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This document, which does not constitute a prospectus, has been drawn up in accordance with the Public Offers of Securities Regulations 1995 (as amended) (the "POS Regulations") and the AIM Rules and has been issued in connection with the application for admission to trading of the Ordinary Shares on AIM. A copy of this document will not be delivered for registration to the Registrar of Companies in England and Wales in accordance with Regulation 4(2) of the POS Regulations.

The Directors of Borders & Southern Petroleum plc, whose names appear on page i of this document, accept responsibility for the information contained in this document including individual and collective responsibility for the AIM Rules. 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 makes no omission likely to affect the import of such information.

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BORDERS & SOUTHERN PETROLEUM PLC

(Incorporated in England and Wales under the Companies Act 1985 (as amended) with registered number 5147938)

PLACING

by Ocean Equities Limited

of

50,000,000 Ordinary Shares of 1p each at 20p per share

and

Admission to trading on AIM

Nominated Adviser
Insinger de Beaufort

Broker
Ocean Equities Limited

SHARE CAPITAL IMMEDIATELY FOLLOWING THE PLACING

Authorised		Ordinary shares of 1p each	Issued and fully paid	
Number	Nominal value		Number	Nominal value
750,000,000	£7,500,000		127,687,500	£1,276,875

Application has been made for the whole of the ordinary share capital of Borders & Southern Petroleum plc in issue and to be issued pursuant to the Placing to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. London Stock Exchange plc has not itself examined or approved the contents of this document.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The attention of persons receiving this document is drawn to the section headed "Risk Factors" contained in Part II of this document.

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Ocean Equities Limited is the Company's broker for the purposes of the AIM Rules. Its responsibilities as the Company's broker under the AIM Rules are owed solely to the London Stock Exchange plc and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire Ordinary Shares in reliance on any part of this document. No representation or warranty, express or implied, is made by Ocean Equities Limited as to any of the contents of this document.

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Directors, Secretary and Advisers

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Howard Kevin Obee
Peter William Fleming
Stephen James Douglas Posford
Christopher Nigel Hurst-Brown

all of

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Registrars

Capita Registrars
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Definitions

“Act”	the Companies Act 1985, as amended
“Admission”	admission of the Ordinary Shares and the Placing Shares to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the AIM Market of the London Stock Exchange
“AIM Rules”	the rules of the London Stock Exchange governing admission to and the operation of AIM
“B&S Production Licences”	the five production licences granted to B&S further details of which may be found in Part I of this document
“Board” or “Directors”	the directors of the Company whose names appear on page i
“Company” or “B&S”	Borders & Southern Petroleum plc
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CREST Co Limited is the Operator (as defined in the CREST Regulations) in accordance with which securities may be held and transferred in uncertificated form
“CREST Regulations”	the Uncertificated Securities Regulations 2001
“Enlarged Share Capital”	the 127,687,500 Ordinary Shares in issue on Admission and completion of the Placing
“Falkland Islands Acreage”	the areas covered by the B&S Production Licences
“FIG”	The Falkland Islands Government
“FSA”	the Financial Services Authority
“Insinger de Beaufort”	Insinger de Beaufort, the Company’s nominated adviser
“London Stock Exchange”	London Stock Exchange plc
“Ocean”	Ocean Equities Limited, the Company’s broker
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	the ordinary shares of 1p each in the capital of the Company
“Placing”	the conditional placing of the Placing Shares at the Placing Price pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 18 May 2005 between the Company, the Directors, Insinger de Beaufort and Ocean as described in paragraph 7 of Part VI of this document
“Placing Price”	20p
“Placing Shares”	50,000,000 Ordinary Shares to be issued pursuant to the Placing at the Placing Price
“POS Regulations”	The Public Offers of Securities Regulations 1995, as amended
“Shareholders”	holders of Ordinary Shares
“UK”	United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA including, where the context so permits, any committee, employee or servant of such authority to which any function of the UK Listing Authority may from time to time be delegated

Placing Statistics

Placing Price	20p
Number of Ordinary Shares in issue after the Placing	127,687,500
Market capitalisation of the Company at the Placing Price	£25,537,500
Number of Placing Shares	50,000,000
Proportion of Enlarged Share Capital subject to the Placing	39.16%
Gross proceeds of the Placing	£10,000,000
Proceeds of the Placing to be received by the Company net of estimated expenses of £866,000 to be borne by the Company	£9,134,000

Expected Timetable of Principal Events

Admission effective and dealings in Ordinary Shares commence on AIM	24 May 2005
CREST accounts credited	24 May 2005
Share certificates in respect of Placing Shares to be despatched by	31 May 2005

Part I — Information on the Company

Introduction

B&S intends to build an international oil and gas exploration and production business centred on a management team with proven experience of acquiring, evaluating and developing oil and gas exploration plays, with major international companies.

B&S was formed as a public limited company in June 2004 and submitted an application for its first project, offshore exploration acreage over 19,598 square kilometres of the Falkland Plateau sub-basin, southeast of the Falkland Islands, in June 2004. The Company was granted five production licences by the Governor of the Falkland Islands over this acreage with effect from 1 November 2004.

The Company is now seeking to raise funds through the Placing and Admission to enable an exploration programme to be carried out on the Falkland Islands Acreage and to enable the Company to assess and acquire interests in further international exploration projects which meet the Company's investment criteria.

Strategy

The Company has assembled a management team with the technical and operational experience to capture and manage a geographically diversified portfolio of international oil and gas exploration projects.

The Company intends to focus on gaining early entry into projects where it can demonstrate the existence of:

- **Basins with proven Play Elements.** The Company will explore in those areas where it can demonstrate, either directly or indirectly, the presence of the key factors required to form a working hydrocarbon system, namely source rocks, reservoirs and seals.
- **Play Fairways with high impact prospects.** The Company intends to focus on Play Fairways that include high value prospects that in the event of success would have a material impact on the overall value of the Company.
- **Prospects that have follow up potential.** The Company will attempt to secure significant parts of Play Fairways so that in the event of a discovery there will be additional prospects to test.

The Company will seek to assume the role of operator for its projects in the initial stages of the exploration cycle from initial licensing and evaluation through to the commencement of drilling. The Company may seek to reduce its financial exposure to individual projects through acquiring farm-in partners with the financial resources and technical capabilities to manage drilling and development programmes. The Directors are targeting retaining typical working interests of 35%.

In order to create a diversified portfolio of interests, the Company may farm-in to existing projects where the Directors believe that the project meets the above criteria and where the terms of entry are considered to be favourable. It is unlikely that the Company will participate in competitive auctions for licences or pay large signature bonuses.

It is anticipated that the Company will seek to have exposure to up to five separate projects at any time. For risk management purposes, the Company intends to incorporate wholly owned subsidiaries that may in the future hold all or parts of such projects including some or all of the B&S Production Licences (which would be assigned and registered in their names).

It is intended that the Company will undertake the majority of its technical evaluation in-house, as the Directors believe that this will result in better technical and commercial judgements. In some instances, experienced external consultants may be engaged to support in-house work.

Falkland Islands Acreage

Background

The Falkland Islands is an Overseas Territory of the United Kingdom. It is located in the South Atlantic, approximately 500 km from the mainland of South America. The Islands are internally self-governing with the exception of defence and foreign affairs, which remain the responsibility of the Government of the United Kingdom of Great Britain and Northern Ireland.

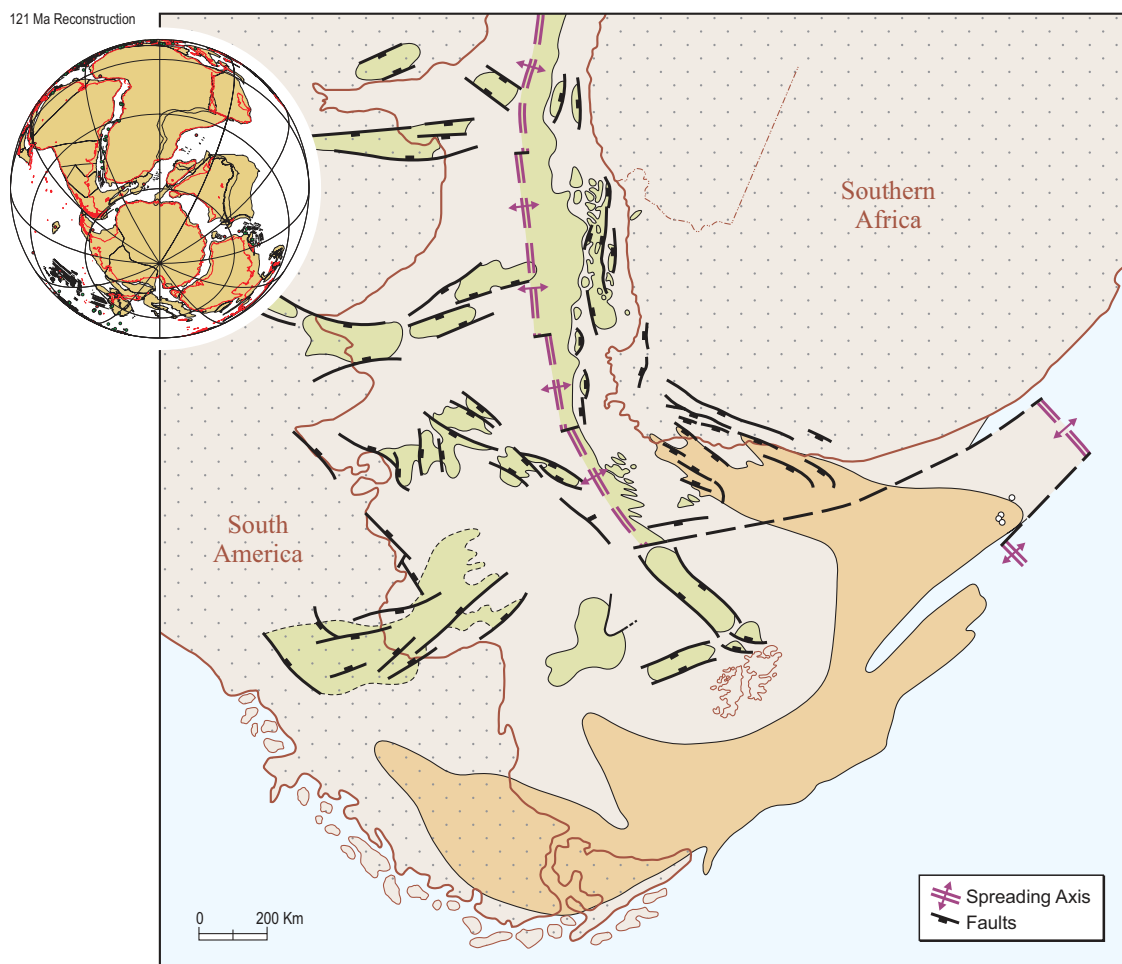
The Falkland Islands has its own legislation relating to the exploration for and development and production of oil and gas from the Islands and the surrounding Falkland Islands Designated Exploration Area. The term

Part I — Information on the Company

“Production Licence” in the Falkland Islands is used to cover the exploration phase and includes the right to remove production once discovered in accordance with an approved development plan. The terms of the B&S Production Licences are subject to such applicable legislation and regulations.

Geology

400 million years ago, the Falkland Islands were the centre of the Gondwana supercontinent. Tectonic forces later broke up Gondwana to form South America, Africa, Antarctica, India and Australia.



Today, the Falkland Islands lie at the western end of the Falkland Plateau, a relatively shallow water area of continental crust that extends out towards South Georgia. They are surrounded by three major sedimentary basins: the Falkland Plateau Basin to the south and east; the Malvinas Basin to the west; and the North Falkland Basin to the north.

The Falkland Islands Acreage is located in the Falkland Plateau Basin to the southeast of the Falkland Islands. This has a NE-SW trending faulted western margin, and terminates eastwards at the Maurice Ewing Bank, a bathymetric high some 250 km east of the islands.

The Falkland Plateau Basin has not been penetrated by any exploration wells. However, Deep Sea Drilling Project (an international jointly funded programme to research the global seafloor through deep-water core drilling) wells demonstrate that the stratigraphy is similar to the adjacent Malvinas Basin and the onshore South America Magallanes Basin. In particular, the wells demonstrate the presence of a similar late Jurassic to Aptian marine, oil-prone source rock. This is very different to the stratigraphy observed in the North Falkland Basin, which is dominated by continental lacustrine depositional environments.

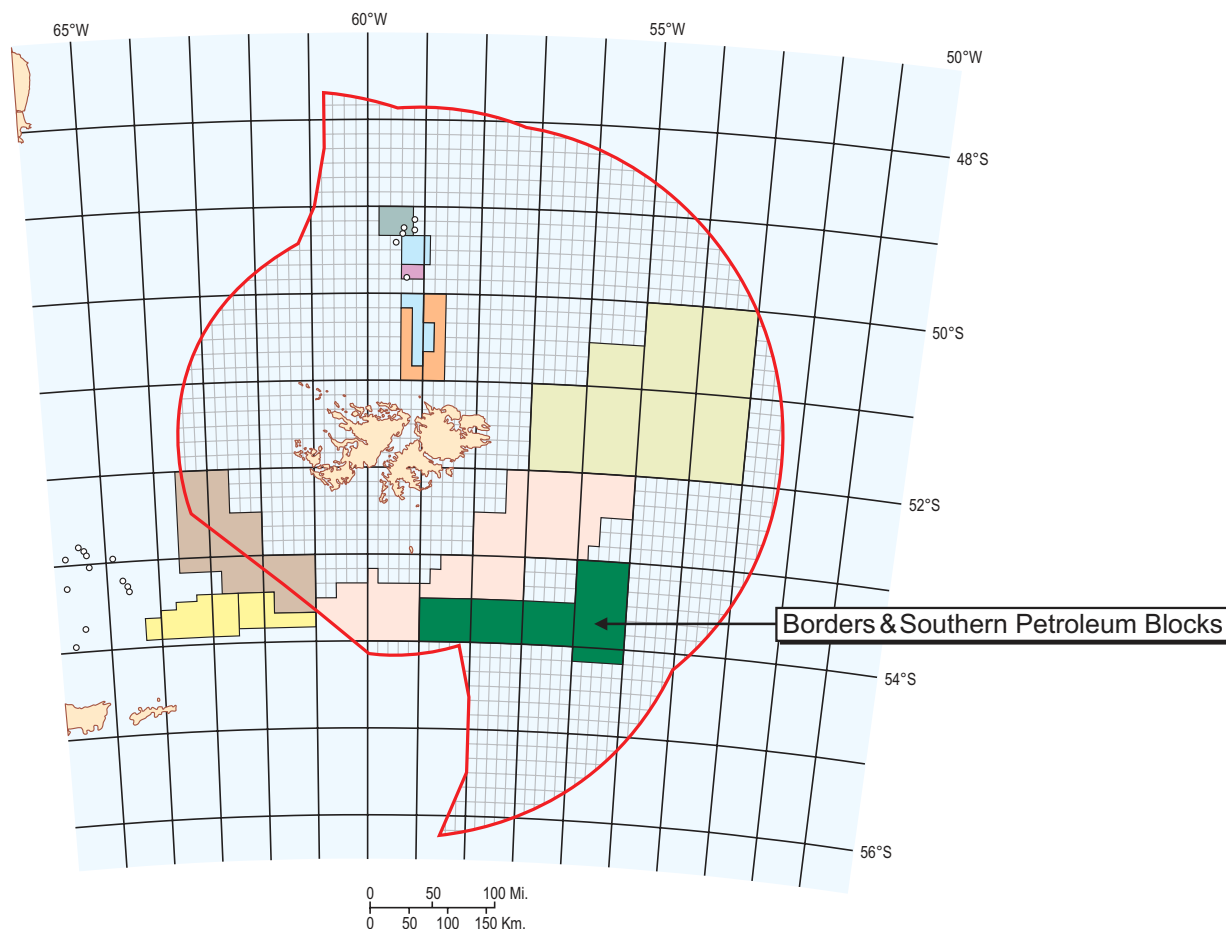
The southern boundary to the Falkland Plateau Basin is marked by a major fold and thrust belt, the North Scotian Fold Belt. This east-west orientated zone of deformation can be traced westwards into the Malvinas Basin and onshore South America where it links into the fold belts that extend northwards throughout the continent, represented by the Andes Mountains.

Part I — Information on the Company

Oil Exploration

The first phase of oil exploration in the Falkland Islands occurred in 1998 when six wells were drilled in the North Falkland Graben, approximately 100 km north of the Falkland Islands. These wells were operated by Shell, Amerada Hess Corporation, Lasmo PLC, and IPC Falkland Islands Limited. The wells encountered oil and gas shows, but no commercial quantities of hydrocarbons. There has been no exploration drilling either to the east or south of the Falkland Islands.

Currently, production licences are operated by seven entities within the Falkland Islands Designated Exploration Area. Further licences are held by a consortium including Repsol (YPF) SA, Total Austral SA and Pan American Energy LLC in the Argentinean Malvinas Basin in the same play fairway as the Falkland Islands Acreage held by B&S.



The Company is aware of the following exploration activity currently underway or proposed within the Falkland Islands Designated Exploration Area:

- Desire Petroleum Plc announced on 14 February 2005 the terms of a £25 million fund raising and an agreement with Rockhopper Exploration (Oil) Limited to farm in to a three well drilling programme planned for its licence area following the completion of a 3D seismic programme in 2004.
- Falkland Oil and Gas plc is in the middle of a 2D Seismic survey over its licence area. On 15 April 2005 it announced that 9,498 km of the approximately 10,500 km total had been recorded.
- To the west of the Falkland Islands Designated Exploration Area the Repsol (YPF) SA, Total Austral SA, Pan American Energy LLC joint venture has recently undertaken a 3D seismic survey of its licence area.

Part I — Information on the Company

Licences

The following table sets out the oil and gas exploration interests held by the Company as at the date of this document:

<u>Country</u>	<u>Basin</u>	<u>Licence</u>	<u>Area</u>	<u>Interest</u>
Falkland Islands	Falkland Plateau sub-basin	PL 018 Q61, Blocks 16 to 30	3,668 sq km	100% Operator
Falkland Islands	Falkland Plateau sub-basin	PL 019 Q62, Blocks 16 to 30	3,668 sq km	100% Operator
Falkland Islands	Falkland Plateau sub-basin	PL 020 Q63, Blocks 16 to 30	3,668 sq km	100% Operator
Falkland Islands	Falkland Plateau sub-basin	PL 021 Q64, Blocks 1 to 30	7,381 sq km	100% Operator
Falkland Islands	Falkland Plateau sub-basin	PL 022 Q73, Blocks 1 to 5	1,213 sq km	100% Operator

The B&S Production Licences were granted to the Company by the Governor of the Falkland Islands in exercise of the powers conferred on him by the Offshore Minerals Ordinance 1994. The B&S Production Licences permit the search for and extraction of petroleum and provide exclusive rights for surveying, drilling and production within the specified area.

B&S have been awarded the B&S Production Licences on a 100% basis. It is likely that partners will be brought into the B&S Production Licences prior to drilling.

The commencement date of the five B&S Production Licences is 1 November 2004. In the event of a viable commercial discovery the B&S Production Licences can be extended for up to 35 years.

The work programme obligation covering all the B&S Production Licences are:

By 1 November 2005 B&S will reprocess approximately 750 kilometres of existing 2D seismic data over the Falkland Islands Acreage, and shall undertake structural modelling and regional interpretation of the Play Fairways.

By 1 November 2007 B&S will acquire, process and interpret a minimum of 2,500 km of new 2D seismic data over the Falklands Islands Acreage, and shall prepare a prospect evaluation report.

At the end of the initial exploration term, 50% of the total Falklands Island Acreage has to be relinquished. B&S then has the option to enter a second exploration term of 36 months which has the work obligation of one well, along with post-well studies and Basin evaluation.

The Company has the right to relinquish the B&S Production Licences at the end of each term.

There is no minimum financial obligation to the B&S Production Licences other than the annual rent which for the first three years is US\$60,000 per annum. Further details of the B&S Production Licences and the associated rental obligations are set out in paragraph 7 of Part VI of this document.

Exploration Programme for the Falkland Islands Acreage

The 80 blocks licensed to B&S which cover 19,598 sq km lie between 135 km and 325 km offshore of the Falkland Islands with water depth between 200 and 3,000 metres. These blocks cover a significant proportion of a fold belt trend that exists within the Falkland Islands Designated Exploration Area. This trend extends westwards into Argentine waters and into the Malvinas sub-basin where Repsol (YPF) SA and its partners have recently initiated an exploration programme.

The Company has recently completed an evaluation of the exploration potential of the Falkland Islands Acreage. This comprehensive regional review included the interpretation of all available industry and academic seismic and well data, along with a detailed study of the literature.

Part I — Information on the Company

This review has identified a number of structural and stratigraphic leads, including:

- Frontal Folds
- Tilted Fault blocks
- North Scotian thrust belt structures
- Late Cretaceous growth faults
- Stratigraphic traps

Further information on the play types and leads are set out in the Competent Person's Report in Part III of this document.

In April 2005, the Company commenced a 2D seismic programme. Subject to weather, the Company has contracted Geophysical Services Incorporated to shoot over 2,500 km of 2D seismic data. This is expected to be completed by the end of June 2005.

It is anticipated that the Directors will seek to acquire 3D seismic data on the Falkland Islands Acreage prior to committing to an exploration well.

Reasons for the Admission and use of proceeds

The Company is seeking Admission in order to enable an exploration programme to be carried out on the Falkland Islands Acreage and to enable the Company to assess and acquire interests in further international exploration projects which meet the Company's investment criteria.

The Company intends to utilise the £9.1 million raised by the Placing as to approximately £5 million for exploration work in the Falklands, including meeting the Company's work programme obligation for the period to 1 November 2007, £1.2 million for overheads over the next three years and the balance to undertake due diligence on further projects to be identified by the Directors.

If the Company elects to exercise its option to enter into the second exploration term on its Falkland Island Acreage, the Company will be required to secure additional funding to meet the work programme obligation of the second term. Additionally, in the event that the Company is successful in acquiring interests in further international exploration projects which meet the Company's investment criteria, the Company will be required to raise additional funds to finance the work programmes on such projects.

Details of the Placing

The Company has agreed with Ocean for it to use its reasonable endeavours to secure places for the Placing Shares pursuant to the terms of the Placing Agreement.

The Placing is of Ordinary Shares at 20p per share raising £9,134,000 for the Company (net of estimated costs of £866,000).

The Placing Shares will rank *pari passu* in all respects with the existing issued Ordinary Shares.

Directors and Senior Management

The Board of Directors comprises:

David Harry Williamson Dobson (Non-Executive Chairman) age 57

Harry Dobson is a former investment banker and senior partner of Yorkton Securities. He currently engages in various merchant banking and venture capital activities in North America and Europe, and has acted as Chairman of a number of resource companies (including American Pacific Mining Company Inc. and Lytton Minerals Limited). He is currently the Chairman of the board of Kirkland Lake Gold Inc. (a Toronto Stock Exchange and AIM quoted company that acquired and put back into production the five contiguous mines that made up the historic Kirkland Lake gold camp) and Rambler Metals and Mining plc (an AIM quoted company that has acquired the Rambler copper-gold project in Newfoundland, Canada). He is experienced in the organisation and funding of resource projects, including those located in inaccessible locations.

Howard Kevin Obee (Chief Executive) age 45

Howard Obee was appointed Chief Executive when the Company was incorporated in June 2004. He has a PhD in structural geology from Imperial College, and has spent 20 years in the oil industry, initially with BP

Part I — Information on the Company

(1985-1992), and subsequently with BHP Billiton (1992-2004). He trained as an exploration geologist, but has been appointed to various technical and commercial roles, incorporating exploration, new ventures, strategic planning, and business development. His most recent roles for BHP Billiton were West Africa Asset Team Leader, and Exploration Manager, London. He has experience of executing seismic and drilling programmes in frontier basins, including deep water programmes.

Peter William Fleming (Finance Director) age 43

Peter Fleming has over 12 years of upstream oil and gas experience, the majority of which was gained at BHP Billiton both in London and Melbourne. Whilst at BHP Billiton, Peter held senior positions in exploration and business development, investment evaluation, acquisitions and disposals and strategic planning. Prior to joining BHP Billiton, he worked for Bridge Oil and Banque Indosuez. He holds Masters degrees in Business Administration and Finance from Auckland and Macquarie Universities respectively. Peter will work a minimum of 50 days per year. This reflects the level of commercial activity at this stage in the Company's development.

Stephen James Douglas Posford (Non-Executive Director) age 58

Stephen Posford was a partner of stockbrokers W.Greenwell & Co. In 1986, he became Managing Director of Greenwell Montagu Gilt Edged, and in 1989 moved to Salomon Brothers to head up their proprietary trading department in London. He then became Salomon Brothers European CEO before retiring in 1996.

Christopher Nigel Hurst-Brown (Non-Executive Director) age 53

Since qualifying as a Chartered Accountant, Nigel Hurst-Brown has pursued a career in fund management. From 1986-1990 he was Chairman of Lloyd's Investment Managers. In 1990 he moved to Mercury Asset Management as a main board Director and following Mercury's acquisition by Merrill Lynch in 1997 became a Managing Director of Merrill Lynch Investment Managers. Currently he is Chief Executive of Hotchkis and Wiley (UK) Limited and a member of the Executive Committee of its US parent Hotchkis and Wiley Capital Management LLC.

Senior Management

Philip Fish (Exploration) age 44

Philip Fish has spent over 22 years in the upstream oil industry, working for several of the major operators. After obtaining his BSc in Geological Geophysics from Reading University in 1982, Philip worked for Britoil, BP, Amoco and Enterprise Oil before becoming a consultant. Philip held various geoscience technical roles within Exploration, Research and Development and Operational groups. He has worked in many of the world's hydrocarbon provinces including Gulf of Mexico, North Slope, Caribbean, North Sea, West of Britain, Yemen, France, NW Africa, Egypt, Pakistan and Kazakhstan.

Further details of the service agreements of the Directors are set out in paragraph 5 of Part VI of this document.

Corporate governance

The Company intends to develop appropriate measures to ensure that it will, as far as possible, comply with the Combined Code so far as is practicable for a company of its size and stage of development.

The Board has established a Remuneration Committee comprising Mr Dobson, Mr Hurst-Brown and Mr Posford. The Remuneration Committee will review the performance of the executive directors of the Company and determine their remuneration and the basis of their service agreements with due regard to the interests of Shareholders. The Remuneration Committee will also determine the payment of any bonuses to executive directors.

The Board has established an Audit Committee comprising Mr Dobson, Mr Hurst-Brown and Mr Posford. The Audit Committee will meet at least twice a year and will be responsible for ensuring that the financial performance, position and prospects of the Company are properly monitored, controlled and reported on and for meeting the auditors and reviewing their reports relating to accounts and internal controls.

Dividend policy

It is the intention of the Directors to achieve capital growth. In the short term, the Directors intend to retain any future profits in the Company and, accordingly, are unlikely to declare dividends in the foreseeable future. However, the Directors will consider the payments of dividends out of the distributable profits of the Company when they consider it is appropriate to do so.

Part I — Information on the Company

Share options

B&S does not currently have a share option scheme. This will be reviewed in the future by the Remuneration Committee which will ensure that total compensation packages will attract and retain high calibre individuals.

Lock-in and orderly market arrangements

All Directors who are Shareholders have, pursuant to the Placing Agreement, undertaken not to dispose of any Ordinary Shares and have each undertaken to procure that any person who is connected with that Director (i.e. who falls within the definition of “related party” under the AIM Rules) will not dispose of any Ordinary Shares, save in certain limited circumstances, during the 12 months following Admission. In addition, they have agreed not to dispose of any Ordinary Shares save through the Company’s broker and so as to maintain an orderly market in the Ordinary Shares for a further period of 12 months. Further details of these and other lock in agreements are set out in paragraph 7 of Part VI of this document.

In addition, a shareholder holding 2,000,000 Ordinary Shares has undertaken not to dispose of any interest in his Ordinary Shares for a minimum period of twelve months following Admission except in the very limited circumstances allowed by the AIM Rules.

Financial information

Set out in Part IV of this document is the Accountants’ Report on the Company for the period from incorporation to 28 February 2005. Set out as Part V of this document is a Pro Forma Statement of Net Assets of the Company adjusting the balance sheet as at 28 February 2005 as if the Placing had taken place on that date.

The Company’s accounting reference date is 30 June. The first set of audited financial statements issued by the Company will be the annual report and accounts for the period from incorporation to 30 June 2005 and will be published by 31 December 2005.

The Directors intend to change the accounting reference date to 31 December, so that interim accounts will be published for each of the six month periods to 31 December 2005 and 30 June 2006, followed by an annual report and accounts for the 18 month period to December 2006.

Additional information

The attention of potential investors is drawn to Parts II to VI of this document, which provide additional information. Particular attention is drawn to the risk factors, which are set out in Part II entitled “Risk Factors”.

Part II — Risk Factors

An investment in B&S is speculative and involves a high degree of risk. Estimates, expectations, and business plans in this document are statements of future expectations or intentions of the Board. Actual future results, including resources, recoveries and work programme plans and schedules, could differ materially due to changes in market conditions affecting the oil and gas industry or long-term oil and gas price levels; political or regulatory developments; reservoir performance; timely completion of work programme commitments/projects; the outcome of commercial negotiations and technical or operating factors.

In addition to the other information in this document, the Directors consider the following risk factors are of particular relevance to the Company's activities and to any investment in the Company. It should be noted that this list is not exhaustive and that other risk factors may apply. Any one or more of these risk factors could have a materially adverse impact on the value of the Company and should be taken into consideration when assessing the Company. The risks are not presented in any of order priority.

Exploration risk

Whilst the Company will seek to apply the latest technology to assess exploration licences and has significant management experience, the exploration for and development of hydrocarbons is speculative and involves a high degree of risk. These risks include the uncertainty that the Company will discover sufficient oil or gas resources economically to exploit or the Company will be able to exploit the discovered resource as intended.

If the Company does not fulfil its obligations under any exploration licence, there is a possibility that the Company could lose part or all of its equity interest in such licence.

The Company

The Company is a recently formed company with no significant operating history upon which prospective investors may base an evaluation of future performance. It has only incurred losses since its inception due to its lack of revenues. It is possible that the Company will continue to incur such losses until such time as oil and production commences.

Drilling, developing and operating risks

Oil and gas drilling, developing and operating involves a number of risks, many of which are beyond the control of the Company, which may delay or adversely impact the Company's activities. These include mechanical failures or delays, adverse weather conditions and Government regulations or delays. These delays and potential impacts could result in the Company's activities being delayed or abandoned and substantial losses could be incurred.

Drilling may not result in the discovery of economically viable hydrocarbon resources either due to insufficient resources being discovered, the resources not being of sufficient quality to be developed economically or the costs of any development being in excess of that required for an economic project.

Drilling is also subject to general industry operating risks such as environmental spills or hazards, explosions, fires, blow-outs, equipment failures, the occurrence of any of which could result in losses for the Company in the form of injury or loss of life, environmental damage, damage to or destruction of property and regulatory investigations that could result in curtailment of operations, fines and other additional costs. Although the Company intends to maintain insurance in accordance with industry practice, there may be circumstances where the Company's insurance or that of the operator of the drilling or operating activities either does not have insurance cover or does not take sufficient insurance cover for the losses sustained. It is also possible that the Company may incur losses either because the Directors decided not to acquire insurance or did not have adequate insurance due to the high cost at that time.

Economic and political risks

It is anticipated that all or the majority of the Company's activities will be outside the UK and, accordingly, there are a number of risks over which it has little control.

Whilst the Company will make every effort to ensure it has robust commercial agreements covering its activities, there is a risk that the Company's activities are adversely impacted by economic and political

Part II — Risk Factors

factors such as the imposition of additional taxes or charges, cancellation or suspension of licences, expropriation, war, terrorism, insurrection and changes to laws governing oil and gas exploration and operations. There is also the possibility that the terms of any licence the Company holds may be changed.

The Falkland Islands

With regard to the B&S Production Licences, there is an ongoing disagreement between the UK and the Argentine governments over which country has sovereignty. The stated position of both the UK and the Falkland Islands governments is that the former has sovereignty over the Falkland Islands and the surrounding maritime areas.

Currency risk

The Company will report its results in Sterling, whilst it is expected that a majority of its costs and revenues will be denominated in United States dollars. This may result in additions to the Company's reported costs or reductions in the Company's reported revenues.

Corporate and regulatory formalities

Conducting exploration, development or other oil and gas activities has or will involve the requirement to comply with various procedures and approval formalities. It may not in the future be possible to comply or obtain waivers of all such formalities. In the case where it is not possible for the Company to comply, or it cannot obtain a waiver, the Company may incur a temporary or permanent disruption to its activities and a loss of part or all of its equity in the licence.

Ability to exploit successful discoveries

It is possible that the Company may not be able to exploit commercially viable discoveries in which it holds an interest. Exploitation may require external approvals or consents from relevant authorities and the granting of these approvals and consents is beyond the Company's control. The granting of such approvals and consents may be withheld for lengthy periods, not given at all, or granted subject to the satisfaction of certain conditions which the Company cannot meet. As a result of such delays, the Company may incur additional costs, losses of revenue or part or all of its equity in a licence. The Company may also need the consent or approval from an equity partner in the licence, the interests of which might not be aligned with that of the Company.

Additional financing

The Company is required to meet its work programme obligations under the terms of the B&S Production Licences, failing which the Company's exploration rights may be forfeited. The Company may acquire interests in additional exploration properties which may require acquisition payments to be made and exploration expenditures to be incurred. The only sources of funding currently available to the Company are through the issue of additional equity capital or through bringing in a farm-in partner to fund the exploration and development costs on the Company's properties. There is no assurance that the Company will be successful in raising sufficient funds to meet its obligations with respect to the B&S Production Licences or to enable it to acquire additional projects.

Environmental regulation

Environmental and safety legislation (such as in relation to plugging and abandonment of wells, discharge of materials into the environment and otherwise relating to environmental protection) may change in a manner that may require stricter or additional standards than those currently in effect, a heightened degree of responsibility for companies and their directors and employees and more stringent enforcement of existing laws and regulations. There may also be unforeseen environmental liabilities resulting from oil and gas activities, which may be costly to remedy. In particular, the acceptable level of pollution and the potential clean up costs and obligations and liability for toxic or hazardous substances for which the Company may become liable as a result of its activities may be impossible to assess against the current legal framework and current enforcement practices of the various jurisdictions.

Market risk

The sale of production from a development of an discovered oil and gas resource will be dependant upon factors over which the Company has no control such as market conditions at that time, access to, and the

Part II — Risk Factors

operation of, transportation and processing infrastructure, the available capacity levels and tariffs payable by the Company for such infrastructure and the granting of any licences or quotas the Company may require from the relevant regulatory authority. All of these factors may result in delays in production, additional costs or a reduction in expected revenues for the Company. Therefore, there is a risk that the Company may not make a commercial return on its investment.

Competition

The oil and gas industry is very competitive and the Company will face competition in the countries within which it will conduct its activities. Some of the Company's competitors have access to greater financial and technical resources which may convey to them a competitive advantage. As a result, the Company may not be able to gain access to future growth opportunities.

Volatility of prices for oil and gas

The supply, demand and prices for oil and gas are volatile and are influenced by factors beyond the Company's control. These factors include global demand and supply, exchange rates, interest and inflation rates and political events. A significant prolonged decline in oil and gas prices could impact the viability of some of the Company's exploration activities. Additionally, production from geographically isolated countries may be sold at a discount to current market prices.

Dependence on key personnel

The Company has a small management team and the loss of any key individual or the inability to attract appropriate personnel could impact the Company's performance. It may also be difficult to employ and retain people who are willing to work for the Company in certain countries.

Liquidity of the Ordinary Shares

The Ordinary Shares will be traded on AIM but it should not be implied that there will always be a liquid market for the shares. The price of the Ordinary Shares may be volatile, influenced by many factors, some of which are beyond the control of the Company. For example, the performance of the overall share market, other Shareholders buying or selling large numbers of shares, changes in legislature or regulations and general economic conditions. Therefore, a return on an investment in the Placing Shares cannot be assured.

Legal systems

Some of the countries the Company may operate in could have legal systems that are less well developed than the UK. This could result in risks such as: (i) potential difficulties in obtaining effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation, or in an ownership dispute; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; and (v) relative inexperience of the judiciary and courts in such matters. In certain jurisdictions the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured.

Joint ventures

It is likely that the Company will enter into joint ventures. There is a risk that a joint venture partner does not meet its obligations and the Company suffers additional costs or other losses. It is also possible that the Company's and its joint venture partners interests are not aligned resulting in project delays or additional costs or losses.

Investment risk

The value of an investment in the Company could, for a number of reasons, go up or down. There is also the possibility that the market value of an investment in the Company may not reflect the true underlying value of the Company.

Part III — Competent Person’s Report



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18 May 2005

Dear Sirs,

A Valuation of Borders & Southern Petroleum plc’s offshore Falklands Islands Assets

In response to your request we have reviewed and given indicative volumes and values for the Borders & Southern Petroleum plc (“B&S”) interests located offshore the Falkland Islands. B&S is the 100% equity holder and operator of five production licences (PL018, PL019, PL020, PL021 and PL022), covering nearly 19,598km², located along the western margin of the Falkland Plateau sub-basin.

In our statements and calculations the licence interests quoted are those presented to us by B&S. We have not checked the title to these interests although the current status of ownership is described in the executive summary. This report has been undertaken based upon data supplied to us by B&S. These data consisted of seismic lines with some interpretation in workstation format, geological and petrophysical analyses and reports of a regional nature available both in paper and digital format. A data gathering visit took place at the offices of B&S in early March 2005.

The guidelines laid out in the 2001 SPE/WPC/AAPG publication have been adopted for our definition of Proved, Probable and Possible Reserves. Our calculations of recoverable hydrocarbon volumes have been performed in a probabilistic manner with Proved, Probable and Possible Reserves equating to the corresponding P90, P50 and P10 confidence levels.

For the various assets we have evaluated development scenarios that have been optimised to exploit the hydrocarbons with minimal technical risk whilst at the same time are economically attractive.

This report relates specifically and solely to the subject assets and is conditional upon various assumptions. This report must, therefore be read in its entirety. This report may be used in its entirety without prior permission from Scott Pickford. However should excerpts from this report be used by B&S (or its affiliates) then express permission must be obtained from Scott Pickford. Any such excerpts should specifically draw the reader’s attention to the need to read the entire report. It is an express condition of permission of such use that B&S (or its affiliates) shall grant access to the report if such notice is acted upon. This procedure is to ensure that all use of information and views expressed in the report are represented in a true and fair manner. A glossary of all the technical abbreviations used in this report is included as Appendix A.

Yours faithfully,

Neil Oates

Head of Valuations
Scott Pickford Limited



A Valuation of
Blocks PL018, PL019, PL020, PL0212 and PL022, offshore Falkland Islands
for
Borders & Southern Petroleum plc (“B&S”)

This report relates specifically and solely to the subject assets and is conditional upon various assumptions that are described herein. This report must, therefore, be read in its entirety.

This report was provided for the sole use of B&S on a fee basis. This report in its entirety may be reproduced or redistribute to any other persons. However in instances where excerpts only are to be reproduced or published this cannot be done without the express permission of Scott Pickford Limited.

Our estimates of potential resources, unrisked and risked values are based on data provided by B&S. We have accepted, without independent verification, the accuracy and completeness of these data.

All interpretations and conclusions presented herein are opinions based on inferences from geological, geophysical, engineering or other data. The report represents Scott Pickford Limited’s best professional judgement and should not be considered a guarantee or prediction of results. Our liability is limited solely to B&S, Ocean Equities Limited and Insinger de Beaufort.

May 2005

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1. Executive Summary

B&S was awarded 100% operatorship of Production Licences PL018, PL019, PL020, PL021 and PL022 on 1st November 2004 located within the Falkland Plateau Basin, offshore the Falkland Islands. The licences, which have a duration of six years, cover an area of 19,598km² with water depth varying between 200-3000m. The licence term is divided into two periods of three years each. The work obligation for the first licence period is to acquire 2,500km of 2D seismic data and for the second period it is to drill one exploratory well. The licence areas are located within an un-drilled basin and are covered by a sparse seismic grid. Four principal potential play types have been recognised and a few interesting leads can be recognised even at this early stage in the exploration process. These leads will be covered by the seismic survey currently underway. Following the interpretation of this seismic it is to be anticipated that further seismic data will be acquired over certain high graded areas. This additional seismic may take the form of further infill 2D or it is possible that the decision will be taken to proceed directly to 3D. In all cases it is expected that final drilling locations will be selected with the benefit of 3D seismic. It has been assumed that an exploration well programme will be carried out in 2007 and that should a discovery be made the rig will continue to drill one or two appraisal wells as required.

Whilst it is recognised that at this stage the potential size of these leads is uncertain Scott Pickford has calculated the indicative value that may accrue if the one of these leads (mid-range current size estimates) was to be developed. The lead chosen is representative of its type and has the potential to contain very large volumes of hydrocarbons. The Lead will be developed using high angle or horizontal wells drilled from a template on the seafloor tied back to sub-sea production manifolds connected to a turret moored FPS with offshore loading ocean going tankers via a CALM buoy. If a forward oil price of \$25 is assumed then the project NPV could be US\$2,047MM at a discount rate of 10%. Economic modeling suggests that the project is robust and remains profitable under a number of oil price, CAPEX and OPEX scenarios. Scott Pickford has made relatively conservative assumptions with regards to drilling and facilities costs and it is possible that considerable savings may be achieved, as technology is continuously refined in these frontier areas. The relative remoteness of the location will add to the development costs due to the length of the supply chain however should other developments go ahead in the area then operational synergies may result in considerable cost savings. Although the water depths within the B&S acreage approach the limit for current day production techniques such techniques are rapidly developing and it is to be expected that developments in these water depths will become relatively commonplace.

The B&S Licence Areas represent a high-risk high-reward opportunity in deepwater frontier acreage with several key elements of the petroleum system still remaining to be proved within the region. However, early indications suggest that potential exists for the presence of structures of considerable size and of a number of generic types. This diversity of potential play type adds to the attractiveness of the acreage and means that several wells will be required to fully explore the area.

2. Licence Description

B&S was awarded 100% operatorship of Production Licences PL018, PL019, PL020, PL021 and PL022 on 1st November 2004 located within the Falkland Plateau Basin, offshore the Falkland Islands. The licences cover an area of 19,598km². Water depths across the Licence area vary between 200-3000m. Figure 1 shows the location of these licences. The licences have a duration of six years divided into two three year periods with a 50% mandatory relinquishment after the first three year period. The work obligation for the first licence period is to acquire 2,500km of 2D seismic data and for the second period it is to drill one exploratory well.

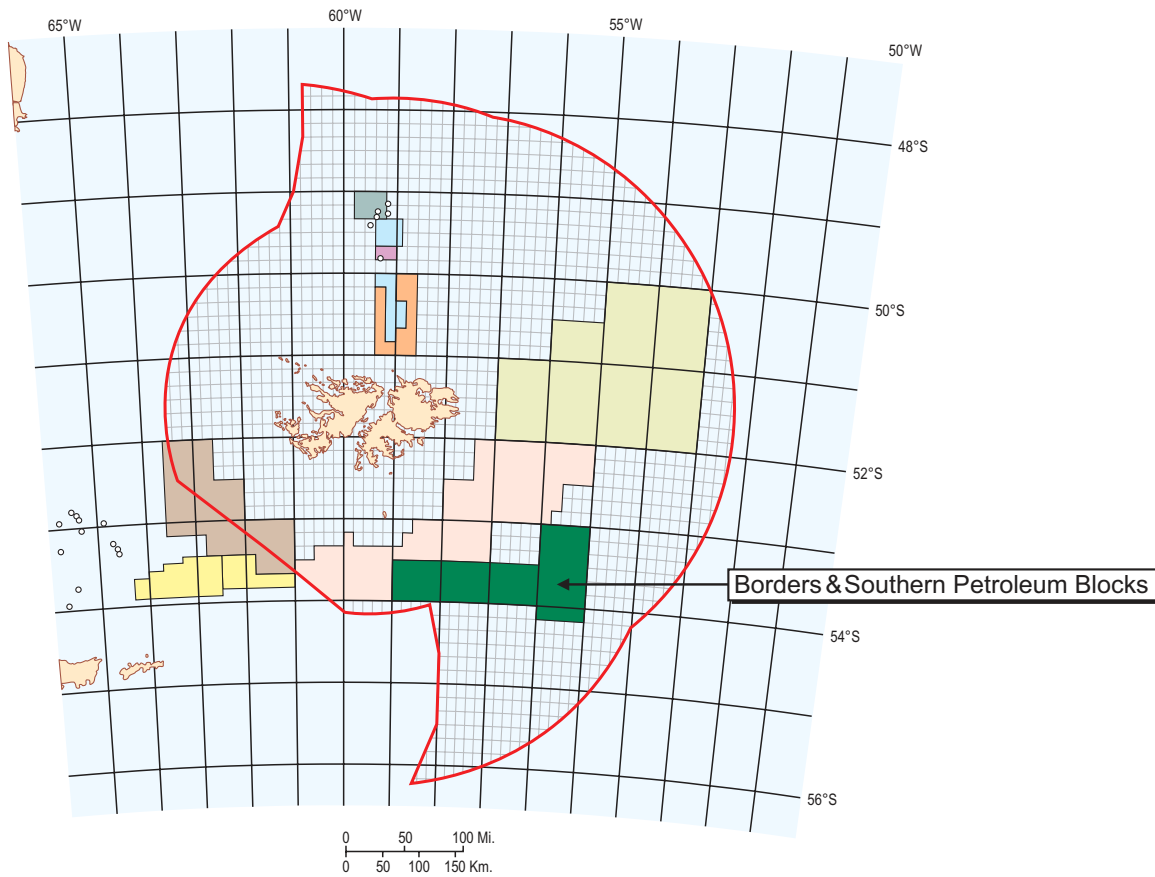


Figure 1—Location map for the Borders & Southern Blocks

2.1 Database

B&S has access to a number of 2D seismic lines (total 250km) acquired by Western Geophysical in 1993, Figure 2 shows the location of these lines. A number of other seismic lines exist over the licence area but have not been purchased by B&S. In addition there is also a quantity of academic seismic data over the Falkland Plateau and Ewing Bank areas consisting of multi-channel lines acquired by Lamont Doherty Earth Observatory in 1977. This data has been purchased by B&S and used to tie to the DSDP wells drilled on the western flank of the Ewing Bank. Some single channel data also acquired by Lamont Doherty and available in paper format only has also been purchased. B&S is also in the process of acquiring a selection of seismic data shot by the British Antarctic Survey in the 1970s.

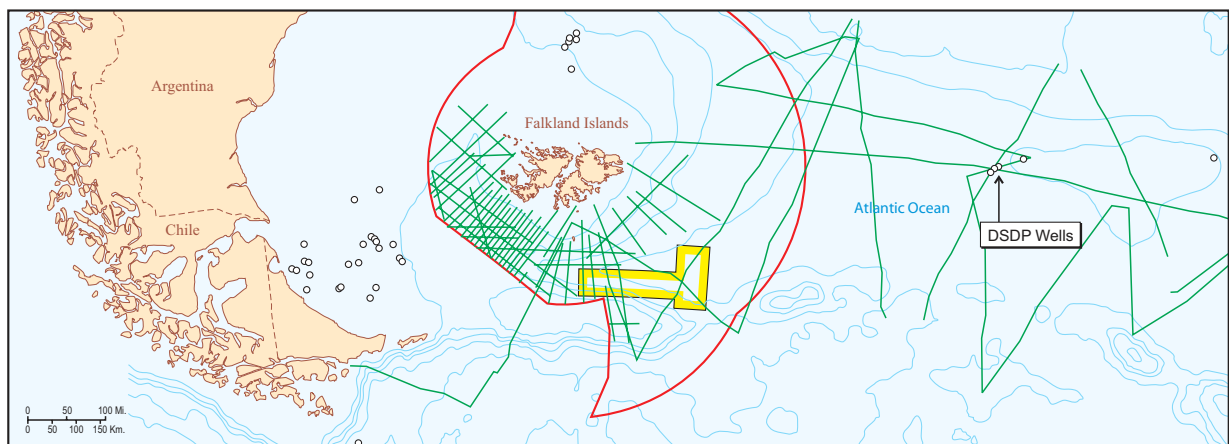


Figure 2—Map showing available seismic database and the location of the DSDP wells, South Falklands Area
 No wells have been drilled within the licence blocks or the Falklands Plateau Basin as a whole. The nearest exploration wells are in the Malvinas sub-basin to the west a distance of 365km from the B&S acreage.

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Fourteen wells were drilled in the 1980s and although they cannot be tied in directly to the B&S acreage they are one of the principal sources of geological data for the region. A total of 17 wells have been drilled in the Malvinas sub-basin and the details, where known, of these wells are shown in the following table:

<u>Well</u>	<u>Year</u>	<u>Results</u>
Ciclon x-1	1980	Oil shows, Springhill
Orca x-1	1981-1982	Assumed to be dry
Merluza x-1	1981-1982	Assumed to be dry
Salmon x-1	1981-1982	48 bopd (20 API), Arenas Glauconiticas
Salmon x-2	1981-1982	372 bopd (36 API), 608 bopd (condensate), 21,044 scfg/d from Springhill
Lobo Marino x-1	1981-1982	Assumed to be dry
Camaron x-1	1981-1982	Assumed to be dry
Calamar x-1	1981-1982	3,201 bopd (37 API), Springhill
Calamr x-2	1981-1982	Assumed to be dry
Krill x-1	1981-1982	3.6 m oil sand, Springhill
Erizo x-1	1981-1982	Assumed to be dry
Tiburón x-1	1981-1982	Assumed to be dry
Lapa x-1	1981-1982	Assumed to be dry
Pulpo x-1	1981-1982	Assumed to be dry
Occidental x-1	1991-1992	Not Known
Occidental x-2	1991-1992	Not Known
Occidental x-3	1991-1992	Not Known

Table 1 - Summary of well results from the Malvinas sub-basin

Exxon drilled 13 wells in the period 1981-82 to test the Springhill sandstone play (early Cretaceous) in the platform foredeep area. Four of these wells were sub-commercial oil or gas discoveries either in the Springhill Formation or the Arenas Glauconiticas Formation (late Cretaceous). Minor oil shows were also reported in Palaeogene carbonates and Miocene turbidites.

Five DSDP (Deep Sea Drilling Project) wells were drilled in the period 1974-80 on the flanks of the Ewing Bank, the location of these wells is shown on Figure 3. The nearest of these wells to the B&S acreage is well 330 and this is some 600km away. These wells penetrate less than 700m beneath mudline and two wells (511 and 330) proved the existence of thick, organic rich black shales of early Cretaceous age. This section was cored and analyses have shown it to have excellent source potential for hydrocarbon generation. This interval is considered to be the principal source rock for the B&S acreage. Well 330 also penetrated a basal transgressive sandstone resting unconformably on Palaeozoic basement. This sandstone is thought to be of Oxfordian /middle Jurassic age and may represent an additional reservoir target within the B&S acreage.

2.2 Regional Geological Description

The B&S blocks are located on the Falklands micro-plate which is bounded by the Falklands Fracture Zone to the north and the Scotian plate to the south, see Figure 4 which shows the major tectonic elements of the region. The Falklands micro-plate is subdivided into three sub-basins called the Magallanes, Malvinas and Falkland Plateau respectively. The Magallanes sub-basin is partially captured in the Andean foreland fold belt and has a similar stratigraphy to that of the Malvinas sub-basin. The Magallanes sub-basin is the only one of the three to contain commercial proven reserves. The Malvinas sub-basin is located immediately west of the Falkland Islands. The stratigraphy of the Falklands Plateau basin is shown on Figure 4.

The micro-plate was part of the Gondwana super-continent prior to break-up during the Triassic to early Cretaceous. Palaeozoic rocks outcropping on the Falkland Islands provide the only information about the pre-rift stratigraphy.

During the Triassic, and into the middle Jurassic, extensive rift systems developed across the area. In the extreme west the Magallanes and Malvinas sub-basins were dominated by extrusive volcanics and tuffs. In the Falklands Plateau sub-basin a major down-to-the-east basin bounding fault was initiated with mixed hyaloclastites and marine clastics deposited in the hanging wall.

The upper Jurassic saw a period of rapid transgression and the deposition of fringing non-marine to paralic sands passing laterally into offshore mudstones. This transgressive phase terminated in the Neocomian and was succeeded by renewed rifting along the eastern and southern margins of the Falkland Plateau Basin.

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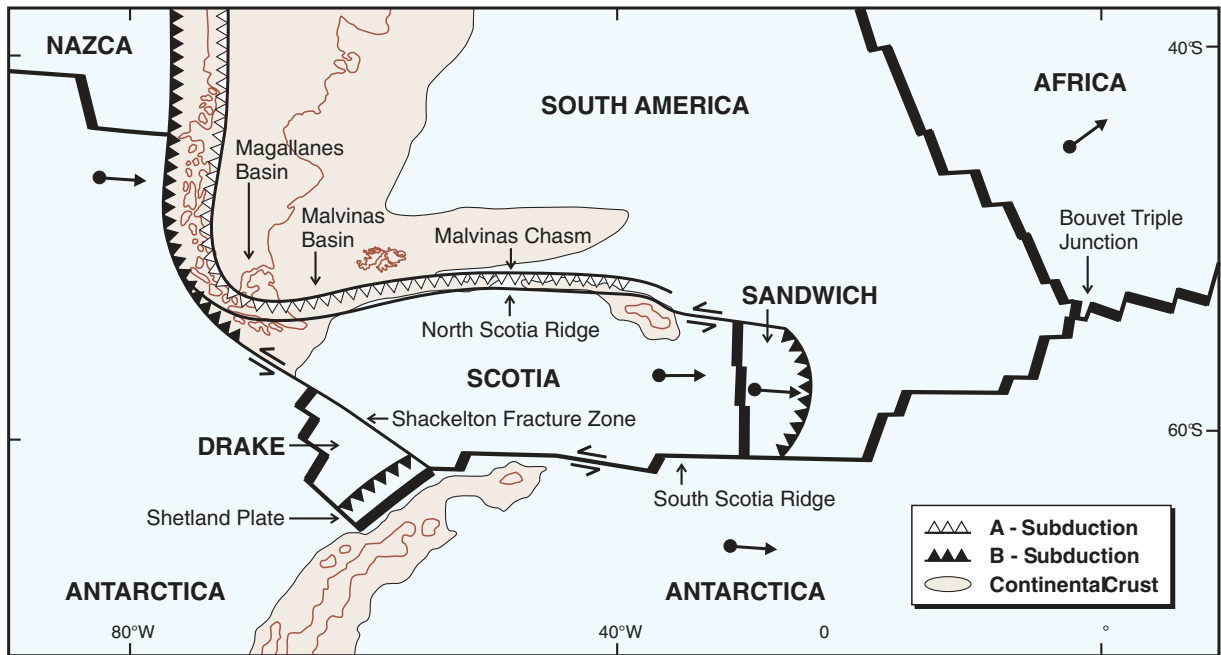


Figure 3—Map showing major tectonic elements of the Falklands Islands Area

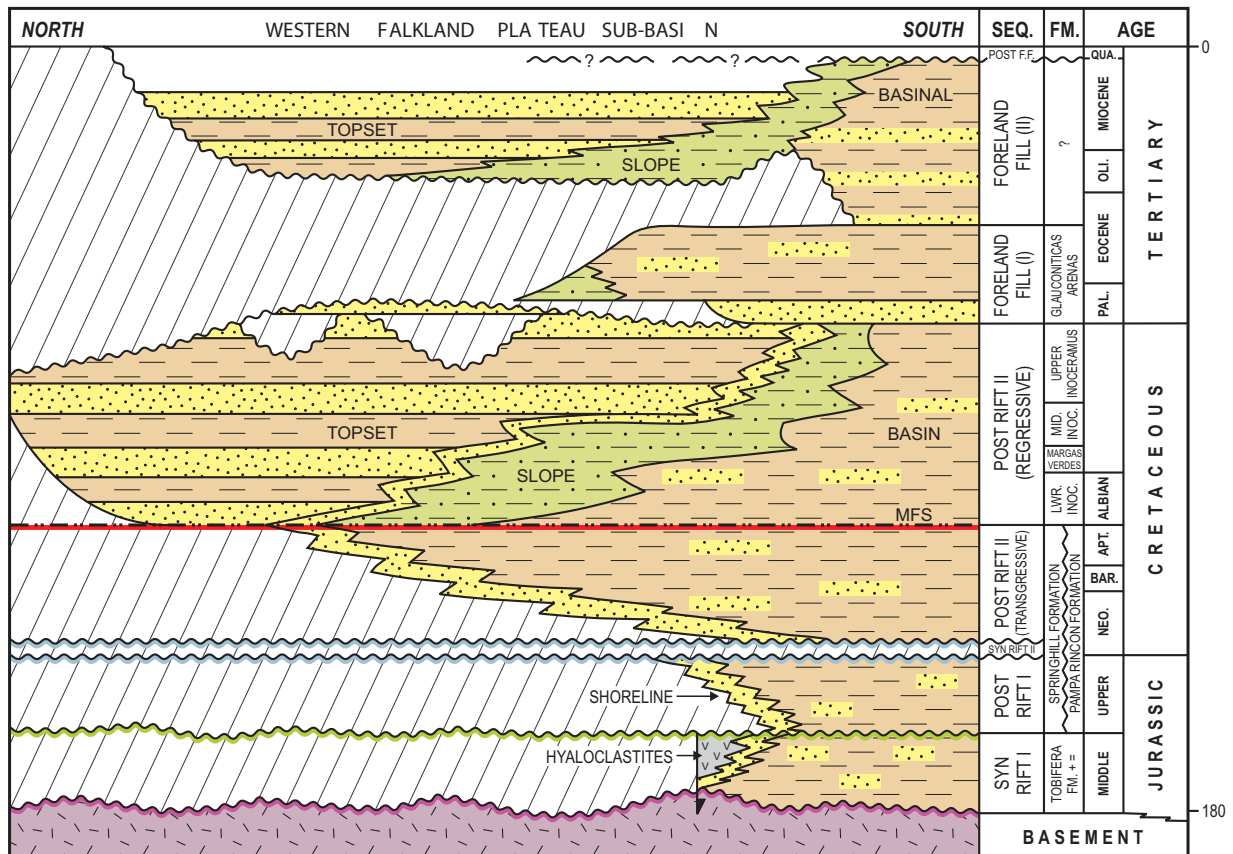


Figure 4—Stratigraphy of the Falkland plateau sub-basin

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The current seismic database does not extend into the east of this area and hence its structure has to be inferred from the regional tectonic plate model. The southern area structures were subsequently destroyed by mid to late Tertiary compression. During the extensive phase large areas of the Falklands micro-plate were uplifted and sub-aerially exposed. By Valanginian times post rift subsidence had recommenced and major transgression on to the basin shoulders occurred. The highest portions of the plate were not submerged until the end of Aptian times. As a result the base of this latest post rift sequence is marked by a significant transgressive sand which is capped by the maximum flooding surface at the end of the Aptian. In late Cretaceous times the Falklands micro-plate became linked to the proto-South Atlantic leading to an influx of open marine waters resulting in a switch from anoxic to oxidising conditions. Concurrently, the proto-Andes in the west became a major source of clastics. Regional seismic data indicates that large volumes of sediment were input in the basin until the end of the Cretaceous. In the early Tertiary subsidence slowed considerably and the marginal Magallanes and Malvinas sub-basins were infilled. Within the Falklands Plateau sub-basin final infilling of the marine basin occurred.

The mid to late Tertiary saw a marked change in the evolution of the Falklands micro-plate. The opening of the Scotian Sea to the south caused severe compression along the southern margins of the Falkland Plateau and Malvinas sub-basins resulting in the formation of an extensive foldbelt. This foldbelt continued to grow until around 6 mybp when seafloor spreading in the Scotian Sea ended. The northern margin of the late Tertiary basin exhibited marked southwards progradation with clastics derived both from the Argentinean mainland and the Falkland Islands massif.

The most recent phase of the development of the Falkland Plateau sub-basin has been the marked subaerial erosion of the North Scotian Ridge (Burdwood Bank, Shag Rock and South Georgia) and the resultant deposition of a northerly directed progradational margin.

2.3 Structural Interpretation

The available seismic data has been interpreted using standard sequence stratigraphy methodology. No direct ties to well data can be made from the current dataset however a tie to the Malvinas basin well Salmon x -2 was made using data supplied by the British Geological Survey (BGS). This tie allowed 3 key markers to be defined, namely:

1. Base Post Rift 1 (Top Main Tuff)
2. Regional intra-Cretaceous marker (Intra Cretaceous marker)
3. Unconformity A (Base early Miocene unconformity)

The names in parentheses refer to the BGS terminology. A tentative correlation can be made to the east using Lamont-Doherty line RC2106.

2.3.1 Description of key seismic markers

Unconformity A

This surface is marked by major truncation in the foreland bulge area with erosion cutting down as deep as basement. In basinal areas this surface is a major onlap surface stepping northwards across the foreland slope. Thus the marker represents a complex surface with coeval erosion in the platform areas and deposition in the foredeep area. The platform area was eroded until the termination of the compressional loading of the North Scotian foldbelt. In the foredeep deposition was more or less continuous from late Eocene through to Miocene. This marker is tentatively tied to the BGS early Miocene unconformity in the Salmon x -2 well and is expected to mark the base of late Eocene to late Miocene sands derived from erosion of the peripheral bulge during the mid to late Tertiary.

Regional Intra Cretaceous Marker

This is a prominent event that can be mapped across the entire GFI93 dataset. In the west this surface displays prominent amplitudes and subtle changes in reflector geometry above and below. A tentative correlation to the intra Cretaceous marker as defined by the BGS in the Salmon x-2 well has been made. In the east the marker is a prominent reflector that appears to mark a switch from axial deposition beneath it to marginal deposition above. It is not possible to satisfactorily tie the eastern and western areas and therefore there is a distinct possibility that the event mapped may be of a different age in the two areas.

In DSDP well 511 the Top Aptian marks a change from restricted anoxic to oxygenated conditions with an increase in the input of terrestrially derived clastics. Therefore it is believed that the Regional Intra Cretaceous Marker is of near Top Aptian age and will represent the top of the early Cretaceous source rocks.

Base Post Rift 1

This surface is marked by onlap the overlying post rift 1 sequence and truncation of the syn-rift 1 below. Subsequent correlation to the Salmon x-2 well suggests that it corresponds to the Top Tobifera (Tuff) event.

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In the east this event has been tentatively tied to the DSDP wells where it is correlated to the base upper Jurassic unconformity. Confidence in this pick is good in those areas where no syn-rift 1 sequence is present. However, in areas where a thick syn-rift 1 sequence is preserved (such as the hanging wall of the Falklands Plateau sub-basin) then the marker is much more difficult to define due to the lack of an angular discordance. Two other markers have been mapped in the region namely the base Cretaceous unconformity and Top Basement.

Due to the lack of detailed regional velocity data the conversion from structure in time to depth used the velocities from the Salmon x-2 well. It is recognised that this extremely simplistic approach will have to be refined at a future date but it is considered adequate for the current reconnaissance process.

3. Hydrocarbon Prospectivity of the Falklands Area

3.1 Magallanes Sub-Basin

This basin can now be regarded as mature from a hydrocarbon exploitation standpoint. Over 1200 wildcat wells have been drilled since the 1930s and 1.216 billion barrels of oil and 24.7 TCF of gas have been discovered. The field size is generally small with only two oilfields containing greater than 64MMSTB and 12 gas fields larger than 360BCF. Almost all of these reserves are associated with the upper Jurassic or lower Cretaceous basal transgressive sand play. This basin is predominantly gas prone.

3.2 Malvinas Sub-basin

17 exploration wells have been drilled with 3 oil and one gas/oil discoveries reported. No commercial production has ensued. The USGS has estimated a mean unrisksed resource of 1031MMSTB oil and 3.65TCF gas located in fields of generally less than 64MMSTB to be present in the area.

3.3 Falklands Plateau Sub-basin

No wells have been drilled in this basin. The USGS World Energy Assessment (2000) has included the lower Cretaceous tilted fault block play to the south of the Falkland Islands. Their mean estimate of undiscovered resources is 2.2 billion barrels of oil and 7.7 TCF gas plus 193MMSTB of NGLs. The estimate of average field size is 30MMSTB for oil and 130BCF for gas. The USGS did not include the North Scotian fold belt in their assessment.

3.4 Play Fairways

Four principal play types have been recognised and are described below.

Base Upper Jurassic Transgressive Sands

This play, restricted to the deeper parts of the basin, comprises a basal transgressive sand located at the base of the post-rift 1 megasequence. The sands will be sealed by late Jurassic mudstones and sourced by laterally equivalent late Jurassic/early Cretaceous anoxic shales. Sands of this age have been proven in DSDP well 330 and 3 wells in the Malvinas sub-basin. In DSDP 330 sands are 33m thick and comprise a fine to medium grained sequence of sands interbedded with silts. This play has been proven to be present in the Malvinas and Falklands Plateau basins but has not as yet proved effective.

Base Cretaceous Transgressive Sands

This play comprises lower Cretaceous transgressive sands associated with the early Cretaceous break-up unconformity. Sands of this age are absent from the DSDP wells on the Ewing Bank due either to the possibility that the Bank was located northwards of the area of maximum transgression or basinwards of the point of origin of the transgression. In the Malvinas sub-basin the sands form a continuous reservoir everywhere except over topographic highs such as the Dungeness High. The sands are generally contiguous with the underlying upper Jurassic transgressive sands. The formation containing both the upper Jurassic and lower Cretaceous transgressive sands is known as the Springhill Formation. These reservoirs are sealed laterally by the overlying mudstones of the Pampa Rincon Formation and vertically by the lower Inoceramus Formation shales that are also the source rock. It is postulated that these sands may have been reworked into deeper water areas during relative sea level lowstands. This play has not yet been proven in the Falklands Plateau sub-basin.

This play fairway has been mapped out using the Regional Intra Cretaceous Marker which is interpreted as a maximum flooding surface. This play has proved effective in the Malvinas sub-basin with four discoveries to date and further to the west in the Magallanes sub-basin hosts the majority of the proved reserves.

Late Cretaceous Slope/Basinal Sands

This play consists of sands within a regressive wedge sourced from the emergent Falklands Islands massif. Clearly recognisable topsets on seismic, coupled with the presence of an up-dip source of clastics, make the

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presence of sands highly likely. Topseal will be provided by intra-formational shales and the source will be the early Cretaceous anoxic shales. Further evidence for the existence of late Cretaceous sands is supported by the presence of glauconitic sands in the Malvinas sub-basin and sandy topsets in age equivalent facies in the Magallanes sub-basin. In well Salmon x-1 20° API oil was tested at low rates (48bopd) from the equivalent Arenas Glauconitic Formation demonstrating that hydrocarbons can migrate vertically into the late Cretaceous.

Foreland Fill

This play comprises deep marine sands deposited in front of the evolving North Scotian foldbelt. The sands could be sourced from a number of areas including erosion of the Falklands Islands massif, or the emergent foreland bulge or the late Cretaceous topsets. The sands are expected to be thin but laterally extensive turbidites. The sands will be sealed by intra-formational deep marine shales and sourced by the underlying early Cretaceous anoxic shales. This play has been tested by one well (Ciclon-1) in the Malvinas sub-basin that proved reservoir presence in a deep marine clastic sequence towards the base of the foreland succession. This well was located on the basis of pre-1980 2D seismic and hence is likely to be off-structure. Repsol have recently acquired a 2,400km² 3D survey over this play fairway.

3.5 Source Rock Presence

The presence and effectiveness of source rocks has been proven in the Magallanes and Malvinas sub-basins. All of the hydrocarbons in the commercial and non-commercial discoveries in these sub-basins have been typed to the early Cretaceous source rocks of the lower Inoceramus and Margas Verdes Formations. Additionally, DSDP wells 511 and 330 proved the presence of a rich late Jurassic to early Cretaceous source rock which, although only marginally mature at the drilled locations, had begun to expel hydrocarbons.

Within the Falklands Plateau sub-basin late Jurassic to Aptian anoxic marine shales form the principal source interval. These rocks have been proven to be both present and effective in the Magallanes and Malvinas sub-basins. In DSDP well 330 a 225m thick sequence of sapropelic clays with an average Total Organic Carbon (TOC) content of 2.5% was penetrated. The kerogens were of a mixed Type II – Type III interpreted to be capable of generating significant volumes of hydrocarbons. In DSDP well 511 an age equivalent sequence of at least 150m thick was penetrated (the base was not reached) and here the TOC ranges from 3 to 8% (average 3.5%). Type II kerogens dominate and the interval has a potential hydrocarbon yield of 14-41 kg/ton (average 25 kg/ton) this is comparable to the Kimmeridge Clay in the North Sea. The source rock to the east of the Falklands Plateau sub-basin appears to be both richer and more oil prone than the leaner and more gas prone source rocks in the Magallanes and Malvinas sub-basins.

3.6 Source Rock Maturity

Vitrinite reflectance data from DSDP 511 displays high levels of maturity at relatively shallow depths. Two explanations have been proposed to explain this phenomenon. Firstly, it is assumed that heat flows in the past were as high as those seen in the Magallanes and Malvinas sub-basins and that later erosion has resulted in the elevation of the source rock. Secondly, much higher heat flows may have existed in the past. The first explanation appears the more likely as the current high heat flow may be caused by hot spot activity related to the opening of the Scotian Sea. Maturity modelling has been undertaken across the basin as a whole and the results are shown in Figure 5. The timing of maturity is likely to vary across the basin in response to variations in both heat flow and subsidence. Within the licence area a top oil window at 3,000m sub-seabed and top gas window at 4,125m sub-seabed have been assumed. Oil is expected to be the primary phase although cracking to gas in the deeper parts of the basin remains a distinct possibility.

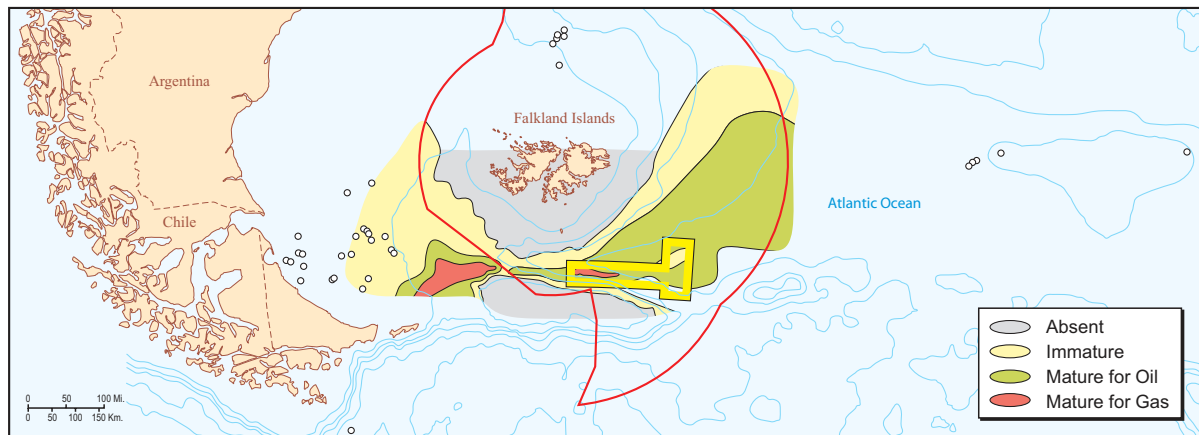


Figure 5—Map showing the present maturity at the top of the lower Cretaceous source interval

3.7 Migration

The migration of hydrocarbons into the basal transgressive sand reservoirs is dependent on either cross-fault juxtaposition or downwards flow. Both mechanisms have been proven to operate in the Magallanes and Malvinas sub-basins. Any lower Cretaceous source rocks that entered the oil generation window before involvement in the main thrust belt are likely to ‘switch off’ as they are uplifted. Therefore, for structures located within the thrust front area to be charged it is necessary to invoke a sub-thrust source.

The main phase of oil expulsion from the source rocks started during Miocene times that is coincident with the main compressional phase along the North Scotian foldbelt.

3.8 Structural Definition

Due to the paucity of seismic data available to B&S it is not possible to map individual traps in the conventional manner. As a consequence for those leads identified and described below the range of possible trap size is extremely broad. B&S propose to acquire a grid of 2D seismic to remedy this situation. This 2D data will be targeted at the following play/trap fairways that have been identified from the limited amount of existing data.

Type 1. Tilted Fault Blocks

Mid to late Cretaceous fault blocks – tilted fault block geometries have been recognised in the licence. These blocks were formed during two periods of extension in the mid-Jurassic and again in the lower Cretaceous and appear to have undergone reactivation during flexural loading by the North Scotian foldbelt. The reservoirs are expected to be the both or either of the basal transgressive sand systems sealed by lower Cretaceous muds. This style of fault block play has proved effective in both the Magallanes and Malvinas sub-basins. Using the sparse seismic available a number of leads have been identified (Leads 1 to 5).

Lead 1

This lead is a large tilted fault block shown in Figure 7 and has a vertical relief of 400m at the Regional Intra-Cretaceous marker level. The block appears to around 4km wide and an areal closure in the range 20-150km² may be expected. The main reservoir is expected to be the lower Cretaceous transgressive sands although additional pay may be found within upper Jurassic transgressive sands and late Cretaceous sands.

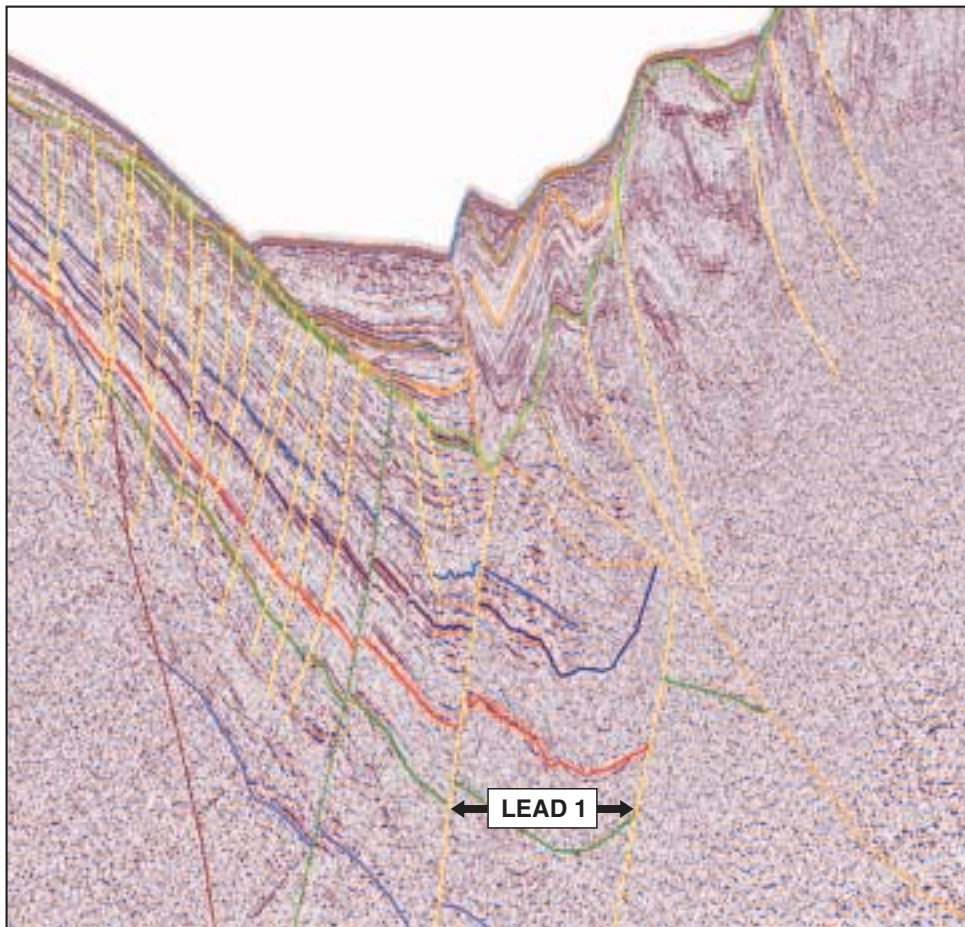


Figure 6—Seismic Line across Lead 1

	<u>Minimum</u>	<u>Most Likely</u>	<u>Maximum</u>
Area (km ²)	20	60	150
Net Pay (m)	10	20	50
Porosity (%)	14	20	26
HC saturation (%)	50	70	90
Formation Volume Factor	1.4	1.25	1.1
Recovery Factor (%)	21	30	39

Table 2 - Parameters for hydrocarbon volumetric calculation for Lead A

MONTE CARLO

Lead 1	STOIIP
Percentile	MMBbls
90%	612
50%	1258
10%	2,373
Lead 1	REC OIL
Percentile	MMBbls
90%	183
50%	380
10%	715

Table 3 - Probabilistic Volumetric Results Lead 1

Evidence from seismic suggests that the faults are both more widely spaced and have larger displacements than in the Magallanes sub-basin. This may imply that it is possible that larger individual structures may exist in this region of the Falklands Plateau sub-basin and hence a larger field size may be encountered.

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Scott Pickford has independently reviewed this lead and consider the key prospect risks to be reservoir presence and structural uncertainty due to the lack of Seismic coverage.

Four further leads of a similar type (Leads 2, 3, 4, and 5) have also been identified and are illustrated in Figure 7 although volumetric estimates for these leads have not been attempted at this time.

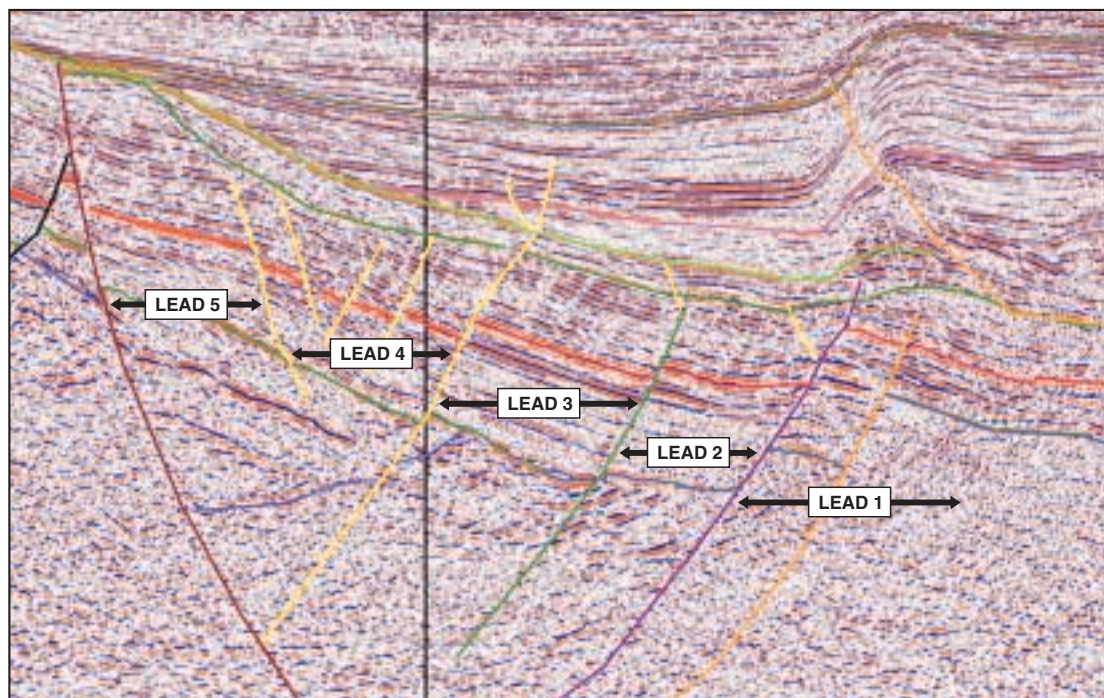


Figure 7—Seismic Line across Leads 2,3,4 and 5

Type 2. Late Cretaceous Growth Faults

A late Cretaceous growth fault system has been recognised along the western margin of the Falklands Plateau sub-basin (see Figure 8). These growth faults appear to sole out in to the top of the Aptian source thus providing a direct migration path. The proposed reservoir is reworked turbiditic sands caught up in the core of the growth faults. Evidence of well- developed topsets up-dip and localised slope failure of the shelf margin support the possible presence of turbidites in the deeper water part of the basin. The key prospect risk is likely to be reservoir presence. There is insufficient data available for delineation of prospect extent or size.

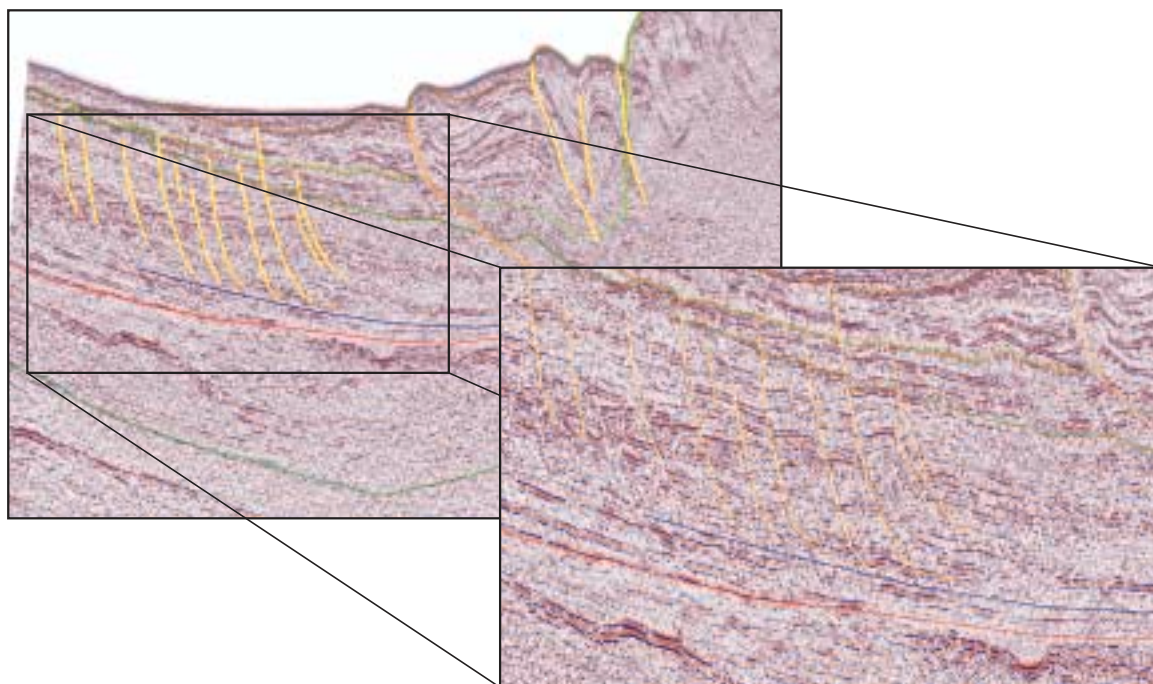


Figure 8—Seismic Line across the late Cretaceous Growth Fault play

Type 3. Frontal Folds

The compression associated with the formation of the North Scotian foldbelt caused several folds to be formed at a late stage on the leading edge of the belt. The folds do not appear to be highly faulted and offer the prospect of stacked multiple reservoirs of Tertiary to late Cretaceous clastics. Five separate fold trends can be recognised at present and these can be traced for distances of over 100km with an axial separation of between 2-6km. If a length-to-width aspect ratio of 3:1 is assumed then areal closures of up to 100km² could be expected.

Lead 6

This lead is a frontal fold cut by a late stage low angle thrust fault and is made more attractive by the possibility of stacked multiple pay zones. See Figure 9 The structure is an inverted depocentre with a good chance of reservoir development although the late timing of the structure may be a key risk with regards to hydrocarbon migration. This lead directly overlies Lead 1 (tilted fault block) and therefore both targets can easily be tested with the same well, see Figure 10.

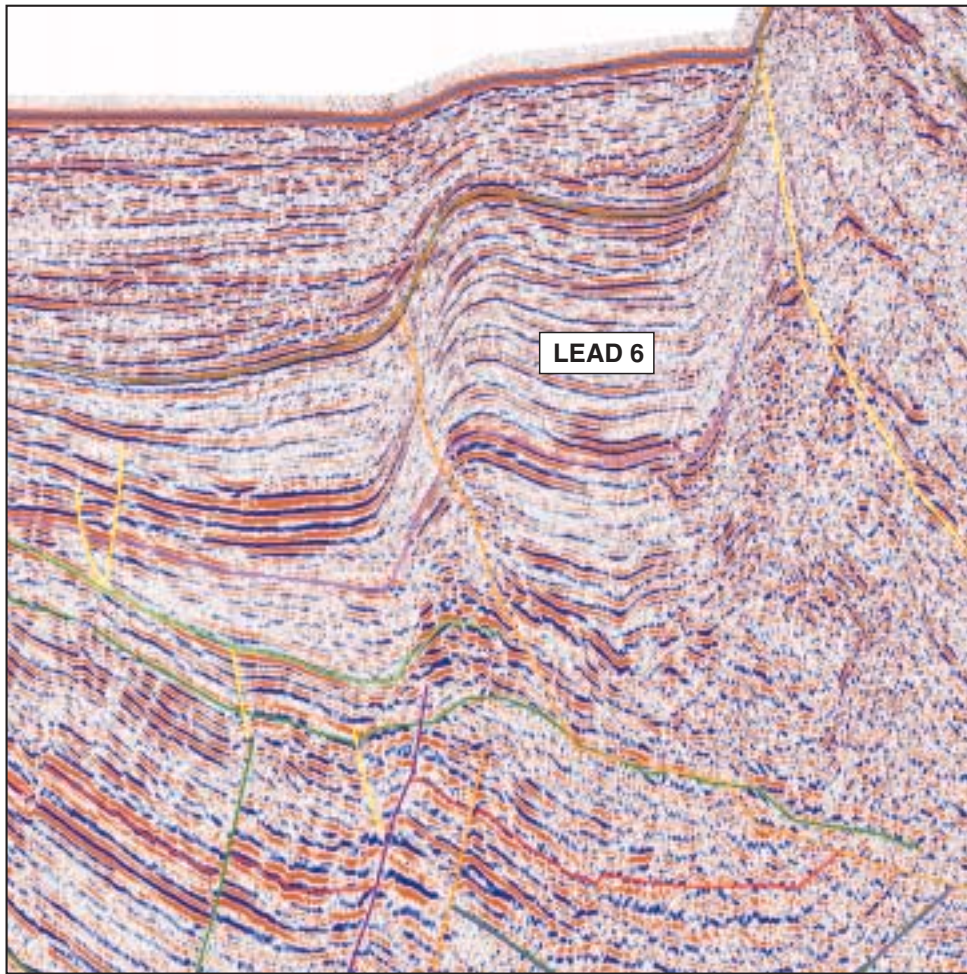


Figure 9—Seismic line across Lead 6

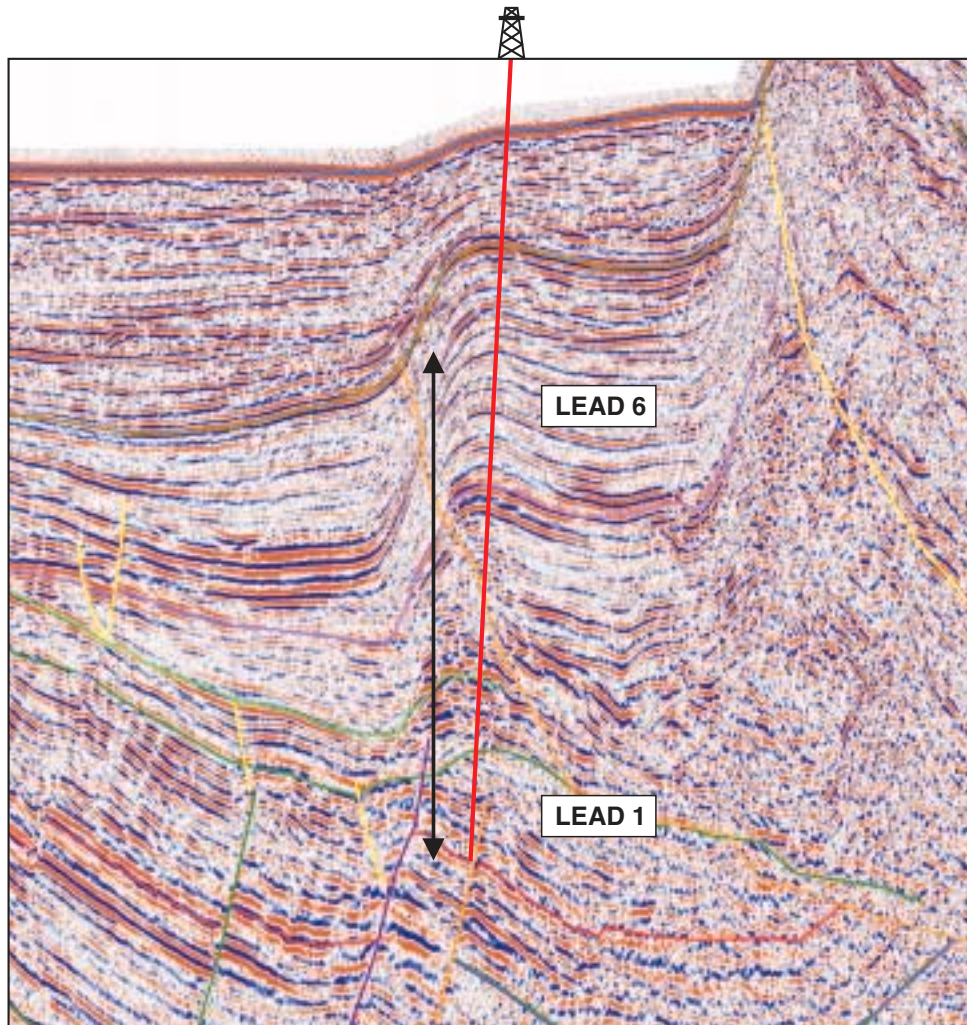


Figure 10—Possible multi target well aimed at Leads 1 and 6

	<u>P10</u>	<u>Most Likely</u>	<u>P90</u>
Area (km ²)	30	64	150
Net Pay (m)	10	30	50
Porosity (%)	22	25	28
HC saturation (%)	49	70	91
Formation Volume Factor	1.08	1.2	1.32
Recovery Factor (%)	21	30	39

Table 4 - Parameters for hydrocarbon volumetric calculations Lead 6

MONTE CARLO

Lead 6	STOIIP
Percentile	MMBbls
90%	1,139
50%	2103
10%	3,750

Lead 6	REC OIL
Percentile	MMBbls
90%	327
50%	616
10%	1,099

Table 5 - Probabilistic Volumetric Results Lead 6

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Scott Pickford has independently reviewed this lead and considers the main prospect risks to be charge, particularly migration timing and structural uncertainty due to the lack of Seismic coverage.

Type 4. North Scotian Thrust Belt

To the south of the frontal folds there is a region where traps consisting of ramp anticlines or sub-thrust plays may exist. The current dataset does not permit the mapping of individual leads. This play fairway lies in considerably shallower water (300 – 1100m) than either the frontal fold or tilted fault blocks, see Figure 11.

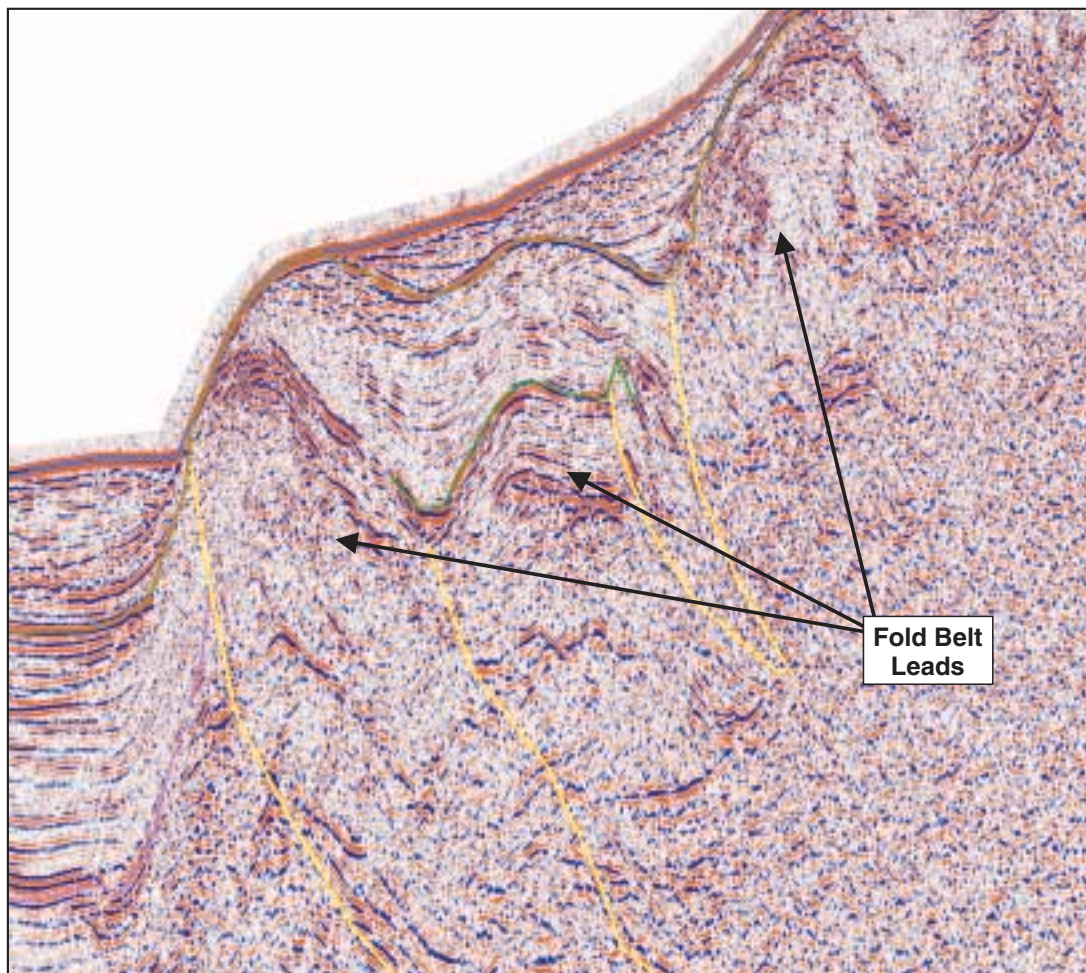


Figure 11—Seismic Line across the Fold Belt Leads

Type 5. Stratigraphic Traps

Potential stratigraphic traps may exist in several areas within the B&S acreage. None of these plays has yet been tested within the Falklands Plateau sub-basin and some remain highly speculative.

- I. Late Cretaceous to Tertiary. Proximal lapout of deep marine turbidite sands on to the southerly dipping “Unconformity A”.
- II. Lapout of basal Cretaceous transgressive sands on to the underlying Base Post Rift II surface in the saddle area between the Malvinas and Falkland Plateau sub-basins. The reservoir would consist of non-marine or paralic sands capped by offshore muds of the Post Rift II megasequence.
- III. Lapout of late Tertiary deep marine sands onto syn-depositional foldbelt structures. There is seismic evidence for possible ponding of turbiditic sands behind the evolving fold axes.
- IV. Up-dip lapout of late Cretaceous sands in the growth fault/ lower slope region. Although this is a common trapping geometry in many basins around the world it has yet to be tested here.
- V. Inverted ponded Tertiary deep marine clastics. Within the North Scotian foldbelt inversion of sedimentary depocentres into topographic highs has occurred. These plays may have stratigraphic as well as structural potential where sands lapout onto the flanks of the pre-inversion basin.

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3.9 Summary

Four principal play fairways have been identified within the Falklands Plateau sub-basin however due to the lack of drilling, none of these have been proved in the vicinity of the B&S acreage. The current seismic data coverage consists of a sparse 2D grid that is insufficient to enable the mapping of defined structures. Therefore at present only generic leads have been identified and the very large range in the size of the potential hydrocarbon volumes present within these leads is indicative of the lack of knowledge about them. The presence of a late Jurassic to early Cretaceous source rock has been proved by 2 DSDP wells in the Falklands Plateau sub-basin. This source rock contains many intervals rich in organic matter that would appear capable of generating significant volumes of hydrocarbons. This source rock appears to be more oil prone than the equivalent more gas prone interval present in the Magallanes and Malvinas sub-basins. Simple burial history modelling show that the top of this source rock interval is likely to be within the oil generation window within the B&S acreage and that over 100×10^9 bbls of oil could be available for trapping. The primary play fairway comprises late Cretaceous and Tertiary deep marine clastics within frontal folds and thrust structures on the northern flank of the North Scotian foldbelt. Trap types will comprise both fourway dip anticlines and ramp anticlines within the core of the main thrust complex. Lead 6 has been considered as an example of this play type and shows that although high risk these structures do have the potential to contain very large volumes of hydrocarbons.

The secondary play fairway comprises late Jurassic to early Cretaceous transgressive sands trapped in tilted fault blocks either immediately below or to the north of the North Scotian foldbelt. Lead 1 has been considered as representative of this play type. It is thought likely that individual traps will be larger than those found in the Magallanes and Malvinas sub-basins as the fault spacing and displacements appear much larger in this portion of the Falklands Plateau sub-basin. Therefore there is potential for very large volumes of hydrocarbons to be contained in traps of this play type.

There is potential for numerous other types of stratigraphic traps to be present in the area although the full understanding of these will require the acquisition of a much more extensive seismic database.

4. Conceptual Development

For the purposes of producing an indicative pre-tax value of a development in this basin we have selected Lead 6, as this possesses large potential volumes and can be drilled from a multi-target location, consequently it is the most attractive lead. We have devised a conceptual development scenario based upon a most likely production profile.

4.1 Capital Costs

In this exercise Scott Pickford has made conservative assumptions with regards to the costs of drilling and facilities. It may prove possible, as technology and experience develops, to make significant savings on the costs proposed however at this stage we consider it prudent to allow considerable contingency for developments in frontier acreage.

Exploration

Prior to planning an exploration program it will be necessary to define the structures by shooting seismic. It has been assumed that 2D seismic will be shot in 2005, costing some US\$ 5MM, followed in 2006 by 3D seismic costing some US\$ 15MM.

Following interpretation of the seismic data during 2005/6 an ultra deep water drilling rig will be mobilised, most probably from the Gulf of Mexico, although alternative sources such as Brazil and West Africa will be investigated. This rig will undertake a two well exploration program in 2007 with an option to drill up to a further 2 appraisal wells should exploration prove successful.

The cost of the exploration programme, including appraisal wells, coring/testing etc. is estimated at US\$ 74MM to which must be added a US\$ 30MM mobilisation/demobilisation charge making the total estimated cost of the exploration programme US\$ 104MM.

Field Development

The exploration programme is assumed to result in one discovery, with recoverable reserves of 616MMbbls, in 1,850m water depth.

Field developments in these water depths are at the limits of existing technology and have so far been limited to developments in the Gulf of Mexico. However, similar, ultra deep water developments, are currently being planned offshore Angola and there is therefore no reason to believe that development will not be practical in the Southern Falklands basin, despite the remote location.

The depth of the reservoir is, at this stage, is unknown. However, for the purposes of this evaluation, it has been assumed that the reservoir will be 2,500m sub seabed. This will enable the field to be developed by

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drilling highly deviated/horizontal sub-sea completed wells, tied back to three sub-sea production manifolds and one sub-sea water injection manifold all connected to a turret moored FPS with offshore loading to ocean going tankers via a CALM buoy.

Wells

Two drilling rigs will be mobilised/demobilised from the Gulf of Mexico at a total cost of US\$ 60MM. Alternative sources for rigs such as Brazil and West Africa will also be looked in to.

Based on a minimum practical well productivity of 10,000bbl/day the field will require a total of 36 wells, 24 producers and 12 water injectors. It is assumed that each well will take c.50 days to drill at a cost of US\$ 280,000/day. A break down of the estimated well costs is shown below:

	<u>US\$ MM Producer</u>	<u>US\$ MM Water Injector</u>
Drilling	14	14
Well Head	0.5	0.5
Tree	3.0	2.5
Casing, tubing etc.	1.5	1.5
Sub Total	19	18.5
Contingency	<u>6</u>	<u>6</u>
Totals	<u>25</u>	<u>24.5</u>

The total cost of drilling is therefore estimated at US\$ 954 MM or US\$ 1,000MM including mobilisation/demobilisation.

Sub-sea Equipment

Allow 4 x 12 slot manifolds including flowlines and umbilicals at US \$2.25MM/well slot making a total of US\$ 108MM or say US\$ 140MM including contingency.

Installation

Allow US\$ 10MM per well slot making a total of US\$ 360MM or US\$ 500MM including contingency.

FPS

The price of a similar, ultra deepwater, FPS offshore Brazil was recently published as US \$ 895MM. We have therefore assumed a cost of US\$ 0.95billion including contingency.

CALM buoy

An exposed location CALM Buoy for this water depth is expected to cost some US \$40MM or US\$ 50MM including contingency.

Shore Base

It is estimated that a shore bas, including accommodation for shore based staff and transit staff would cost of the order of US\$ 20MM.

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4.2 Capital Cost Summary

	<u>US\$ MM</u>
Seismic	20
Exploration / Appraisal	140
Development Wells	1,000
Sub-Sea Equipment	140
Installation	500
FPS	950
CALM Buoy	50
Operations Base	<u>20</u>
Total	<u>2,820</u>

The capital cost to develop the field is therefore US\$ 4.6 /bbl of technically recoverable reserves. This is higher than the equivalent ultra deep water developments in the GOM due primarily to the remote location and the length of the supply chain.

4.3 Operating Costs

Operating costs are dominated by the operating cost of the FPS and CALM Buoy, the well intervention costs and the operation of the Shore Base.

The operating cost of the FPS and CALM buoy are estimated to be in the range US \$50-60,000/ per day or some US\$ 22MM per year.

Assuming each well requires regular intervention by drilling rig for an average of 6 days per year the total cost for well work over would be of the order of US\$ 30MM per year. However, due to the remoteness of the area and to avoid multiple mobilisation/demobilisations it is assumed that a rig will be held permanently in the area at a cost of about US\$ 70MM per year.

Due to the remoteness of the area the operation of the Shore Base, including logistics support, insurance and Head Office costs could add an additional US\$ 25 MM per year to the operating cost.

Allowing for a 30% contingency the operating costs are summarised below:

	<u>US\$ MM</u>
FPS CALM Buoy	30
Wells	70
Operations Base	<u>35</u>
Total	<u>135</u>

The total annual operating cost is therefore in the range US\$ 2 per barrel recovered at plateau, and US\$ 3.7 /bbl actually recovered over the life of the field.

4.4 Economics

The pre tax economics have been evaluated using the CAPEX and OPEX described above and a US\$25/barrel oil price at the CALM Buoy.

In un-escalated 2004 US\$ the project generates a pre tax positive Net Present Value of US\$ 3,052MM when discounting future cash flows at 10%. Increasing the discount factor to 15% reduces the Net Present Value to US\$ 2,564MM as shown in the table below.

Post tax values, calculated after deducting Royalty at 9% and Corporation Tax at 25%, reduce the Net Present Values to a positive US\$ 2,047MM when discounting future cashflows at 10% and a positive US\$ 1,662MM when discounting future cashflows at 15%.

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The sensitivities evaluated are shown in Table 7 below.

Oil Price \$/BBL	20	25	30
NPV@10% (US\$ MM)	1277	2047	2818
CAPEX			
CAPEX % Change	-30	0	30
NPV@10% (US\$ MM)	2527	2047	1568
OPEX			
OPEX % Change	-30	0	30
NPV@10% (US\$ MM)	2224	2047	1871

Table 7 - Project Sensitivities effect on Value

5. Forward Work Programme

2,500km of 2D seismic data is currently being acquired across the five licences. This data will be supplemented with the purchase of lines from the 1977 Western Geophysical regional seismic survey. These lines will be purchased specifically to tie to the DSDP wells. Similarly in order to tie to the critical Salmon-2x well in the Malvinas sub-basin key lines from the Spectrum 1997 Joint Development Area survey will be purchased. Further more sophisticated burial history and thermal modelling studies will be undertaken to more fully understand the maturation history of the late Jurassic to early Cretaceous source system.

6. Professional Qualifications

This valuation was carried out by Scott Pickford Limited. Scott Pickford Limited is a consultancy specialising in geology, geophysics, petrophysics, petroleum engineering and economic analyses. Scott Pickford Limited began undertaking reserves reporting and valuation functions in 1996 and all its personnel involved in such exercises have at the very minimum a first degree in geoscience or petroleum engineering and many have masters degrees or doctorates. All personnel have a minimum of five years relevant valuation experience and in the case of the senior project leaders involved in this exercise this period exceeds ten years. Neil Oates as Head of Valuations is fully authorised by Scott Pickford Limited to supervise and sign off valuation reports on its behalf. Except for the provision of professional services on a fee basis, Scott Pickford Limited and its employees has no commercial arrangement with any person or company involved in the interests that are the subject of this report.

Yours faithfully,

Neil K. Oates, BSc (Mining Geology, University of Nottingham), Ph.D (Geology Department (Engineering Geology), University of Aston-in-Birmingham). Member of the Petroleum Exploration Society of Great Britain.

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Appendix A — Definitions

Definitions used in this report are as follows.

“/d, pd, PD”	means per day
“API”	means American Petroleum Institute units of specific gravity of liquid hydrocarbon
“bbl”	means barrel(s)
“bopd”	means barrels of oil produced per day
“DHI”	means direct hydrocarbon indicator
“DSDP”	Deep Sea Drilling Project
“FPSO”	means Floating Production, Storage and Offtake vessel
“FWHP”	means flowing wellhead pressure
“GOC”	means gas-oil-contact
“GOR”	means gas:oil ratio
“GRV”	means gross rock volume
“GWC”	means gas-water-contact
“Hydrocarbon”	means oil and/or gas and/or condensate
“Kr”	means relative permeability
“Lead”	means a structure that requires further technical appraisal prior to a decision to drill or not
“M”, “MM”, “B”	means thousands, millions, billions (thousand million) respectively
“mybp”	means millions of years before present
“NR”	means Net Revenue Interest
“NPV”	means Net Present Value and is the total present value of a series of cash flows discounted at a specified rate, to a specified date.
“ODT”	means oil-down-to
“OWC”	means oil-water-contact
“P10”	means 10% probability that value will be equal to or greater than stated value. Note that where indicative STOIP and reserve volumes are mentioned these are probabilities of volume size <i>if any hydrocarbons are encountered</i>
“P50”	means 50% probability that value will be equal to or greater than stated value. Note that where indicative STOIP and reserve volumes are mentioned these are probabilities of volume size <i>if any hydrocarbons are encountered</i>
“P90”	means 90% probability that value will be equal to or greater than stated value. Note that where indicative STOIP and reserve volumes are mentioned these are probabilities of volume size <i>if any hydrocarbons are encountered</i>
“PPL”	Petroleum Production Licence
“Prospect”	means a structure that has been technically evaluated to a state where it is ready to be drilled
“PSC”	Production Sharing Contracts
“PTD”	Means Proposed Total Depth
“PVT”	means pressure - volume - temperature
“RCI”	Formation Pressure Testing Tool (Baker Atlas)

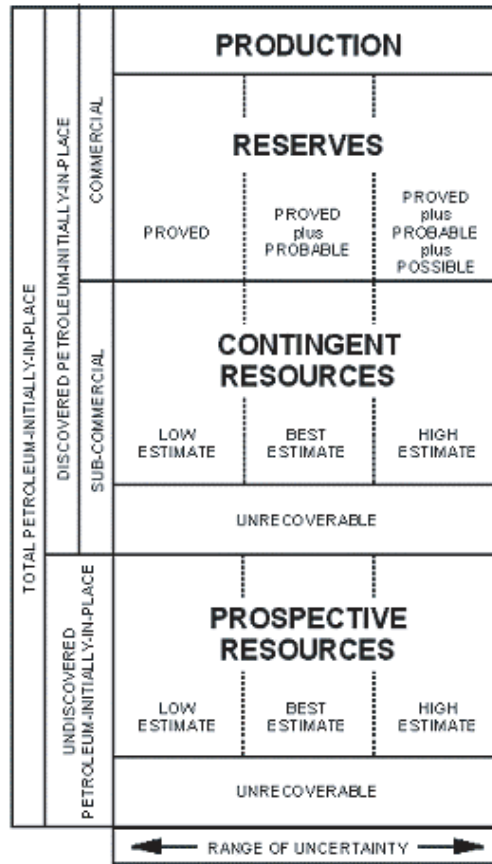
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“Reserves”	means potential volume of hydrocarbon that could be commercially produced from a field. Note that all reserves presented in this report are conceptual. Formal reserves cannot be attributed to the prospects at this stage of exploration since the existence of commercially developable hydrocarbon accumulations is conceptual. In all of the prospects there is uncertainty about reservoir presence and quality, hydrocarbon presence and, on the assumption that hydrocarbons are found, their type and the potential well deliverability
“Resources”	means those volumes of hydrocarbons either yet to be found (prospective) or if found the development of which depends upon a number of factors being resolved (contingent)
“RMS”	means root mean squared
“Sw”	means water saturation (compliment of hydrocarbon saturation)
“s”, “scf”, “SCF”	means standard cubic feet (of gas)
“SPE”	means Society of Petroleum Engineers
“stb”, “STB”	means stock tank barrel(s) measured at 14.7 psia and 60 Fahrenheit
“STOIIP”	means stock tank volume of oil initially-in-place, i.e. prior to production
“TOC”	means total organic carbon
“tvdss”	means true vertical depth sub sea
“Vsh”	means volume of shale
“WI”	means Working Interest
“WPC”	means World Petroleum Congress

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Reserve and Resource Definitions

The diagram below illustrates the different reserve and resource categories as defined by the SPE and adhered to in this report.



Given below are brief definitions of the main reserve and resource categories, fuller definitions can be found on the Society of Petroleum Engineers (SPE) website (www.spe.org)

Proved Reserves

Based on the available evidence and taking into account technical and economic factors these reserves will have a better than 90 percent chance of being produced.

Probable Reserves

Based on the available evidence and taking into account technical and economic factors these reserves will have a better than 50 percent chance of being produced.

Possible Reserves

Based on the available evidence and taking into account technical and economic factors these reserves will have a better than 10 percent chance of being produced.

Contingent Resources

Volumes of hydrocarbon that are potentially recoverable from a known accumulation subject to the formulation of an economic development scheme.

Prospective Resources

The potential volume of hydrocarbon that could be commercially produced from an as yet undiscovered field.

Part IV — Financial Information



BDO Stoy Hayward
Chartered Accountants

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The Directors
Borders & Southern Petroleum Plc
3 Cophall Avenue
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EC2R 7BH

18 May 2005

The Directors
Insinger de Beaufort
131 Finsbury Pavement
London
EC2A 1NT

Dear Sirs

Borders & Southern Petroleum Plc (“the Company”)

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 18 May 2005 of the Company (“the Admission Document”).

The Company was incorporated on 8 June 2004.

Basis of preparation

The financial information set out below is based on the non-statutory accounts of the Company for the period from 8 June 2004 to 28 February 2005, to which no adjustments were considered necessary.

Responsibility

The non-statutory accounts of the Company are the responsibility of the directors of the Company and have been approved by them.

The directors of the Company are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the financial information set out in our report, 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 Statements 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 non-statutory accounts underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the non-statutory accounts 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.

Part IV — Financial Information

Opinion

In our opinion the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Company as at 28 February 2005 and of its loss for the period then ended.

Consent

We consent to the inclusion in the Admission Document of this report and accept responsibility for the report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Financial Information

Accounting policies

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Depreciation

Property, plant and equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated on the straight line method to write off the cost of assets less their estimated residual values over their expected useful lives. The annual rates used are:

Property, plant and equipment -33 $\frac{1}{3}$ % straight line

Assets are depreciated from the date of acquisition.

Foreign currency

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. Monetary assets and liabilities at the period-end are translated at closing exchange rates.

Deferred tax

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Deferred exploration costs

All costs associated with oil exportation are capitalised on a project-by-project basis, pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general overheads. If an exploration project is successful, the related expenditures will be transferred to drilling assets and amortised over the estimated life of the commercial reserves. Where a licence is relinquished, a project is abandoned, or is considered to be of no further commercial value to the Company, the related costs are written off.

Decommissioning costs

Licencees are normally required to restore sites at the end of their producing lives to a condition acceptable to the relevant authorities. The expected cost of any committed decommissioning or restoration programme, discounted to its net present value, is provided and capitalised at the time a project's cumulative exploration expenditures are recognised as a drilling asset. The capitalised cost is amortised over the life of the operation and the increase over time in the net present value of the provision for the expected cost is included with interest payable and similar items.

Part IV — Financial Information

Impairment tests

When there is an indication that the value of an asset may be impaired, the net amount at which the asset is recorded is assessed for recoverability against the discounted future estimated net cash flows expected to be generated from the estimated remaining commercial reserves. The assessment is made on the basis of future oil prices, exchange rates and cost levels as forecast at the balance sheet date. A provision is made by way of an additional depreciation charge, where the carrying value of the asset exceeds the discounted future net cash flows to be derived from its estimated remaining commercial reserves.

Profit and loss account

	Notes	Period ended 28 February 2005 £
Administration expenses		(83,831)
Operating loss		(83,831)
Interest receivable		4,000
Loss for the period before and after taxation	3, 11	<u>(79,831)</u>
Loss per share		
Basic	4	<u>(0.2)p</u>

All amounts relate to continuing activities.

There are no recognised gains or losses for the period, other than the loss for the period.

Balance sheet

	Notes	As at 28 February 2005 £
Fixed assets		
Tangible assets	5	15,293
Exploration and evaluation expenditure	6	<u>316,331</u>
		<u>331,624</u>
Current assets		
Debtors	7	16,568
Cash at bank and in hand		<u>1,008,792</u>
		1,025,360
Creditors: amounts falling due within one year	8	<u>(702,043)</u>
Net current assets		<u>323,317</u>
Total assets less current liabilities		654,941
Provisions for liabilities and charges	9	<u>(82,272)</u>
Net assets		<u>572,669</u>
Capital and reserves		
Called up share capital	10	652,500
Profit and loss account	11	<u>(79,831)</u>
Shareholders' funds – equity	12	<u>572,669</u>

Part IV — Financial Information

Cash flow statement

	Notes	£	Period ended 28 February 2005 £
Net cash outflow from operating activities	13		(52,656)
Returns on investments and servicing of finance			
Interest received			4,000
Capital expenditure			
Payments to acquire tangible fixed assets		(16,993)	
Exploration and evaluation expenditure		<u>(234,059)</u>	
			(251,052)
Financing			
Issue of ordinary shares			<u>1,308,500</u>
Increase in cash			<u><u>1,008,792</u></u>

Part IV — Financial Information

Notes to the consolidated financial information

1 *Employees*

	Period ended 28 February 2005 £
Staff costs (including directors) consist of:	
Wages and salaries	11,036
National insurance	<u>133</u>
	<u>11,169</u>

The average number of employees (including directors), during the period was 2.

2 *Directors' remuneration*

	Period ended 28 February 2005 £
Directors' emoluments	<u>10,000</u>

3 *Taxation*

The Company has a potential deferred tax asset of £23,900 due to the losses made in the period. This has not been recognised as recovery is dependent upon future profitability, the timing of which is currently uncertain.

4 *Loss per share*

The basic and diluted loss per share is calculated by reference to the loss for the period of £79,831 and the weighted average number of ordinary shares in issue during the period of 40,143,396.

5 *Tangible assets*

	Property, plant and equipment £
<i>Cost</i>	
At incorporation	—
Additions	<u>16,993</u>
At 28 February 2005	<u>16,993</u>
<i>Depreciation</i>	
At incorporation	—
Charge for the period	<u>1,700</u>
At 28 February 2005	<u>1,700</u>
<i>Net book value</i>	
At 28 February 2005	<u>15,293</u>

Part IV — Financial Information

6 Intangible assets

	Exploration and evaluation expenditure £
<i>Cost</i>	
At incorporation	—
Additions	316,331
At 28 February 2005	<u>316,331</u>
<i>Amortisation</i>	
At incorporation	—
Charge for the period	—
At 28 February 2005	<u>—</u>
<i>Net book value</i>	
At 28 February 2005	<u>316,331</u>

7 Debtors

	As at 28 February 2005 £
Prepayments	3,500
Other debtors	13,068
	<u>16,568</u>

8 Creditors: amounts falling due within one year

	As at 28 February 2005 £
Proceeds from fund raising received in advance	656,000
Trade creditors	23,817
Accruals and deferred income	22,226
Taxation and social security	—
	<u>702,043</u>

9 Provisions for liabilities and charges

	As at 28 February 2005 £
Demobilisation costs – charged in period and balance carried forward	<u>82,272</u>

10 Share capital

	Authorised	Allotted, called up and fully paid
Ordinary shares of £0.01 each (number)	750,000,000	65,250,000
Ordinary shares of £0.01 each (£)	<u>7,500,000</u>	<u>652,500</u>

The Company was incorporated with authorised share capital of £7.5 million divided into 750 million ordinary shares of £0.01 each. On incorporation, 2 ordinary shares of £0.01 each were issued at par.

On 22 June 2004, a further 9,999,998 ordinary shares of £0.01 each were issued at par for cash.

On 29 September 2004, a further 53,250,000 ordinary shares of £0.01 each were issued at par for cash.

On 11 February 2005, a further 2,000,000 ordinary shares of £0.01 each were issued at par for cash.

Part IV — Financial Information

11 Reserves

	Profit and loss account £	Total £
At incorporation	—	—
Loss for the period	(79,831)	(79,831)
At 28 February 2005	<u>(79,831)</u>	<u>(79,831)</u>

12 Reconciliation of movement in shareholders' funds

	As at 28 February 2005 £
At incorporation	—
Issue of shares (net of costs of £Nil)	652,500
Loss for the period	(79,831)
	<u>572,669</u>

13 Reconciliation of operating loss to net cash outflow from operating activities

	Period Ended 28 February 2005 £
Operating loss	(83,831)
Depreciation of tangible fixed assets	1,700
Increase in debtors	(16,568)
Increase in creditors	46,043
	<u>(52,656)</u>

14 Capital commitments

Commitments under operating leases

The Company had annual commitments under non-cancellable operating leases as set out below:

	Period ended 28 February 2005 Buildings £
Operating leases which expires:	
Within one year	17,500
In two to five years	—
After five years	—
	<u>17,500</u>

Commitments under licences

The Company must reprocess approximately 750 kilometres of 2D seismic data within the licence areas within the first 12 months.

15 Post balance sheet events

On 5 April the Company issued 12,437,500 ordinary shares for cash at 16p per share.

16 Contingent liabilities

The Company is responsible for any costs that may arise as a result of any oil spillage that occurs from work performed by the Company. The Directors have not been notified of any such claim.

Yours faithfully

BDO Stoy Hayward LLP
Chartered Accountants

Part V — Pro Forma Statement of Net Assets

The following unaudited pro forma statement of consolidated net assets has been prepared to illustrate the effect on the net assets of the Company as if the subscription for 12,437,500 Ordinary Shares and the Placing had taken place on 28 February 2005. The pro forma statement is based on the unaudited balance sheet of the Company as at 28 February 2005. This statement is for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Company.

	Company as at 28 February 2005 Note 1 £	Subscription Note 2 £	Adjustments Placing Note 3 £	Pro forma £
Fixed assets				
Tangible assets	15,293	—	—	15,293
Exploration and evaluation expenditure	<u>316,331</u>	<u>—</u>	<u>—</u>	<u>316,331</u>
	<u>331,624</u>	<u>—</u>	<u>—</u>	<u>331,624</u>
Current assets				
Debtors	16,568	—	—	16,568
Cash at bank and in hand	<u>1,008,792</u>	<u>1,249,200</u>	<u>9,134,000</u>	<u>11,391,992</u>
	1,025,360	1,249,200	9,134,000	11,408,560
Creditors: amounts falling due within one year	<u>(702,043)</u>	<u>656,000</u>	<u>—</u>	<u>(46,043)</u>
Net current assets	<u>323,317</u>	<u>1,950,200</u>	<u>9,134,000</u>	<u>11,362,517</u>
Total assets less current liabilities	654,941	1,950,200	9,134,000	11,694,141
Provisions for liabilities and charges	<u>(82,272)</u>	<u>—</u>	<u>—</u>	<u>(82,272)</u>
Net assets	<u>572,669</u>	<u>1,950,200</u>	<u>9,134,000</u>	<u>11,611,869</u>

Notes:

1. The net assets of the Company at 28 February 2005 have been extracted from the Accountants' Report set out in Part IV of this document. The adjustments comprise:
2. The subscription for 12,437,500 Ordinary Shares at 16p per share that took place between February and April 2005 raising £1,950,200 (net of expenses) for the Company. £656,000 of this was received in advance of 28 February 2005 and was included in creditors in the balance sheet as at 28 February 2005. The adjustment above transfers this amount out of creditors and into share capital.
3. The Placing of 50,000,000 Ordinary Shares raising £9,134,000 (net of expenses) for the Company.
4. No adjustments have been made to reflect the trading results of the Company since 28 February 2005.

Part VI — Additional Information

1. Incorporation and Status of the Company

The Company was incorporated in England and Wales on 8 June 2004 with registered number 05147938 as a public company with limited liability under the Act. On 2 July 2004, the Company obtained a certificate pursuant to section 117 of the Act entitling it to trade and do business. The liability of the members of the Company is limited.

2. Share capital of the Company

- (a) The Company was incorporated with an authorised share capital of £7,500,000 divided into 750 million Ordinary Shares. On incorporation, 2 Ordinary Shares were issued at par to the subscribers to the Company's memorandum of association (the "Memorandum").
- (b) On 22 June 2004, a further 9,999,998 Ordinary Shares were issued at par for cash. On 29 September 2004, a further 53,250,000 Ordinary Shares were issued at par for cash. On 11 February 2005, a further 2,000,000 Ordinary Shares were issued at par for cash.
- (c) As part of a private placement by the Company between February and April 2005, a further 12,437,500 Ordinary Shares were issued at 16p per share for cash. 4,483,750 of such Ordinary Shares were issued by the Company pursuant to subscription agreements, details of which are set out in paragraph 7 of this Part VI.
- (d) The authorised and issued share capital of the Company immediately following Admission will be as follows:

Authorised share capital		Issued share capital	
£	Number of Ordinary Shares	£	Number of Ordinary Shares
7,500,000	750,000,000	1,276,875	127,687,500

- (e) At an Extraordinary General Meeting of the Company held on 16 May 2005 the members of the Company passed the following resolutions:
 - (i) generally and unconditionally to authorise the Directors, until the conclusion of the Company's next annual general meeting, to allot relevant securities in accordance with section 80 of the Act up to an aggregate nominal amount of £1,600,000;
 - (ii) to empower the Directors, until the conclusion of the Company's next annual general meeting, pursuant to section 95 of the Act, to allot equity securities in connection with an issue of securities in favour of the holders of Ordinary Shares in proportion (as nearly as may be practicable) to their respective holdings of Ordinary Shares and otherwise for cash up to an aggregate nominal amount of £1,090,000 pursuant to the authority referred to in the above sub-paragraph (b)(i); and
 - (iii) to amend the Company's objects clause in its memorandum of association and to adopt new articles of association (the "New Articles") (as described below).
- (f) The provisions of Section 89 of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are paid up in cash) apply to the authorised but unissued share capital of the Company except to the extent disapplied by the resolution referred to in sub-paragraph (e)(ii) above.
- (g) The Placing Shares in issue following Admission will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after Admission on the Ordinary Shares.
- (h) Save as disclosed in this document, no share or loan capital of the Company is proposed to be issued or is under option or is the subject of an agreement, conditional or unconditional, to be put under option.
- (i) The New Articles permit the Company to issue shares in uncertificated form. Application will be made for the Ordinary Shares to be admitted to CREST on Admission.

3. Memorandum and Articles of Association

The Memorandum provides that inter alia its principal objects are:

- (a) To carry on the business of exploring and searching for, prospecting, examining and developing in any and all ways, petroleum, natural gas and related hydrocarbons or any of them and in connection

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therewith to acquire by purchase, lease, assignment, participation arrangements, concessions, joint venture or otherwise howsoever oil, natural gas or related hydrocarbon permits, leases, rights and concessions of all kinds;

- (b) To carry on the business of drilling in any and all ways of petroleum, natural gas and related hydrocarbons or any of them and in connection therewith to acquire by purchase, lease, assignment, participation arrangement, concession, joint venture or otherwise howsoever oil, natural gas or related hydrocarbon permits, leases, rights and concessions of all kinds;
- (c) To carry on the business of producing, refining, processing, buying selling, importing, exporting, manufacturing, storing, preparing, transporting, supplying, marketing and generally dealing in all kinds of petroleum, petroleum products or natural gas; and
- (d) To carry on the business of operating pipelines and transmission systems for the transmission of oil and natural gas or any of them.

Its objects are set out in full in clause 4 of the Memorandum.

The New Articles include provisions to the following effect:

(a) *Voting Rights*

Every member present in person or by proxy at a general meeting has upon a show of hands one vote, and every member present in person or by proxy has upon a poll one vote for every share held by that member. A duly authorised representative of a corporate member may exercise the same powers on behalf of the corporation as it could exercise if it were an individual member.

(b) *Alteration of Capital*

The Company may by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate and divide all of any of its share capital into shares of higher nominal value;
- (iii) subdivide all or any of its share capital into shares of lower nominal value; and
- (iv) cancel any shares which have not at the date of the ordinary resolution been taken or agreed to be taken by any person and diminish the amount of its authorised share capital by an amount equal to the nominal value of the shares so cancelled.

Subject to the requirements of the Act the Company may by special resolution reduce its share capital or the amount standing to the credit of any capital redemption reserve or share premium account or any other distributable reserve in any manner.

(c) *Variation of Rights*

If the share capital of the Company is divided into more than one class of shares, the rights attached to any such class of shares may be varied either with the prior consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the relevant class. At any such separate class meeting all the provisions of the Articles relating to general meetings of the Company shall apply, save that the necessary quorum is two persons holding or representing by proxy not less than one third in nominal value of the issued shares of the relevant class (but at any reconvened of any such class meeting which shall have been adjourned, the necessary quorum is any one person holding shares of the class or that person's proxy) and that any holder of shares of the class present in person or by proxy may demand a poll (and any such holder shall be entitled on a poll to one vote for each share of the relevant class of shares held by him).

(d) *Purchase of Own Shares*

The Company may, subject to the requirements of the Act, purchase its own shares.

(e) *Transfer of Shares*

Any Member may transfer all or any of the shares held by that member by an instrument of transfer in writing and in any usual form.

The instrument of transfer of the shares shall be signed by or and on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The Board may refuse to recognise any instrument of

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transfer unless it is in respect of only one class of shares, has been duly stamped and is accompanied by the share certificate to which it relates and such other evidence as the Board may reasonably require.

The Board may also refuse to register a transfer of a share which is not fully paid up (provided that such discretion may not be exercised in such a way as to prevent dealings in the shares from taking place on an open and proper basis) or the transfer of a share to more than four persons as joint holders, or the transfer of any share on which the Company shall have a lien

(f) *Dividends and other distributions*

The Company may from time to time by ordinary resolution declare dividends not exceeding the amount recommended by the Board. Subject to the Act, the Board may authorise the payment of an interim dividend and of any dividend which is payable at a fixed rate, if justified by the level of profit of the Company available for distribution. Unless and to the extent that the rights attaching to or the terms of issue of any shares otherwise provide, all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion of the period in respect of which the dividend is paid. The Company is entitled to forfeit any dividend unclaimed after not less than 12 years from the date of the declaration of such dividend or other moneys and on such forfeiture such dividend shall belong to the Company.

(g) *Directors*

The maximum number and minimum number respectively of the Directors may be determined from time to time by ordinary resolution of the Company. Subject to and in default of any such determination there shall be no maximum number of Directors and the minimum number of Directors shall be two. The Directors shall be required to retire by rotation.

The office of a Director shall be vacated if, inter alia, he becomes incapable by reason of illness or injury of managing and administering his property and affairs.

A Director may vote, at any meeting of the Directors or of any committee of the Directors, on any resolution, notwithstanding that it in any way concerns or relates to a matter in which he has, directly or indirectly, any kind of interest whatsoever, and if he shall vote on any such resolution as aforesaid his vote shall be counted; and in relation to any such resolution he shall (whether or not he shall vote on the same) be taken into account to calculating the quorum present at the meeting.

(h) *Borrowing Powers*

Subject to the following and to the provisions of the Act, the Directors may exercise all the powers of the Company to borrow money without the limit as to amount and upon such terms and in such manner as they think fit, and to grant any mortgage, charge or standard security over its undertaking, property and uncalled capital, or any part thereof, and to issue debentures, debenture stock, and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

(i) *Distribution of assets on winding up*

If the company is wound up, the liquidator may, with the sanction of an extraordinary resolution of the company and any other sanction required by the Act, divide among the members in specie the whole or any part of the assets of the company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he with the like sanction determines, but no member shall be compelled to accept any assets upon which there is a liability.

(j) *Redeemable Shares*

The Company may by special resolution create and sanction the issue of shares which are, or at the option of the Company or holder are, liable to be redeemed subject to and in accordance with the provisions of the Act.

4. Directors' and Other Interests

- (a) The interests of the Directors and their immediate families (all of which are beneficial unless otherwise stated) in the issued share capital of the Company which have been notified to the Company pursuant to Section 324 and 328 of the Act (or are required to be disclosed in the Register of Directors' interests pursuant to Section 325 of the Act) or which would, if the connected person were a Director, be required to be disclosed in accordance with the foregoing, and the existence of which is known to or

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could with reasonable diligence be ascertained by that Director, as at the date of this document and as expected to be immediately following Admission are as follows:

Name	Number of Existing Shares	% of Existing Shares	Number of Ordinary Shares immediately following Admission	% of Enlarged Share Capital
Stephen Posford	25,000,000	32.18%	25,000,000	19.58%
Harry Dobson*	25,000,000	32.18%	25,000,000	19.58%
Howard Obee	10,000,000	12.87%	10,000,000	7.38%
Peter Fleming	2,000,000	2.57%	2,200,000	1.72%
Nigel Hurst-Brown	1,000,000	1.24%	1,000,000	0.78%

* The Ordinary Shares in which Harry Dobson is interested are held by Zila Corporation, a company owned by the Whitmill Trust Company as trustee of The Lotus Trust of which Mr. Dobson is a beneficiary.

- (b) In addition to the interests of the Directors set out in paragraph 4(a) above, the Directors are aware of the following interests (within the meaning of Part VI of the Act) in the Ordinary Shares which, immediately following Admission, would amount to 3% or more of the Enlarged Share Capital:

Name	Number of Ordinary Shares following Admission	% of Enlarged Share Capital
Zila Corporation*	25,000,000	19.58%

* 5,000,000 of the Ordinary shares held by Zila Corporation are registered in the name of Valerie Huxley, who holds such shares as nominee for Zila Corporation.

- (c) So far as the Directors are aware, save as disclosed in paragraphs 4(a) and (b) above, there are not any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

5. Directors' Service Agreements/Letters of Appointment

- (a) The terms of the Directors' service agreements or letters of appointment are summarised below:
- (i) Howard Obee entered into a service agreement with the Company dated 18 May 2005 under which Mr Obee agreed to act as Chief Executive. Mr Obee receives an annual salary of £60,000. The Company may pay a bonus of such amount at such times and subject to such conditions as the Remuneration Committee may in its absolute discretion decide. In addition to termination for cause, either party may terminate Mr Obee's employment by giving the other not less than six months' notice in writing. Mr Obee is entitled to 25 working days paid holiday per calendar year. He is subject to restrictions concerning the ownership of intellectual property rights and subject to duties of confidentiality and non-competition covenants;
 - (ii) Peter Fleming entered into a service agreement with the Company dated 18 May 2005 under which Mr Fleming agreed to act as Finance Director. Mr Fleming receives an annual salary of £20,000. The Company may pay a bonus of such amount at such times and subject to such conditions as the Remuneration Committee may in its absolute discretion decide. In addition to termination for cause, either party may terminate Mr Fleming's employment by giving the other not less than three months' notice in writing. Mr Fleming is entitled to 6.5 working days paid holiday per calendar year. He is subject to restrictions concerning the ownership of intellectual property rights and subject to duties of confidentiality;
 - (iii) Harry Dobson entered into an agreement with the Company dated 18 May 2005 under which Mr Dobson agreed to act as Chairman. Mr Dobson will not at present receive an annual fee. The appointment will continue until Mr Dobson comes to retire by rotation under the New Articles and thereafter is terminable by him or the Company upon giving notice of at least one month;
 - (iv) Nigel Hurst-Brown entered into an agreement with the Company dated 18 May 2005 under which Mr Hurst-Brown agreed to act as a Non-Executive Director. Mr Hurst-Brown will not at present receive an annual fee. The appointment will continue until Mr Hurst-Brown comes to retire by rotation under the New Articles and thereafter is terminable by him or the Company upon giving notice of at least one month;
 - (v) Stephen Posford entered into an agreement with the Company dated 18 May 2005 under which Mr Posford agreed to act as a Non-Executive Director. Mr Posford will not at present receive an annual fee. The appointment will continue until Mr Posford comes to retire by rotation under the New Articles and is therefore terminable by him or the Company upon giving at least one month.

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- (b) Save as disclosed above, there are no service contracts in existence between any Director and the Company which cannot be determined by the Company without payment of compensation (other than statutory compensation) within one year and none of the service contracts referred to in this paragraph have been amended in the last six months.
- (c) The aggregate remuneration and benefits in kind paid by the Company to the Directors in respect of the period since incorporation of the Company is £nil (£10,000 has been accrued for the period). It is estimated that under arrangements currently in force (including amounts accrued but currently unpaid), the aggregate remuneration and benefits in kind to be paid to the Directors for the financial period ending 30 June 2005 will be approximately £36,667.

6. Additional Information on the Directors

- (a) In addition to directorships of the Company, the Directors hold or have held the following directorships or have been partners in the following partnerships within the five years prior to the date of this document:

Directors	Current Directorship/Partnerships	Past Directorships/Partnerships
Harry Dobson	Rambler Metals and Mining plc Mountain Province Diamonds Inc. Ovoca Resources Plc Rambler Mines Limited Kirkland Lake Gold Inc.	Lytton Minerals Limited American Pacific Mining Company Limited
Howard Obee	Coverdale Lodge Limited	—
Peter Fleming	—	—
Stephen Posford	—	—
Nigel Hurst-Brown	Hotchkis and Wiley (UK) Limited Hotchkis and Wiley Capital Management LLC The Strath Halladale Partnership The Sainn Partnership	Romsey Publishing Group Limited

- (b) None of the Directors has:
- (i) any unspent convictions in relation to indictable offences;
 - (ii) had any bankruptcy order made against him or entered into any voluntary arrangements;
 - (iii) been a director of a company which has been placed in receivership, compulsory liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;
 - (iv) been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
 - (v) been the owner of any assets or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
 - (vi) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or
 - (vii) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a Company.
- (c) Save as disclosed in this document, no Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company and which was effected by the Company and remains in any respect outstanding or unperformed.
- (d) No loans made or guarantees granted or provided by the Company to or for the benefit of any Director are outstanding.

Part VI — Additional Information

7. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company within the period of two years immediately preceding the date of this document and are, or may be, material:

(a) Subscription Agreements

The Company entered into certain subscription agreements dated variously between March and April 2005 pursuant to which each subscriber thereto subscribed for Ordinary Shares at a price of 16 pence per Ordinary Share which was paid in cash to the Company. A total of 4,483,750 Ordinary Shares were subscribed pursuant to such subscription agreements. The subscription agreements contain certain warranties given by the Company as to matters relating to the Company and its business.

(b) The Placing Agreement

An agreement dated 18 May 2005 between the Company, the Directors, Ocean and Insinger de Beaufort pursuant to which, Ocean has agreed to use reasonable endeavours to procure subscribers for the Placing Shares. The Placing Agreement is conditional, *inter alia*, on Admission occurring by no later than 8.00 a.m. on 24 May 2005 or such later time as Insinger de Beaufort and Ocean may agree (being in any event not later than 8.00 a.m. on 10 June 2005). The Placing Agreement provides for the payment to Insinger de Beaufort of a corporate finance fee of £125,000 and for the payment to Ocean of a commission of 5 per cent. of the aggregate value at the Placing Price of the Placing Shares (together with any payable VAT in both cases). In addition, the Company will pay all other costs, charges and expenses of, or incidental to, the Placing and the issue of the Placing Shares including, without limitation, registrars' fees, printing, advertising and distribution fees and expenses, accounting fees and expenses, legal fees and disbursements (including Insinger de Beaufort and Ocean's legal fees and expenses not to exceed £15,000 plus VAT and disbursements). The Placing Agreement contains warranties given by the Company and the Directors and indemnities given by the Company in favour of Insinger de Beaufort and Ocean in relation to the Placing, the information contained in this document and other matters relating to the Company. Insinger de Beaufort and Ocean may terminate the Placing Agreement prior to Admission in certain circumstances, principally in the event of material breach by the Company of the warranties or certain other of its obligations under the Placing Agreement. The Company has agreed to indemnify Insinger de Beaufort and Ocean against all losses, costs, charges and expenses which Insinger de Beaufort or Ocean may suffer as a result of or attributable to, *inter alia*, Ocean acting as agent or Insinger de Beaufort acting as adviser to the Company in connection with the Placing or Admission in accordance with the terms of the Placing Agreement.

Pursuant to the Placing Agreement each of the Directors, for themselves and their associates, undertook not to deal in Ordinary Shares for a period of 12 months from Admission, save in certain limited circumstances, and for a further period of 12 months to deal only via Ocean and in accordance with orderly market principles.

(c) Licences

On 1 November 2004 the Company was granted Production Licences PL018, PL019, PL020, PL021 and PL022 by the Governor of the Falkland Islands for and behalf of her Majesty the Queen. Each such licence permits the conducting of exploration, discovery and production over certain specified blocks with the Falkland Island Designated Area. In respect of all the licences as a group the Company is obliged during the twelve months to 1 November 2005 to reprocess 750 kilometres of 2-D seismic data, to conduct structural modelling, to prepare a regional interpretation of play fairways and provide analyses reports to FIG. In addition, by 1 November 2005 the Company must commit that it will by 1 November 2007 acquire, process and interpret a minimum of 2,500 kilometres of 2-D seismic data and prepare a prospect report and select a proposed well location. Failure to complete this programme by the due date will permit FIG to withdraw all the licences. During the year ending 1 November 2007 the Company shall determine and notify FIG of at least 50% of the total licenced areas that it will relinquish as at 1 November 2007. If part of the licenced area is to be retained the Company must by 1 November 2007 commit to a work programme to be completed within the next three years to consider possible acquisition of additional 2-D and/or 3-D seismic data to determine well location(s), to drill one well to an objective/depth approved and conduct post well studies, basin evaluation and prospect evaluation review. The Directors believe that any such work undertaken prior to 30 November 2007 would count as completion of such work programme.

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The rental obligations on the B&S Production Licences, which are payable annually in advance on each anniversary of the licence, are:

- PL018 — from 1 November 2004 to 1 November 2007 (“the Initial Term”) \$10,000 per annum.
— from 1 November 2007 to 1 November 2010 (“the Second Term”) \$10,000 per annum.
— upon a discovery \$375,000 per annum in respect of each Discovery Areas (as defined in the Offshore Mineral Ordances 1994 and the Model Clauses for Production Licences as set out in Schedule 2 to the Offshore Petroleum (Licensing) Regulations 2000 (“the Regulations”)
— \$375,000 per annum in respect of each Production Field (as defined in the Regulations) for every square kilometre.
- PL019 — from 1 November 2004 to 1 November 2007 (“the Initial Term”) \$10,000 per annum.
— from 1 November 2007 to 1 November 2010 (“the Second Term”) \$10,000 per annum.
— upon a discovery \$375,000 per annum in respect of each Discovery Areas (as defined in the Offshore Mineral Ordances 1994 and the Model Clauses for Production Licences as set out in Schedule 2 to the Offshore Petroleum (Licensing) Regulations 2000 (“the Regulations”)
— \$375,000 per annum in respect of each Production Field (as defined in the Regulations) for every square kilometre.
- PL020 — from 1 November 2004 to 1 November 2007 (“the Initial Term”) \$10,000 per annum.
— from 1 November 2007 to 1 November 2010 (“the Second Term”) \$10,000 per annum.
— upon a discovery \$375,000 per annum in respect of each Discovery Areas (as defined in the Offshore Mineral Ordances 1994 and the Model Clauses for Production Licences as set out in Schedule 2 to the Offshore Petroleum (Licensing) Regulations 2000 (“the Regulations”)
— \$375,000 per annum in respect of each Production Field (as defined in the Regulations) for every square kilometre.

In the case of PL018, PL019 and PL020 if PL021 is relinquished one shall be subject to a rental increase to \$30,000.

- PL021 — for the Initial Term \$30,000 per annum.
— for the Second Term \$30,000 per annum.
— in respect of a Discovery Area and/or Production Field as PL018.
- PL022 — in respect of the Initial Term and Second Term \$nil but if all other licences relinquished then \$30,000 per annum.
— in respect of a Discovery Area and/or Production Field as PL018.

(d) Nominated Adviser Agreement

The nominated adviser agreement dated 18 May 2005 between the Company, the Directors and Insinger de Beaufort pursuant to which Insinger de Beaufort has agreed to act for the Company as nominated adviser from Admission for an initial period of one year and thereafter unless and until terminated by either party on three months’ notice. The Company has agreed to pay Insinger de Beaufort an annual retainer of £25,000. The agreement contains an indemnity from the Company in respect of the services provided by Insinger de Beaufort.

(e) Broker Agreement

The broker agreement dated 18 May 2005 between the Company, the Directors and Ocean pursuant to which the Company has appointed Ocean to act as broker to the Company for the purposes of the AIM Rules. The Company has agreed to pay Ocean a fee of £20,000 per annum for its services as broker, together with all reasonable expenses and VAT. The agreement contains an indemnity from the Company in respect of the services provided by Ocean Equities. The agreement continues for a fixed period of one year from Admission and thereafter is subject to termination on three months’ notice.

(f) The Company has entered into a master seismic data licence agreement and supplemental agreement with Geophysical Service Incorporated, dated 17 February 2005 which grant the Company a non-exclusive licence to use certain seismic data and establish the terms of use in respect of a

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2D seismic programme on the Production Licence Areas. In relation to this agreement certain payments are required to be made to Geophysical Service Incorporated.

- (g) The Company has agreed to lease premises at St James' Square, London for a period of 12 months from HQ Business Services Limited. The lease has a notice period of three months and a monthly licence fee of £3,500 (plus VAT) and a service retainer of £7,000.
- (h) A lock-in deed dated 18 May 2005 entered into by Philip Fish in favour of the Company, Insinger de Beaufort and Ocean pursuant to which Mr Fish has agreed not to deal in any Ordinary Shares, save in certain limited circumstances, for a period of 12 months following Admission and to deal only through the Company's broker for a further period of 12 months in accordance with orderly market principles.
- (i) The Company has agreed with Philip Fish that Mr Fish will provide the Company with his services as Exploration Manager. The terms of this agreement are that Mr Fish will be paid £50,000 per annum and shall work 150 days per annum. It is the current intention that Mr Fish will after Admission enter into an employment contract with the Company.

8. Litigation

No legal or arbitration proceedings are active, pending or threatened against, or being brought by, the Company which are having or may have a significant effect on the Company's financial position.

9. Working capital

The Directors are of the opinion, having made due and careful enquiry and having taken into account the net proceeds of the Placing, that following Admission the Company will have sufficient working capital for its present requirements, that is for at least the 12 month period following Admission.

10. Taxation

- (a) UK Taxation

The following paragraphs are intended as a general guide only for shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes, holding Ordinary Shares as investments and not as securities to be realised in the course of a trade, and are based on current legislation and UK Inland Revenue practice. Any prospective purchaser of Ordinary Shares who is in any doubt about his tax position or who is subject to taxation in a jurisdiction other than the UK, should consult his own professional adviser immediately.

- (i) *Taxation of Chargeable Gains*

For the purpose of UK tax on chargeable gains, the issue of Ordinary Shares pursuant to the Placing will be regarded as an acquisition of a new holding in the share capital of the Company.

To the extent that a shareholder acquires Ordinary Shares allotted to him, the Ordinary Shares so allotted will, for the purpose of tax on chargeable gains, be treated as acquired on the date of allotment. The amount paid for the Ordinary Shares will constitute the base cost of a shareholder's holding. The amount paid for the Ordinary Shares subscribed for will be eligible for taper relief allowance.

If a Shareholder disposes of all or some of his Ordinary Shares, a liability to tax on chargeable gains may, depending on his circumstances, arise.

- (ii) *Stamp Duty and Stamp Duty Reserve Tax*

No stamp duty or stamp duty reserve tax ("SDRT") will generally be payable on the issue of the Ordinary Shares.

- (iii) *Dividends and other Distributions*

Dividends paid by the Company will carry an associated tax credit of one-ninth of the cash dividend or ten per cent. of the aggregate of the cash dividend and associated tax credit. Individual shareholders resident in the UK receiving such dividends will be liable to income tax on the aggregate of the dividend and associated tax credit at the Investment Income ordinary rate (10%) or the Investment Income upper rate (32.5%).

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The effect will be that taxpayers who are otherwise liable to pay tax at only the lower rate or basic rate of income tax will have no further liability to income tax in respect of such a dividend. Higher rate taxpayers will have an additional tax liability (after taking into account the tax credit) of 22.5% of the aggregate of the cash dividend and associated tax credit. Individual shareholders whose income tax liability is less than the tax credit will not be entitled to claim a repayment of all or part of the tax credit associated with such dividends.

A UK resident corporate shareholder should not be liable to corporation tax or income tax in respect of dividends received from the Company unless that company is carrying on a trade of dealing in shares.

Trustees of discretionary trusts are liable to account for income tax at the rate applicable to trusts on the trust's income and are required to account for tax at the Investment Income trust rate, currently 32.5%.

Persons who are not resident in the UK should consult their own tax advisers on the possible application of such provisions and on what relief or credit may be claimed for any such tax credit in the jurisdiction in which they are resident. These comments are intended only as a general guide to the current tax position in the UK as at the date of this document. The comments assume that Ordinary Shares are held as an investment and not as an asset of financial trade.

If you are in any doubt as to your tax position, or are subject to tax in a jurisdiction other than the UK, you should consult your professional adviser.

(b) Falkland Islands Taxation

The Company will in respect of its business activities within the Falkland Islands Designated Exploration Area will be subject to:

- (i) Corporation tax at the rate of 25% on its taxable profits and gains; and
- (ii) a royalty of 9% on the market value of any hydrocarbons produced and sold.

11. General

- (a) The total costs and expenses relating to the Placing payable by the Company are estimated to be £866,000 (excluding VAT).
- (b) BDO Stoy Hayward LLP has given and not withdrawn its written consent to the inclusion in this document of its report set out in Part IV and to its name in the form and context in which they appear.
- (c) Scott Pickford has given and not withdrawn its written consent to the inclusion of references to it herein in the form and context in which it appears and to the inclusion of its report in this document and have authorised the contents of its report for the purposes of regulation 13(1)(d) of the POS Regulations and accepts responsibility for it.
- (d) Insinger de Beaufort and Ocean have each given and not withdrawn their written consent to the inclusion in this document of references to their names in the form and context in which they appear.
- (e) The accounting reference date of the Company is 30 June.
- (f) For the purposes of paragraph 21(a) of Part IV of Schedule I to the POS Regulations the minimum amount which must be raised for the Company pursuant to the Placing to provide for each of the following is:
 - (i) purchase price of property nil
 - (ii) commissions and expenses (excluding VAT) £866,000;
 - (iii) repayment of monies borrowed in respect of (i) and (ii) above nil
 - (iv) working capital £6,200,000.
- (g) It is expected that definitive share certificates will be despatched by hand or first class post by 31 May 2005. In respect of uncertificated shares, it is expected that Shareholders' CREST stock accounts will be credited on 24 May 2005.

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- (h) Save as disclosed in Part I, the Directors are unaware of any exceptional factors which have influenced the Company's activities.
- (i) Save as disclosed in this document, there are no patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the Company's business.
- (j) Save as disclosed in this document, there have been no significant changes in the trading or financial position of the Company since 28 February 2005.
- (k) The financial information contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Act and no such accounts have been prepared for the Company since 28 February 2005.
- (l) No person directly or indirectly (other than the Company's professional advisers and trade suppliers or save as disclosed in this document) in the last twelve months received or is contractually entitled to receive, directly or indirectly, from the Company on or after Admission (excluding in either case persons who are professional advisers otherwise than as disclosed in this document and persons who are trade suppliers) any payment or benefit from the Company to the value of £10,000 or more or securities in the Company to such value at the Placing Price or entered into any contractual arrangements to receive the same from the Company at the date of Admission.
- (m) The arrangements for payment for the Placing Shares are set out in the placing letters referred to in the Placing Agreement. All monies received from applicants will be held by ICAP Securities Limited prior to delivery of the Ordinary Shares.
- (n) Save as disclosed in this document there are no significant investments in progress.

12. Availability of this document

Copies of this document are available free of charge from the Company's registered office and at the offices of Insinger de Beaufort, 131 Finsbury Pavement, London EC2A 1NT, during normal business hours on any weekday (Saturdays and public holidays excepted) and shall remain available for at least one month after Admission.

18 May 2005

Glossary of Selected Geological Terms

“2D seismic data”	a vertical section of seismic data consisting of numerous adjacent traces acquired sequentially; a number of lines can be interpreted to create a sub-surface structural map
“3D seismic data”	a set of numerous closely-spaced vertical seismic lines which can be combined to produce a 3 dimensional Cube of seismic data
“Aptian”	a sub-period of the Mesozoic lasting from 125 million years ago to 112 million years ago
“Basin”	a depression in the crust of the Earth, created by tectonics and subsidence, in which sediments accumulate
“CAPEX”	capital expenditure
“Cenozoic”	the most recent geological age, from 65 million years ago onwards
“Falklands Plateau”	a sub basin located on the Falkland microplate
“Falkland Islands Designated Exploration Area”	the area offshore the Falkland Islands designated, pursuant to the Offshore Mineral Ordances 1994, for exploration by the Company
“Farm Out”	the sub-licensing of a partial interest in a Production Licence, often in exchange for the new participant carrying all or substantially all of the next exploration, development or production phase
“Lacustrine”	pertaining to an environment of deposition in lakes, or an area having lakes
“Late Jurassic”	a sub-period of the Mesozoic lasting from 161 million years ago to 145 million years ago
“Mesozoic”	the secondary or reptilian age, from 245 million to 65 million years ago
“mmscfd”	millions of standard cubic feet of gas produced per day
“North Falkland Graben”	an extensional rift basin located 100km North of the Falkland Islands
“OPEX”	operating expenditure
“Petroleum charge”	a charge of hydrocarbons (oil, gas or condensate) migrating from source rock to reservoir
“Play”	a geological model of how a producible reservoir, petroleum charge and regional topseal continue to produce petroleum accumulations at a specific stratigraphic level
“Play Elements”	each of the Source Rock, Reservoirs and Seal required for a Play
“Play Fairway”	a geographically defined area with consistent stratigraphy containing a number of potential oil and/or gas resources
“Producible reservoir”	a reservoir containing sufficient accumulation of hydrocarbons economically and technically feasible to extract
“Production Licence”	a licence issued by the relevant regulatory body permitting the exploration and production of oil and gas within a country’s borders and/or territorial waters subject to such terms and conditions as are applied by relevant legislation and reputation
“Regional topseal”	a Seal extending over more than one potential Reservoir
“Reservoir”	a subsurface volume of rock that has sufficient porosity and permeability to act as host for hydrocarbon accumulations

“Seal”	an impervious layer which prevents the escape of hydrocarbons from a reservoir
“Seismic Survey”	linear or grid pattern of reflection seismic data
“Source Rock”	the rock in which the oil and gas has formed
“Stratigraphy”	study of the composition, relative positions of rock strata to determine their geological history

