on 3 May 1996, the 1,000 ordinary shares in the capital of Desire (whether or not in issue) were converted into 100,000 ordinary shares of 1p each, and Desire's authorised share capital was increased to £100,000 by the creation of 999,000 ordinary shares of 1p each.

On 10 May 1996 Desire issued 1,374,900 ordinary shares of 1p each fully paid at par for cash.

By a further resolution of the shareholders passed on 15 May 1996, the existing issued ordinary shares and 675,300 unissued ordinary shares were converted into 'A' ordinary shares of 1p each and the remaining 8,000,000 unissued ordinary shares were converted into 'B' ordinary shares of 1p each.

The 'B' ordinary shares of 1p each were issued at a premium of 90p per share in July 1996 and to date calls totalling 35p per share have been made leaving 65p per share uncalled.

As explained in note 16 the only class of shares that will remain in Desire (following Court Approval or otherwise) are ordinary shares of 1p each. Consequently no analysis of the rights attaching to other classes of share has been given.

11. Share premium account

	£
6 March 1996	-
Formation expenses	(24,750)
Premium on shares issued	1,670,000
	<hr/>
At 31 December 1996 and 31 December 1997	1,645,250

As explained in note 10 the 'B' ordinary shares of 1p each were issued at a premium of which 65p (1996 90p) is uncalled. On the basis that the confirmation by the Court referred to in note 10 is received the share premium account does not include any element of the ultimate uncalled amount and the 'B' shares have been treated as fully paid.

12. Profit and loss account

	£
6 March 1996	
Retained profit for the period	4774
	<hr/>
31 December 1996	4,774
Retained profit for the year	35,803
	<hr/>
31 December 1997	40,582

13. Guarantees and other financial commitments

	1997	1996
	£	£
(i) The Directors have authorised the commitment of funds for capital expenditure as follows:		
Oil and gas expenditure	<u>1,113,000</u>	<u>266,146</u>

In addition, Desire as a member of the Consortium, has licence obligations for future exploration activity for which firm authorisations have not yet been given but are estimated to amount to £4,000,000 and further contingent expenditure estimated to amount to £1,231,000.

	1997	1996
	£	£
(ii) At 31 December the following minimum annual rental obligations existed under operating leases in respect of acreage rent:		
Within 2 to 5 years	<u>142,110</u>	<u>142,110</u>

At the exchange rate on 31 December 1997 this obligation amounted to £86,365.

14. Related party transactions

Desire has entered into contracts with companies related to Dr C. B. Phipps, S. I. Phipps and Dr A. I. Martin for the provision of services as follows:

- with Phipps & Company Limited for the provision of Dr C. B. Phipps as Executive Chairman. Fees paid for the year ended 31 December 1997 were £20,000 (1996 - £2,214);
- with Phipps & Company Limited for the provision of S. I. Phipps as a non-executive Director. Fees paid for the year ended 31 December 1997 were £15,000 (1996 - £9,161);
- with Aconite Partners Limited for the provision of Dr A. I. Martin as a non-executive Director. Fees paid for the year ended 31 December 1997 were £10,000; and
- with Phipps & Company Limited in consideration of the provision of management services of an amount equal to 5 per cent. of the gross expenditure of Desire in that financial period. Fees paid in the year ended 31 December 1997 were £43,018 (1996 - £35,574).

At 31 December the following amounts were included in creditors.

	1997	1996
	£	£
Phipps & Company Limited	<u>26,131</u>	<u>20,362</u>
Aconite Partners Limited	<u>1,871</u>	<u>-</u>

No other Director had a material interest in any contract during the periods under review.

15. Notes to the cash flow statement

Reconciliation of operating profit to operating cash flows

	1997	1996
	£	£
Operating profit	17,221	4,779
Decrease/(increase) in debtors	66,163	(68,887)
(Decrease)/(increase) in creditors	(272,408)	320,017
Net cash (outflow)/inflow from operating activities	<u>(189,024)</u>	<u>255,919</u>

Analysis of changes in net funds

	At 1 January 1997	Cash flows	At 31 December 1997
	£	£	£
Cash at bank and in hand	72,614	282,478	355,092
Overdrafts	-	(534)	(534)
	<u>72,614</u>	<u>281,942</u>	<u>354,558</u>
	At 8 March 1996	Cash flows - 1996	At 31 December 1996
	£	£	£
Cash in hand and at bank	-	72,614	72,614

Reconciliation of net cash flow to movement in net funds

	1997	1996
	£	£
Increase in cash	281,942	72,614
Change in net funds resulting from cash flows	281,942	72,614
Net funds at 1 January 1997	72,614	-
Net funds at 31 December	<u>354,556</u>	<u>72,614</u>

16. Post balance sheet events

Under the terms of a capital reorganisation, the existing 'A' ordinary shares of 1p each were, on 8 April 1998, redesignated as ordinary shares of 1p each.

On 8 April 1998 a special resolution was passed resolving to reduce the share premium account by £3,575,000 by extinguishing the liability in respect of uncalled premium to the extent of 6p on each 'B' ordinary share of 1p each subject to confirmation by the Court. Following this it is intended that the 'B' ordinary shares of 1p each will be redesignated as ordinary shares of 1p each.

The Company re-registered as a public company under the name "Desize Petroleum plc" on 7 April 1998.

Yours faithfully

Hacker Young
Chartered Accountants

PART V

SUMMARY OF THE TERMS OF THE PRINCIPAL LICENCES AND JOINT OPERATING AGREEMENTS

1. PRODUCTION LICENCES

Tranches C and D

The Company has a 25 per cent. interest in two production licences relating to Tranches C and D, each dated 26 February 1997 and made between (1) the Governor and (2) LASMO International Limited, Clyde Export plc and the Company ("the Licensees"). The Licensees have been granted exclusive licences in Tranches C and D to search and bore for and get petroleum in the seabed and subsoil, which also includes the drilling of wells and taking of samples, under the controlled waters.

The controlled waters in Tranche C comprise 1,510 square kilometres, being the area in Blocks 14/12, 14/13, 14/14, 14/15, 14/18 and 14/19. In Tranche D the controlled waters cover the same surface area but comprise the areas in Blocks 14/15, 14/20, 15/11, 15/12, 15/16 and 15/17. The Blocks' co-ordinates are set out in full in Schedule 1 to the licences.

The operation of the licences is regulated by the provisions of the two Joint Operating Agreements.

The commencement date of both licences is 28 October 1996. Each licence is split into 4 terms ("the Terms") being the initial term, the second exploration term, the third exploration term and the exploitation term. These Terms are of approximately 3, 7, 10 and 35 years respectively, although the licences can be extended to such further period as may be agreed by the parties.

The consideration due for the grant of these licences is the annual payment of acreage rent, which varies according to the Terms, and the payment of royalties for the value of petroleum obtained during a particular period.

The work programme which is to be completed under the licences is specified in Schedule 4 of the licences. Both licences provide different work programmes, although both include the acquisition and processing of 2D seismic data and the drilling of a well in years 6 to 12.

There is no obligation on the Licensees to drill an exploration well in Tranche D as a condition of preserving their rights to extend into the second exploration term. It is only the licence for Tranche C which provides for one exploration well to be drilled within the first 3 years of the licence period and two further exploration wells to be drilled in years 3 - 5, if the Licensees wish to extend into the second exploration term but only if evidence is found of a working petroleum charge and if an economically significant prospect is identified.

50 per cent. of the acreage of each licence as at the end of each of the first two Terms must be relinquished after each such Term. If, however, during the first Term, any exploration wells are drilled, an additional 10 per cent. of the acreage can be retained for each of the first three wells and all of the acreage can be retained if a fourth well is drilled. The third exploration term of 10 years allows for further exploration and appraisal drilling. Entry to the third exploration term requires a renewed drilling commitment on the exploration acreage, and is therefore on a drill or drop basis.

The Governor's approval is required before the Licensees can move into the exploitation term of the licences. His approval is dependent upon the production by the Licensees of an acceptable development plan. The development plan may be submitted at any time during the first three Terms of 22 years. If no development plan is submitted in the first 22 years then the licence is automatically terminated.

The Licensees have various obligations during the Terms, which include:

- (i) keeping and retaining accounts, records of work and samples;
- (ii) supplying the Governor with details of programmes within set time limits;
- (iii) operating the wells with the consent of the Governor;
- (iv) providing a return every 3 months and every calendar year to the Governor containing information on the Licensees' progress; and
- (v) carrying out the various work obligations specified in the Licences, including any additional obligations contained in schedule 6 to the Licences.

Both licences can be terminated by the Licensees on not less than 6 months' notice to expire on any anniversary of the date of the licences.

The licences may be revoked by the Governor if any of the events set out in clause 38 of the Offshore Petroleum (Licensing) Regulations 1975 occurs. The relevant events are:

- (i) any payment mentioned under clause 10(1) of the licence (acreage rent and royalty payments) being in arrears or unpaid for 60 months after the due date for payment;
- (ii) any breach or nonobservance of the terms of the licence or of a development scheme;
- (iii) the appointment of a receiver or the making by the licensee of any arrangement or composition with its creditors;
- (iv) failure to establish a permanent establishment in the Falkland Islands (of a kind and nature approved by the Governor) in the event of the licensee winning and saving any petroleum;
- (v) failure to pay any tax liability payable under the Taxes Ordinance 1994 within 90 days of the due date for payment; and
- (vi) any breach of a condition subject to which the Governor has given his approval under clause 37(4) of the licence (agreements relating to proceeds of sale of petroleum) or any breach of clause 41(5) (requirement that notices be in English).

Under clause 38(1), the Governor may also revoke the licence if there is a change in the control of the licensee. The Governor has a discretion to serve notice requiring further changes in the control which, if not complied with, will enable the Governor to terminate the licence after 3 months. The provisions contained in Section 416 of the Income and Corporation Taxes Act 1988 (as modified by clause 37(4) of the licence) apply for the purposes of determining whether there has been a change of control.

Neither the burden nor the benefit of the licences may be assigned without the consent in writing of the Governor.

Any disputes relating to the licences are governed by the law of the Falkland Islands under the jurisdiction of the Supreme Court of the Falkland Islands.

Tranches J and L

The Company is the sole and exclusive licensee under two production licences relating to Tranches J and L dated 20 and 26 February 1997 respectively and made between the Governor (1) and the Company (2) pursuant to which the Company is permitted to search and bore for and get petroleum in the seabed and subsoil, which also includes the drilling of wells and taking of samples, under the controlled waters.

The controlled waters in Tranche J comprise 1,588 square kilometres, being the area in Blocks 25-3, 25-4, 25-5, 25-8, 25-9 and 25-10. In Tranche L the area comprises 3,149 square

kilometres, being the area in Blocks 25/15, 25/20, 25/25, 26/11, 26/12, 26/13, 26/16, 26/17, 26/18, 26/21, 26/22 and 26/23. The Blocks' co-ordinates are set out in full in Schedule 1 to the licences.

The commencement date of both licences is 28 October 1996. The terms of the licences and the consideration for the grant of these licences reflect the same provisions as those outlined above for the licences in Tranches C and D.

The terms of the work programmes which are to be completed under the licences for Tranches E and F, as set out in Schedule 4, are very similar. Phase one covers work which must be completed during the initial term and phase two covers the work to be completed during the second exploration term of the licences.

During the initial term the Company is required to:

- (i) purchase speculative seismic data;
- (ii) acquire seismic data, reprocess it and acquire additional seismic data conditional upon the results;
- (iii) reassess the slick survey data and conduct physical check sampling; and
- (iv) drill one exploration well, if there is evidence available of a working petroleum charge and the identification of an economically significant prospect.

During the second exploration term, the Company is required to:

- (i) drill a well; and
- (ii) acquire additional 2D seismic data.

In all other respects the terms of these licences regarding obligations, termination, assignment and dispute resolution broadly reflect the terms outlined above for the licences in respect of Tranches C and D.

2. JOINT OPERATING AGREEMENTS

The Company has entered into two joint operating agreements ("JOAs") dated 26 February 1998 between LASMO, the Company and Clyde Expro plc relating to the joint operation for the production licences in respect of Tranches C and D.

The terms of the two JOAs are identical except for the licences to which they relate. The terms of the JOAs are from 29 October 1996 and continue for as long as the licences are in force.

The interests of LASMO, the Company and Clyde Expro plc under the JOAs are 62.5 per cent., 25 per cent. and 12.5 per cent. respectively. The operator of the JOAs is LASMO, which is working under the overall supervision and control of a joint operating committee ("the Committee"). The Committee consists of one representative appointed by each party. The Company's representative on this Committee is the Company's technical committee comprising Dr Colin Pleppps, Dr Alan Martin and Dr Ian Duncan. Voting of the Committee is weighted according to the percentage level of the parties' interests as detailed above. A Committee decision is passed when two or more parties' votes reach an aggregate of 65 per cent. The Committee shall meet as and when required, subject to at least one meeting per year, although decisions may be taken by all parties without the need to hold a meeting.

The Committee decides the location and time at which the minimum work programme (which the licensees are required to fulfil under the production licences) will be discharged.

The procedures for continuing the licences beyond the initial term and to a second or third exploration term are set out in the JOAs. Subject to notice, one party may withdraw from the

licence and IOAs. The determination and surrender provisions of the licence, however, require an affirmative vote from all parties.

The operator is obliged to submit in each year a proposed exploration programme and budget, which must be approved by the Committee. Any other expenditure incurred by the operator (except in the case of emergency) should first be approved by the Committee. If a discovery or reserves of petroleum is made then the operator is required by the Committee to submit an appraisal programme and budget and a proposed development programme in respect of this discovery. The appraisal and development programmes and corresponding budgets provide details as to the projects to be undertaken and if applicable the wells to be drilled, the manner in which these projects are to be carried out and the financial implications of these proposals. The operator is also required to submit a proposed production programme and budget prior to commencement of production.

The parties may, subject to the terms of the IOAs, request that the operator carries out drilling or geophysical work, projects and developments without the participation of all parties to the IOAs. The risk, costs and expenses of such projects are however to be borne by that party alone, unless another party elects to join the proposed programme.

If petroleum reserves are discovered then the Company is entitled to its share of the total quantities of petroleum discovered in accordance with its percentage interest in the IOAs. The parties are under an obligation to lift and separately dispose of their share of the petroleum as agreed between the parties. If any party is unable, for any reason, to lift its entitlement to crude oil then the oil will be lifted in accordance with the off-take procedures which are to be agreed by the parties.

The operator will obtain and maintain the insurance required at the expense of the parties in proportion to their respective percentage interests under the IOAs. There are provisions, however, which will allow the parties to obtain and maintain their own insurance policies in respect of their percentage interests should they choose to do so.

The rights of all parties under the licences are reserved by the IOAs. In addition the parties are granted the right to inspect all records and to have access to the licensed areas and operations. This will also include transportation and accommodation, where operations are carried out offshore, provided that this does not interfere with the operations.

If a party should default in paying its share of the costs under the IOAs, then all parties are required to contribute towards these outstanding costs according to their percentage interest. Interest will accrue on a daily basis on any sums outstanding. For as long as a party remains in default, it is not entitled to enjoy its share of the petroleum, its right to representation and its right to vote and it is also denied access to data and information.

The IOAs contain a confidentiality undertaking on all parties for the duration of the IOAs and for the three months following their termination.

The parties may assign their percentage interest in the IOAs, subject to the notice provisions, with the consent of the other parties. The consent of the other parties may only be withheld on grounds of lack of technical and financial responsibility and/or capability of the proposed assignee.

The IOAs are governed by English law and any dispute is submitted to arbitration in London under the Rules of the London Court of International Arbitration.

PART VI

ADDITIONAL INFORMATION

1. Responsibility

- 1.1 To the best of the Directors' knowledge (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and this document makes no omission likely to affect the import of such information. The Directors, whose names, addresses and functions are set out on page 4 of this document, accept responsibility for this document.

2. The Company

- 2.1 The Company is registered in England and Wales, having been incorporated on 6 March 1996 under the Act with company registration number 316861, as OvaL (1996) Limited, a private company limited by shares. The Company changed its name to Desire Petroleum Limited on 7 May 1996. The Company was re-registered as a public limited company under the name Desire Petroleum plc on 7 April 1998.
- 2.2 The liability of the members of the Company is limited.
- 2.3 The Company has no subsidiaries.

3. The Company's share capital

- 3.1 On incorporation the authorised share capital of the Company was £1,000 divided into 1,000 ordinary shares of £1 each. During May 1996 the authorised share capital was increased to £100,000 and was converted and sub-divided into 2,000,000 A Ordinary Shares of 1p each and 8,000,000 B Ordinary Shares of 1p each. 1,375,000 A Ordinary Shares of 1p each were issued for cash at par.
- 3.2 On 10 July 1996 5,500,000 B Ordinary Shares of 1p each were issued at a subscription price of £1 per share, of which 10p per share was payable on subscription. A further 25p per share has subsequently been called and paid. Consequently each of the B Ordinary Shares of 1p each is 35p paid, leaving 65p per share unpaid.
- 3.3 On 7 April 1998 a resolution was passed
- (a) authorising and directing the Directors immediately before the Placing Agreement came out of escrow to appropriate £1,430 forming part of the Company's share premium account and to apply it in paying up in full at par a total of 143,000 A Ordinary Shares of 1p each to the holders of A Ordinary Shares of 1p each registered at the close of business on 6 April 1998, on the basis of 0.104 new A Ordinary Shares of 1p each for every A Ordinary Share of 1p each then held (fractions of shares being disregarded); and
- (b) conditionally upon the A Ordinary Shares of 1p each being converted into Ordinary Shares and admitted to trading on AIM, reducing the Company's share premium account by £3,575,000; by extinguishing the liability in respect of uncalled premium to the extent of 65p on each B Ordinary Share of 1p each.
- On the same day the Directors resolved to apply the sum of £1,430 and to issue the 143,000 A Ordinary Shares of 1p each at the time stated in sub-paragraph (a) above.

- 3.4 On 7 April 1998 resolutions of shareholders and Directors were passed carrying into effect (inter alia) the following, all immediately before the Placing Agreement came out of escrow:
- (a) increasing the authorised share capital to £550,000 divided into 57,000,000 A Ordinary Shares of 1p each and 8,000,000 B Ordinary Shares of 1p each;
 - (b) authorising the Directors generally and unconditionally pursuant to section 80 of the Act to allot relevant securities (as defined in that section) up to a maximum nominal amount of £560,887, this authority expiring on 30 June 1999 or at the conclusion of the Company's annual general meeting in 1999, whichever is the earlier, and allowing the Directors during this period to make offers or arrangements which would or might require the allotment of securities after the expiry of such period;
 - (c) authorising the Directors 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 referred to in sub-paragraph (b) above as if section 89(1) of the Act (which contains statutory pre-emption provisions in favour of existing shareholders which would otherwise apply in the case of new issues of shares for cash) did not apply, but so that this authority be limited to:
 - (i) the issue of £120,000 in nominal value of Ordinary Shares in the Placing;
 - (ii) the issue of £2,400 in nominal value of Ordinary Shares to SCSL pursuant to the Placing Agreement;
 - (iii) the issue of shares by way of rights issue; and
 - (iv) allotments of equity securities for cash otherwise than pursuant to (i), (ii) and (iii) above having an aggregate nominal value not exceeding £25,065;
 - (d) appropriating £280,720 forming part of the Company's share premium account and applying it in paying up in full at par a total of 28,072,000 new A Ordinary Shares of 1p each to the holders of A Ordinary Shares of 1p each and B Ordinary Shares of 1p each registered at the close of business on 6 April 1998. The 28,072,000 new A Ordinary Shares of 1p each were issued in this way to such shareholders pro rata to their holdings of A and/or B Ordinary Shares of 1p each after taking account of the A Ordinary Shares of 1p each issued to holders of A Ordinary Shares of 1p each pursuant to sub-paragraph 3.3(a) above;
 - (e) converting each issued and unissued A Ordinary Share of 1p each and each of the 2,500,000 unissued B Ordinary Shares of 1p each into an Ordinary Share;
 - (f) adopting new articles of association; and
 - (g) upon the reduction of share premium account becoming effective:
 - (i) converting each B Ordinary Share of 1p into an Ordinary Share of 1p; and
 - (ii) amending the articles of association to remove references to the B Ordinary Shares.
- 3.5 On 8 April 1998 the Placing Agreement came out of escrow and the resolutions referred to in paragraph 3.4 (a) to (f) inclusive above therefore became unconditional.
- 3.6 It is expected that the reduction of share premium account will be sanctioned by the court at a hearing on or about 13 May 1998 and will become effective shortly thereafter. When this happens, the resolutions referred to in paragraph 3.4(g) will become unconditional and in consequence, the B Ordinary Shares of 1p each will be converted into Ordinary Shares of 1p each.

- 3.7 The authorised and issued share capital of the Company at Admission and as it will be following the reduction of share premium account is therefore as follows:

<i>Class of shares</i>	<i>Authorised</i>		<i>Issued</i>	
	<i>£</i>	<i>Number</i>	<i>£</i>	<i>Number</i>
<i>At Admission</i>				
Ordinary Shares (fully paid)	595,000	59,500,000	418,300	11,830,000
B Ordinary Shares of 1p each (partly paid)*	53,000	5,300,000	53,000	5,300,000
<i>Following the reduction of share premium account:</i>				
Ordinary Shares (fully paid)	650,000	65,000,000	173,300	47,330,000

*The B Ordinary Shares of 1p each will remain unpaid pending completion of the reduction of share premium account.

- 3.8 If the reduction of share premium account is not sanctioned by the court or if it does not become effective by 31 July 1998 (or by such later date as the Directors and SCGI may determine) the Directors intend to make immediate call on the holders of B Ordinary Shares of 1p each for payment of the unpaid premium of 65p per share. The Directors would then intend, following such call, to propose resolutions to effect a capitalisation issue of new B Ordinary Shares of 1p each, on the same basis as that stated in sub-paragraph 3.3(a) above, to the holders of B Ordinary Shares of 1p each and to convert each of the existing and new B Ordinary Shares of 1p each into an Ordinary Share. Application would then be made for the Ordinary Shares so converted to be admitted to AIM.
- 3.9 Save in connection with the Placing or any issue of shares pursuant to the options referred to in paragraph 4 below, the Directors have no present intention of exercising the authority referred to in sub-paragraph 3.4(c)(iv) above to allot equity securities for cash.

4. Share Option Scheme

Desire Petroleum plc Unapproved Executive Share Option Scheme

On 7 April 1998 the Company adopted the Desire Petroleum plc Unapproved Executive Share Option Scheme ("the Scheme"). Options have been granted under the Scheme to the Directors as set out in paragraph 5.1 below. Following Admission, the Scheme will be used exclusively to grant options to new employees and directors of the Company or of any subsidiaries of the Company. There follows a summary of the rules of the Scheme.

(a) *Eligibility*

All employees and directors of the Company and its subsidiaries are eligible to participate at the discretion of the remuneration committee of the Board ("the Committee").

(b) *Grant of options*

Following Admission, options may be granted in each year in a period of 12 days starting on the announcement of the Company's interim or final results. In circumstances deemed exceptional by the Committee options may be granted outside this normal period. Options may not be granted more than 10 years after the date of the adoption of the Scheme. No consideration is payable for the grant of an option. Options granted under the Scheme are personal to a participant and, except on his death, may not be transferred.

When granting options, the Committee may specify performance targets which must be satisfied before these options may be exercised.

10.1 Exercise price

The price at which participants in the Scheme may acquire Ordinary Shares shall not be less than the greater of the nominal value of an Ordinary Share and its market price on the date of grant. For options granted to the Directors immediately prior to Admission, the market price has been set at the Placing Price. For options granted after Admission, the market price will be set at the market quotation for an Ordinary Share on AIM at the close of business on the dealing day ending immediately prior to the date of grant.

10.2 Individual limits

Options may only be granted after admission to AIM subject to a four times annual remuneration limit, which will take account of all options granted under the Scheme or any other discretionary share option scheme. Any option which has already been exercised or has lapsed or been surrendered shall be ignored in calculating these limits.

10.3 Exercise, lapse and exchange of options

Options may normally be exercised in whole or in part during the period between the third and seventh anniversaries of their grant provided any performance targets specified at the date of grant have been achieved. Options may be satisfied by the issue of new Ordinary Shares or the transfer of existing Ordinary Shares.

Options normally lapse on cessation of employment. However, exercise is permitted for a limited period following cessation of employment for specified reasons such as redundancy, retirement or ill health and at the discretion of the Committee. In the event of an amalgamation, take-over or winding up of the Company options may be exercised within certain time limits. There are also provisions for the exchange of options in specified circumstances. Options may not be transferred, assigned or charged and immediately become void in the event of the participant's bankruptcy.

10.4 Limits on the issue of shares

No option to subscribe for Ordinary Shares may be granted on any date if the number of Ordinary Shares comprised therein, when aggregated with the number of Ordinary Shares issued or remaining issuable under the Scheme or under any other employee share scheme in the period of 10 years ending on that date, would exceed 10 per cent. of the issued share capital of the Company.

10.5 Adjustments

The number of shares comprised in an option and/or the exercise price may be adjusted if any capitalisation issue, offer by way of rights or any sub-division, reduction or consolidation or other variation of the Company's share capital occurs.

10.6 Rights attaching to shares

All Ordinary Shares allotted under the Scheme will rank *pari passu* with all other Ordinary Shares of the Company for the time being in issue, save as regards any rights arising by reference to a record date prior to the date of allotment. An application will be made for any such Ordinary Shares to be admitted to AIM.

10.7 Amendments

The Committee may at any time amend the Scheme provided that the prior approval of the shareholders in general meeting is obtained for certain key amendments which would make the terms of options more generous to participants. No amendment may

abrogate or adversely affect the subsisting rights of a participant unless sanctioned by a class meeting of participants. The requirements to obtain shareholder approval for amendments will not apply if they are required to take account of developments in taxation.

5. Directors' and other interests

5.1 The interests of the Directors (including persons connected with them within the meaning of section 346 of the Act) in the issued share capital of the Company which have been notified to the Company pursuant to sections 324 and 328 of the Act and are required to be entered in the register of Directors' interests maintained by the Company under section 325 of the Act following the Placing and reduction of share premium account are set out in the table below. All these interests are beneficial except as stated in the notes below the table:

<i>Director</i>	<i>Number of Issued Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>Number of Ordinary Shares under option</i>
Dr Colin Phipps	-	-	100,000
Sir Rex Hunt	379,500	0.81	100,000
Dr John Martin	510,600	1.08	100,000
D. Lewis Clifton	404,500	0.85	100,000
Stephen Phipps	12,947,000	27.35	100,000
Dr Ian Duncan	95,000	0.20	100,000

Note:

- (1) All these options were granted on 7 April 1996 and are exercisable at the Placing Price. No further options will be granted to non-executive directors. These options represent 1.27 per cent. of the issued share capital of the Company following the Placing and reduction of share premium account.
- (2) The issued Ordinary Shares shown against Stephen Phipps in the table are legally and beneficially held by Phipps & Company Limited, of which he is a director and a 25 per cent. shareholder.

5.2 Save as disclosed in paragraph 5.1 above none of the Directors (or any person connected with them within the meaning of section 346 of the Act) has any interest in the share capital of the Company.

5.3 Save as disclosed in paragraph 5.1 above and save for the following shareholders the Company is not aware of any interest (within the meaning of Part VI of the Act) which will represent 3 per cent. or more of the issued share capital of the Company following the Placing and reduction of share premium account (excluding any amounts which may be subscribed for pursuant to the Placing) or of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company:

<i>Shareholder</i>	<i>Number of Issued Ordinary Shares</i>	<i>Percentage of issued share capital</i>
Phipps & Company Limited	12,947,000	27.35
Greenwich Resources plc	6,875,000	14.53
Westmount Energy Limited	6,875,000	14.53
Charles Street International Limited	1,500,000	3.17

- 5.1 No Director has or has had any interest in any transaction which is or was of an unusual nature, contains or contained unusual terms or is or was significant in relation to the business of the Company and which was effected during the current or immediately preceding financial year or which was effected during any other financial year and remains in any respect outstanding or unperformed.
- 5.5 No loans or guarantees have been granted or provided to or for the benefit of any of the Directors by the Company.
- 5.6 The table below sets out the directorships (other than that of the Company) held during the five years immediately preceding the date of this document by each of the Directors. Those directorships held currently are denoted by an asterisk:

<i>Name</i>	<i>Directorships</i>
Dr Colin Phipps	Alston Gardens Residents Ltd* British Data Management plc Budgens plc CCA Galleries Limited Classgold Ltd Clyde Petroleum plc Consolidated Supply Management Ltd* CSM Trustees Limited* Desire Petroleum Holdings Limited* Gaelic Resources plc* Gloucestershire Broadcasting Ltd Greenwich Resources plc* Lintek Cleave Limited* Phipps Buchanan Neve Limited* Recycling Services Group plc* Ryedale Securities Limited* Universal Ceramic Materials plc
Sir Rex Hunt	Desire Petroleum Holdings Limited*
Dr John Martin	Aconite Partners Limited* Clyde Petroleum plc Desire Petroleum Holdings Limited* Expatriate Management International Limited
Lewis Clifton	Byron Holdings Limited* Byron Marine Limited* Byron SWA Limited* Desire Petroleum Holdings Limited* Dorada Marine Limited* Falkland Landholdings Limited
Stephen Phipps	Desire Petroleum Holdings Limited* Greenwich Resources plc* Phipps & Company Limited* Recycling Services Group plc*
Dr Ian Duncan	Chase Energy Limited* Clyde Petroleum plc Desire Petroleum Holdings Limited* WNC T Enterprises Limited* Worcestershire Nature Conservation Trust Limited*

Desire Petroleum Holdings Limited is a dormant company which, at one time, was proposed to become the holding company of Desire. In the event, the Directors concluded that a holding company was not required. The shareholder of the company is Phipps & Company Limited.

- 5.7 None of the Directors has any unspent convictions nor has any of them been publicly criticised by any statutory or regulatory authority.
- 5.8 From 1970 to 1971 Dr Colin Phipps was a non-executive director of King's Lynn Engineering & Fabrications Limited. The company was engaged in the production of tanks, especially water tanks for storage. Following an incident where a tank burst, it transpired that the company had insufficient insurance cover and was unable to meet its obligations arising from the incident. On 15 October 1971 a resolution was passed to wind up the company voluntarily. The Company had net liabilities of approximately £20,000. The liquidation was completed in November 1974.
- 5.9 Save as disclosed in paragraph 5.8 none of the Directors has been a director at the time of or within the twelve months preceding such events of any company which has gone into receivership or liquidation. None of the Directors is or has been bankrupt.
- 5.10 The Company has contracts as follows, all dated 7 April 1998, for the provision of the services of the Directors:
- (a) with Phipps & Company Limited for the provision of a wide range of management services (as summarised in sub-paragraph 7(c) below) to the Company for a total annual fee of £337,200 plus VAT. These services include the provision of the services of Dr C B Phipps as an executive Director;
 - (b) with Acornite Partners Limited and Chase Energy Limited for the provision of the services of Dr I Martin and Dr I Duncan respectively as non-executive Directors at an annual fee in each case of £15,000 plus VAT; and
 - (c) with Sir Rex Hunt, Mr I Clifton and Mr S Phipps for the provision of their services as non-executive Directors at an annual fee in each case of £15,000 plus VAT.

All these contracts are terminable on six months' notice given by either party.

- 5.11 Save as disclosed in paragraph 5.10 there are no other existing or proposed service agreements between any of the Directors and the Company.
- 5.12 The aggregate remuneration paid including salaries, fees, pension contributions and bonus payments and benefits in kind granted by the Company to the Directors during the financial year ended 31 December 1997 amounted to £75,900. In addition the sum of £43,018 was paid to Phipps & Company Limited under the terms of the management services agreement then in force. It is estimated that the aggregate remuneration payable and benefits in kind to be granted to the Directors in the current financial year under the arrangements in force at the date of this document will not exceed £80,000, and that the amount payable under the terms of the revised management services agreement details of which are set out in sub-paragraph 7(c) below will not exceed £252,900.

6. Memorandum and articles of association

6.1 Memorandum of association

The memorandum of association of the Company provides that its principal object is to carry on all or any of the businesses of an exploration and prospecting company, producers, refiners, storers, suppliers and distributors of oil and oil products, and petroleum and petroleum products, and to carry on any other trade or business which

can be advantageously carried on by the Company in connection with or as ancillary to any of the businesses or objects of the Company. The full objects of the Company are set out in clause 4 of the Company's memorandum of association.

6.2 Articles of association

New articles of association were adopted by the Company on 7 April 1998 and contain, inter alia, provisions to the following effect:

(i) Rights attaching to shares

(i) Voting rights of members

Subject to the provisions of the Act and to any rights or restrictions as to voting attached to any class of shares, at any general meeting on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative has one vote, and on a poll every member present in person or by proxy or (being a corporation) by a duly authorised representative has one vote for each share of which he is the holder.

(ii) Dividends

Subject to the provisions of the Act and of the Articles and to any special rights attaching to any shares, the Company may by ordinary resolution declare dividends, but no such dividends shall exceed the amount recommended by the Board. All dividends shall be apportioned and paid pro-rata according to the amounts paid up or credited as paid up (otherwise than in advance of calls) on the shares during any portion or portions of the period in respect of which the dividend is paid. Interim dividends may be paid provided that they appear to the Board to be justified by the profits available for distribution and the position of the Company. Unless otherwise provided by the rights attached to any share, no dividends in respect of a share shall bear interest. The Board may, with the prior authority of an ordinary resolution of the Company, offer the holders of Ordinary Shares the right to elect to receive Ordinary Shares credited as fully paid instead of cash in respect of all or part of any dividend.

(iii) Return of capital

On a winding up of the Company, the surplus of assets available for distribution shall be divided among the members in proportion to the amounts paid up on their respective shares at the commencement of the winding-up, or with the sanction of an extraordinary resolution of the Company shall be divided amongst the members in specie in such manner as shall be determined by the liquidator.

(iv) The B Ordinary Shares

So long as any B Ordinary Shares remain in issue, the rights attaching to the Ordinary Shares shall be subject to the rights attaching to the B Ordinary Shares, namely

1. the Ordinary Shares and the B Ordinary Shares shall rank *pari passu* in all respects in respect of dividends;
2. on a return of capital on liquidation or otherwise (except on the purchase by the Company of its own shares) assets remaining after payment of liabilities will be applied first in paying to the holders of the B Ordinary Shares the subscription price paid, including any premium (giving a current total amount therefore of 35p) per share, secondly in paying to the

holders of Ordinary Shares the nominal value of their Ordinary Shares, and thirdly paying any balance to the holders of Ordinary Shares and B Ordinary Shares *pro rata* to their holdings; and

3. the holders of the B Ordinary Shares may attend general meetings of the Company and each holder present in person or by proxy shall be entitled on a show of hands to one vote and on a poll to one hundredth of a vote for each £1.00 paid up or credited as paid up (including in respect of any premium) on each B Ordinary Share held by him.

(ii) Transfer of shares

All transfers of shares must be effected by an instrument of transfer in writing in any usual form or in any other form approved by the Board. The instrument of transfer shall be executed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of shares unless:

- (i) it is in respect of a share which is fully paid up;
- (ii) it is in respect of a share on which the Company has no lien;
- (iii) it is in respect of only one class of share;
- (iv) it is in favour of a single transferee or not more than four joint transferees;
- (v) it is duly stamped (if required); and
- (vi) it is lodged at the registered office together with the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.

provided that such discretion may not be exercised in such a way as to prevent dealings from taking place on an open and proper basis.

If the Board refuses to register a transfer it must, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee.

The registration of transfers may be suspended by the Board for any period (not exceeding 30 days) in any year.

The Articles are consistent with CREST, the paperless settlement system and, amongst other things, allow for the holding and transfer of shares in uncertificated form. The Company expects to enter the CREST system on Admission.

(c) Failure to disclose interests in shares

If a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 212 of the Act and has failed in relation to any shares ("the default shares") to give the Company the information thereby required within the prescribed period from the date of notice, the following sanctions shall apply:

- (i) the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class of shares or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and

(c) where the default shares represent at least 0.25 per cent. in nominal value of their class:

(A) any dividend or other money payable in respect of the shares shall be withheld by the Company, which shall not have any obligation to pay interest on it and the member shall not be entitled to elect in the case of a scrip dividend to receive shares instead of that dividend; and

(B) no transfer, other than an approved transfer (as defined in the Articles) shall be registered unless:

(i) the member is not himself in default as regards supplying the information required; and

(ii) the member proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer.

The above sanctions shall also apply to any shares in the Company issued in respect of the default shares (whether on capitalisation, a rights issue or otherwise).

16. Changes in capital

The Company may alter its share capital as follows:

(i) it may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amounts, cancel any shares which have not been taken or agreed to be taken by any person and sub-divide its shares or any of them into shares of smaller amounts;

(ii) subject to any consent required by law and to any rights for the time being attached to any shares, it may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or any other undistributable reserve in any manner; and

(iii) subject to the provisions of the Act and to any rights for the time being attached to any shares it may with the sanction of a special resolution enter into any contract for the purchase of its own shares.

17. Variation of rights

Subject to the provisions of the Act and of the Articles, the special rights attached to any class of share in the Company may be varied or abrogated either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated whilst the Company is a going concern or while the Company is or is about to be in liquidation. The quorum for such separate general meeting of the holders of the shares of the class shall be at least two persons holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the relevant class.

18. Directors' remuneration

The aggregate fees which the Directors shall be entitled to receive for their services in the office of director shall not exceed £180,000 per annum or such other sum as may from time to time be determined by ordinary resolution of the Company. Such

sum (unless otherwise directed by the resolution of the Company by which it is voted) shall be divided among the Directors in such proportions and in such manner as the Board may determine or, in default of such determination, equally.

All the Directors are entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as Directors. If by arrangement with the Board any Director performs any special duties or services outside his ordinary duties as a director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable additional remuneration which may be by a lump sum or by way of salary, commission, participation in profits or otherwise as the Board may determine.

(g) *Borrowing powers*

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital and, subject to the provisions of the Act, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The aggregate principal amount for the time being outstanding in respect of monies borrowed by the Company and its subsidiaries (exclusive of intra-group borrowings and after deducting cash deposited) shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to 5 times the aggregate of

- (i) the amount paid up (or credited as paid up) on the allotted or issued share capital of the Company; and
- (ii) the amount standing to the credit of the capital and revenue reserves of the Company and its subsidiaries (including any share premium account, capital redemption reserve fund and credit or debit balance on any other reserve) after adding thereto or deducting therefrom any credit or debit balance on the profit and loss account,

all as shown in the then latest published audited consolidated balance sheet of the Company and its subsidiaries but after adjustments as set out in the Articles.

7. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company during the five years preceding the date of this document and are or may be material.

- (a) the Placing Agreement referred to in paragraph 8 below;
- (b) a nominated adviser and nominated broker agreement dated 8 April 1998 and made between the Company, the Directors and SGSL pursuant to which SGSL has agreed to act as nominated adviser and nominated broker to the Company in consideration for an annual fee of £20,000 (exclusive of VAT). The agreement contains certain undertakings and indemnities given by the Company in favour of SGSL in relation to the continuing obligations to be observed by the Company and its Directors under the rules of AIM; and
- (c) a management services agreement dated 7 April 1998 and made between Phipps & Company Limited and the Company pursuant to which Phipps & Company Limited agreed to provide a wide range of management services to the Company and any group company (including technical services, company secretarial services, administrative and office services, accounting, treasury and book-keeping services, the provision of office space and equipment and the provision of the services of Dr Colin Phipps as a Director

of the Company) for an annual fee of £337,200 plus VAT. If Phipps & Company Limited is called upon to provide additional services, including the provision of the services of Dr Phipps for periods materially in excess of 20 hours per week, then a further fee will be payable up to a maximum daily rate of £1,460 plus VAT depending on the level of additional services provided.

8. The Placing Agreement

By a placing agreement dated 8 April 1998 between (1) the Company, (2) the Directors, (3) Phipps & Company Limited and (4) SCISL, SCISL has agreed conditionally upon, inter alia, Admission taking place on or before 9 am on 30 April 1998 (or such later time and/or date as SCISL may agree) to procure subscribers for the Placing Shares at the Placing Price.

The Placing Agreement contains certain representations, warranties and undertakings in favour of SCISL given by the Company, the Directors and Phipps & Company Limited and also contains provisions entitling SCISL to terminate its obligations thereunder in certain circumstances prior to Admission. The fees and commissions payable to SCISL by the Company under the Placing Agreement are as follows:

- (a) a fee equal to 2.12 per cent of the aggregate amount raised pursuant to the Placing which shall be payable as to £159,000 in cash and as to the remainder by the issue of 127,210 new Ordinary Shares (together with any applicable VAT);
- (b) an underwriting commission equal to 0.91 per cent of the aggregate amount raised pursuant to the Placing which shall be payable by the issue of 112,800 new Ordinary Shares; and
- (c) a distribution commission equal to 0.94 per cent of the aggregate amount raised pursuant to the Placing which shall be payable in cash.

The Company is also obliged to pay all other costs, charges and expenses of or incidental to the Placing and the application for Admission.

9. Working capital

In the opinion of the Directors, having made due and careful enquiry, taking into account the net proceeds of the Placing, the working capital available to the Company is sufficient for its present requirements.

10. Litigation

There are no legal or arbitration proceedings active, pending or threatened against, or being brought by, the Company which are having or may have or have had during the twelve months preceding the date of this document, a significant effect on the financial position of the Company.

11. Overseas shareholders

The making of an offer to persons who are resident in, or citizens of, countries other than the United Kingdom may be affected by the law or regulatory requirements of the relevant jurisdictions. Any person outside the United Kingdom wishing to acquire Ordinary Shares must satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining and observing any requisite formalities and paying any issue, transfer or other taxes due in such territory.

No person receiving a copy of this document in any territory other than the United Kingdom may treat the same as constituting an offer or invitation to him unless, in the relevant territory, such an invitation or offer can lawfully be made to him without the contravention of any registration or other legal requirements.

12. Property

The Company has a non-exclusive licence to occupy part of the premises at Mathon Court, Mathon, Malvern, Worcestershire, England under the terms of the management services agreement referred to in sub-paragraph 7(c) above. Except for this the Company has no interests in any property.

13. Intellectual property

Except for its interests in the production licences referred to in Part V of this document and the Company name and logo (which are unregistered trademarks), the Company has no intellectual property.

14. Close company status

The Directors have been advised that the Company is a close company as defined by section 445 of the Income and Corporation Taxes Act 1988 but that upon completion of the Placing it will not be a close company.

15. Taxation

The following paragraphs include advice received by the Directors about the tax position of shareholders who are resident or ordinarily resident in the UK for tax purposes and who hold their Ordinary Shares as investments. The statements below are intended only as a general guide and do not constitute advice to any shareholder on his or her personal tax position and may not apply to certain classes of investor (such as dealers or UK insurance companies). The comments are based on current legislation and inland Revenue practice. **Any investor who is in doubt as to his or her tax position should consult his or her professional adviser.**

United Kingdom Taxation

(a) Taxation of the Company

The Company will be liable to UK corporation tax at current rates (depending on the level of its profits for each accounting period) between 21 per cent. and 31 per cent. The Chancellor announced in his Budget on 17 March 1998 a proposed reduction in these rates to 20 per cent. and 30 per cent. with effect from 1 April 1999.

(b) Taxation of shareholders

The summary below is based on current tax legislation, and takes into account the changes in the Finance (No 2) Act 1997 (F(No 2)A 1997) to the tax treatment of distributions.

It is assumed in this summary that the Company will not elect to pay dividends as foreign income dividends ("FIDs") and that the dividends will not be deemed to be FIDs under the provisions of Schedule 7 Finance Act 1997 (share repurchases and special dividends). The Company has no current intention of electing to pay dividends as a FID. By virtue of changes made in F(No 2)A 1997, the FID regime will be abolished for dividends paid after 6 April 1999.

The Company will not be required to withhold tax at source from dividend payments on Ordinary Shares. The Company will, on making any dividend payment, account to the

Inland Revenue for advance corporation tax ("ACT") at the rate of one quarter of the dividend paid. If proposals put forward by the Chancellor confirmed in his Budget on 17 March 1998 are enacted, ACT will be abolished with effect from 6 April 1999.

Tax Years 1997-8 and 1998-9

The following paragraphs summarise the position for individual shareholders receiving dividends paid in tax years 1997-98 and 1998-99 as on or prior to 5 April 1999.

A UK resident shareholder who is an individual will be entitled to a tax credit in respect of any dividend paid on Ordinary Shares equal to one quarter of the cash dividend paid for 20 per cent. of the aggregate of the cash dividend and the associated tax credit). Such shareholder will be liable to UK income tax on the aggregate of the dividend received plus the associated tax credit, which will be treated as the top slice of the individual's income. The tax credit may be offset by such shareholder against his or her own income tax liability.

To the extent that the tax credit exceeds that shareholder's liability to UK income tax, he or she may be liable to claim payment of the excess from the Inland Revenue.

An individual shareholder who, taking into account receipt of the dividend and the associated tax credit, is only liable to income tax at the lower or basic rate, will have no further liability to UK income tax on the dividend. A shareholder who is liable to tax at the higher rate, currently 40 per cent., will have an additional liability to UK income tax of 20 per cent. of the dividend and the associated tax credit at a rate of 20 per cent., being the difference between the lower and higher rates of income tax.

An individual shareholder who is also a Commonwealth citizen, a resident of the Isle of Man or the Channel Islands or a national of a state within the European Economic Area will be entitled to the tax credit attaching to dividends and to have part or all of it paid to them in cash. For any other non-resident shareholder, the right to claim payment of the whole or part of the tax credit will depend on the provisions of any applicable double tax treaty.

Shareholders not resident in the UK should consult their own tax adviser on their tax liabilities on dividends on Ordinary Shares and on what relief or credit (if any) may be claimed, in the jurisdiction in which they are resident and the procedure for so doing.

Tax Year 1999/2000 onwards

The following paragraphs summarise the tax position of individual shareholders receiving dividends paid on or after 6 April 1999.

A UK resident shareholder who is an individual will be entitled on receipt of a dividend paid by the Company to a reduced tax credit equal to one ninth of the cash dividend (ie one tenth of the aggregate of the dividend and received associated tax credit).

However, the rate of income tax payable on such dividends by a UK individual shareholder whose total income, including the dividend and the associated tax credit, falls within the threshold for lower or basic rate tax, will be reduced to 10 per cent. (known as the "Schedule F Ordinary rate"). Accordingly, the tax credit will continue to discharge such shareholder's liability to UK income tax on the dividend. However, to the extent that the tax credit exceeds that shareholder's liability to UK income tax, such shareholder will no longer be entitled to claim payment of excess from the Inland Revenue.

In addition, the rate of income tax payable on such dividends by a UK individual

shareholder whose total income, including the dividend and associated tax credit, falls above the threshold for higher rate tax, will be reduced to 32.5 per cent (known as the Schedule F upper rate) to compensate for the reduction in the tax credit. Accordingly a shareholder who is liable to tax at the higher rate will have an additional liability to tax in respect of the dividend and associated tax credit at 22.5 per cent, being the difference between the Schedule F ordinary rate and the Schedule F upper rate.

An individual shareholder who is a Commonwealth citizen, a resident of the Isle of Man or Channel Islands or a national of a state within the European Economic Area will no longer be entitled to claim payment of the whole or any part of the tax credit attaching to dividends. Whilst such shareholders or other non-UK resident shareholders may be entitled to claim payment from the Inland Revenue of the whole or part of the reduced tax credit depending on the provisions of any double tax treaty, the reduction in the level of the tax credit from 6 April 1999 will generally reduce or eliminate the amount payable.

UK corporate shareholders

A shareholder which is a UK resident company will in general not be liable to UK corporation tax on dividends received on its Ordinary Shares and will be entitled to treat the dividend and the associated tax credit (in which a UK resident individual shareholder would be entitled) as franked investment income. By virtue of changes introduced in the I(No 2)A 1997 with effect from 2 July 1997, UK pension funds (together with certain other tax exempt funds) and most UK corporate shareholders, will not be entitled to obtain payments of any tax credit associated to dividends. There are transitional provisions for charities which will phase out payment of the tax credit over a five year period.

(c) UK Stamp duty

No UK stamp duty or stamp duty reserve tax will generally be payable on the issue by the Company of Ordinary Shares pursuant to the Placing. Transfers of shares for value, or agreements for such transfer which are not completed by a duly stamped transfer, will give rise to a liability to UK ad valorem stamp duty, or stamp duty reserve tax ("SDRT"), generally at the rate of 50p per £100 of the amount or value of the consideration in the case of stamp duty and 0.5 per cent of the amount or value of the consideration in the case of SDRT.

If the shares are transferred into CREST, no stamp duty/stamp duty reserve tax will arise on the transfer of shares into CREST unless such transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (generally at a rate of 0.5 per cent) will arise. Paperless transfers of shares within CREST will be liable to SDRT rather than stamp duty and SDRT on relevant transactions settled in CREST or reported through it for regulatory purposes will be collected by CREST.

Falkland Islands Taxation

(d) Falkland Islands Taxation of Shareholders

Under Falkland Islands law, any gain realised on the disposal of unquoted shares in a company which derive their value directly or indirectly from exploration or exploitation rights may be liable to tax in the Falkland Islands as income to the extent that the shares derive their value from such exploration or exploitation rights. Shares will be treated as unquoted for these purposes unless they are listed on a stock exchange recognized by the Falkland Islands. Shares which are listed on AIM will be treated as unquoted for these purposes. There is no exemption under Falkland Islands law from such tax liability for UK resident shareholders, notwithstanding they may be exempt from UK tax (eg certain institutional shareholders or otherwise).

A company is required to notify the Falkland Islands Tax Authorities within 30 days of a disposal of any unquoted shares in that company which derive their value from exploration or exploitation rights as mentioned above, giving particulars of the disposal. If any Falkland Islands tax payable on the disposal of unquoted shares in a company by a person not resident in the Falkland Islands for tax purposes remains unpaid, the Falkland Islands Tax Authorities may seek to recover the unpaid tax from, any person who is or was in the 3 years following the final determination of the tax liability in question, a controlling director of the tax-payer (if the tax payer is a company) company or any company which controlled the tax-payer company and the person who owns the exploration or exploitation rights.

Whilst the UK/Falkland Islands Double Taxation Relief Arrangement (the "Arrangement"), provides that a shareholder who is treated as resident in the UK for the purposes of the Arrangement may be liable to tax both in the Falkland Islands and in the United Kingdom on any disposal of unquoted shares in a company deriving their value from exploration or exploitation rights, credit will be given against any liability to tax on chargeable gains in the UK for tax payable in the Falkland Islands computed by reference to the same gains.

Shares in a company will be treated as unquoted for the purposes of the Arrangement unless they are listed on a stock exchange designated for the purpose of the Arrangement by agreement of both the United Kingdom and the Falkland Islands. Shares which are listed on AIM will be treated as unquoted for the purposes of the Arrangement.

16. General

- 16.1 There has been no significant change in the financial or trading position of the Company since 31 December 1997, being the date to which the latest audited accounts of the Company were prepared.
- 16.2 At the close of business on 16 March 1998 the Company did not have outstanding any loan capital (whether outstanding or credited but unissued) or any other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptance credits, hire purchase commitments, finance leases, guarantees or other contingent liabilities.
- 16.3 The total proceeds which it is expected will be raised by the Placing are €15.0 million and the expected net proceeds, after deduction of expenses estimated at €0.6 million (exclusive of VAT) which are payable by the Company, are €14.4 million.
- 16.4 For the purposes of the Public Offers of Securities Regulations 1995 there is no minimum amount which must be raised by the Placing.
- 16.5 Hacker Young and Gaffney, Cline & Associates Ltd have given and have not withdrawn their written consent to the inclusion herein of their respective reports and accept responsibility therefor.
- 16.6 The financial information set out in this document does not constitute statutory accounts within the meaning of section 240 of the Act. Statutory accounts have been delivered to the Registrar of Companies in respect of the Company for the periods ended 31 December 1996 and 31 December 1997. Auditors' reports in respect of each set of statutory accounts have been made under section 235 of the Act and each such report was an unqualified report and did not contain any statement under section 237(2) or (3) of the Act.
- 16.7 The period during which the offer to investors is open, the arrangements for payment for the Placing Shares and the arrangements during the period prior to Admission relating to the monies received from investors are set out in the placing letter being sent to them.

26.8 The Ordinary Shares have been made eligible for settlement in CRFST pursuant to the Uncertificated Securities Regulations 1995. The Company has applied for the Ordinary Shares to be settled in CRFST with effect from Admission.

17. Documents available for inspection

Copies of the following documents may be inspected at the offices of Osborne Clarke, Hillgate House, 26 Old Bailey, London EC4M 7HS during usual business hours on any weekdays (Saturdays and public holidays excepted) for a period of 14 days from the date of this document:

- (a) the memorandum and articles of association of the Company;
- (b) the audited accounts of the Company for the financial periods ended 31 December 1996 and 31 December 1997;
- (c) the accountants' report contained in Part IV and the statement of adjustments relating to that report;
- (d) the report of Gaffney, Cline & Associates Ltd contained in Part II;
- (e) the rules of the Dosire Petroleum plc Unapproved Executive Share Option Scheme;
- (f) the management services agreement and contracts of service for the provision of the services of the Directors referred to in paragraph 5.10 of this Part VI;
- (g) the material contracts referred to in paragraph 7 of this Part VI, and
- (h) the written consents referred to in paragraph 26.5 of this Part VI.

8 April 1998

END OF DOCUMENT