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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services Act 1986 immediately.

Copies of this document, which comprises a prospectus and listing particulars relating to Pentex, prepared in accordance with the listing rules made under Section 142 of the Financial Services Act 1986, have been delivered to the Registrar of Companies in England and Wales for registration, as required by Section 149 of that Act as supplemented by Section 154A of that Act.

If you have sold or otherwise transferred all of your Ordinary Shares in Pentex (other than ex rights) please send this document, together with the accompanying form of proxy, as soon as possible, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. However, such documents should not be forwarded or transmitted in or into the United States, Canada, Australia or the Republic of Ireland. If you have sold or transferred some of your holding of Ordinary Shares in Pentex you should immediately consult your stockholder, bank or other agent through whom the sale or transfer was effected.

Strand Partners Limited, which is regulated by The Securities and Futures Authority Limited, is acting exclusively for Pentex in connection with the Rights Issue, the Enron Arrangements and the Warrant Issue and for no one else and will not be responsible to anyone other than Pentex for providing the protections afforded to its customers or for providing advice in relation to this document, the Rights Issue, the Enron Arrangements or the Warrant Issue.

Pentex Energy plc

Proposed Cash Subscription by and Financing Arrangements with the Enron Group 1 for 10 Rights Issue of 29,038,211 new Ordinary Shares at 18.5p per share and 1 for 10 Warrant Issue

Application has been made to the London Stock Exchange for the new Ordinary Shares to be issued pursuant to the Rights Issue, the Subscription Shares and the Warrants to be admitted to the Official List. It is expected that admission will become effective and that dealings will commence in the new Ordinary Shares to be issued pursuant to the Rights Issue, nil paid, the Subscription Shares, fully paid, and in the Warrants not later than 26 January 1998.

The Rights Issue is not being extended to Qualifying Shareholders resident in the United States, Canada, Australia or the Republic of Ireland. The new Ordinary Shares to be issued pursuant to the Rights Issue have not been and will not be registered under the United States Securities Act 1933, as amended ("Securities Act"), nor under the securities laws of any state of the United States nor any securities laws of Canada, Australia or the Republic of Ireland and the new Ordinary Shares may not, directly or indirectly, be offered or sold within Canada, Australia or the Republic of Ireland or offered or sold to a person in the United States (as that expression is defined in Regulation S under the Securities Act) or a Canadian person and Provisional Allotment Letters will not be posted to any person in the United States, Canada, Australia or the Republic of Ireland.

Notice convening an extraordinary general meeting of Pentex to be held at 10.00 am on 16 January 1998 is set out at the end of this document. The accompanying Form of Proxy should be completed and returned as soon as possible and, in any event, so as to reach the Company's Registrars, Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield HD8 0LA, by no later than 10.00 am on 14 January 1998.

You should retain this document for reference pending receipt of a Provisional Allotment Letter which is expected to be despatched to Qualifying Shareholders on or before on 23 January 1998.

The latest time and date for acceptance and payment in full under the Rights Issue is expected to be not later than 3.00 pm on 20 February 1998. The procedure for acceptance and payment is set out in paragraph 2 of Part 2 of this document.

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Definitions

"Act"	the Companies Act 1985 (as amended)
"Admission"	admission of a security to the Official List becoming effective in accordance with the Listing Rules
"Board" or "Directors"	the directors of the Company, whose names appear on page 5 of the document
"Company" or "Pentex"	Pentex Energy plc
"Enron Arrangements"	the Enron Subscription, the Prepaid Swap and the Term Facility
"Enron Corp."	Enron Corp., a company incorporated in the United States of America
"Enron Group"	Enron Corp. and its subsidiaries
"Enron Subscription"	the proposed cash subscription by the Enron Group for 40 million new Ordinary Shares at a cash subscription price of 18.5 pence per Ordinary Share
"Executive Share Option Scheme"	the non-Inland Revenue approved executive share option scheme as described in paragraph 8 of Part 6 of this document
"existing Ordinary Shares"	the Ordinary Shares in issue prior to the Enron Subscription and the Rights Issue
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of the Company to be held on 16 January 1998, notice of which is set out in Part 7 of this document
"Form of Proxy"	the form of proxy for use at the EGM
"Group"	Pentex and its subsidiaries
"Issue Price"	18.5 pence per new Ordinary Share
"Listing Rules"	the Listing Rules of the London Stock Exchange
"London Stock Exchange"	London Stock Exchange Limited
"new Ordinary Shares"	Ordinary Shares to be issued pursuant to the Rights Issue and the Enron Subscription
"Official List"	the Official List of the London Stock Exchange
"Ordinary Shares"	ordinary shares of 5 pence each in the capital of the Company
"Prepaid Swap"	the prepaid crude oil swap proposed to be entered into between the Company and the Enron Group
"Proposed Transactions"	the Enron Subscription, the Prepaid Swap, the Term Facility, the Rights Issue and the issue of the Warrants
"Provisional Allotment Letter"	the renounceable provisional allotment letter to be issued by the Company in connection with the Rights Issue to Qualifying Shareholders

Definitions — continued

“Qualifying Shareholders”	shareholders on the register on the Record Date
“Resolutions”	the resolutions to be put to shareholders at the EGM as set out in the Notice of EGM in Part 7 of this document
“Record Date”	the record date for holders of existing Ordinary Shares to participate in the Rights Issue, namely 16 January 1998
“Rights Issue”	the issue by way of rights of 29,038,211 new Ordinary Shares to Qualifying Shareholders, as described in Part 2 of this document
“Sibir Energy”	Sibir Energy plc, a company incorporated in England and Wales
“Term Facility”	an eight year term facility in the amount of US\$ 75 million proposed to be made available by the Enron Group to Pentex
“US\$”	the United States of America dollar
“Warrants”	the warrants to subscribe for Ordinary Shares on the terms and conditions described in Part 5 of this document

Directors and Advisers

Directors

Anthony Conyers Surtees (Non-executive chairman)
Henry Ogilvy Cameron (Chief executive)
George Lane (Executive)
William Lowell Seymour Guinness (Non-executive)
Andrew Thomas West (Non-executive)

all of Dunedin House, 25 Ravelston Terrace, Edinburgh EH5 3TP

Secretary and Registered Office

Michael Lindsay Manderson
2 St. Andrew's Hill
London
EC4V 5BY

Financial Adviser

Strand Partners Limited
110 Park Street
London
W1Y 3RB

Brokers

Henderson Crosthwaite Institutional Brokers Limited
32 St Mary at Hill
London
EC3P 3AJ

Teather & Greenwood
Salisbury House
Circus Place Entrance
London Wall
London
EC2M 5EH

Solicitors to the Company

Gouldens
22 Tudor Street
London
EC4Y 0JJ

Registrars and Receiving Agents

Northern Registrars Limited
Northern House
Penistone Road
Fenay Bridge
Huddersfield
HD8 0LA

Reporting Accountants

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Bankers

The Governor and Company of the Bank of Scotland
The Mound
Edinburgh
EH1 1YZ

PART 1 — Letter from the Chairman

Pentex Energy plc

(Registered in England and Wales No. 1915605)

Directors:

Anthony C. Surtees (Chairman, Non-executive)
Henry O. Cameron (Chief Executive)
George Lane (Executive)
William L. S. Guinness (Non-executive)
Andrew T. West (Non-executive)

Registered office:

2 St. Andrew's Hill
London
EC4V 5BY

24 December 1997

To shareholders and, for information only, to members of the Executive Share Option Scheme

Dear Shareholder,

**Proposed Cash Subscription by and
Financing Arrangements with the Enron Group
1 for 10 Rights Issue of 29,038,211 new Ordinary Shares
at 18.5p per share
and
1 for 10 Warrant Issue**

Introduction

On 13 November, 1997, your Board announced that the Company has agreed terms with Enron Corp., under which it is intended that a subsidiary or affiliate of Enron Corp. will provide financing to the Company and subscribe for 40 million new Ordinary Shares, at a subscription price of 18.5p per new Ordinary Share, to become a minority investor in, and strategic partner of, Pentex.

It was also announced that the Company will undertake a rights issue to existing shareholders, on the basis of one new Ordinary Share for every ten existing Ordinary Shares, at a subscription price of 18.5p per share, to raise up to £5.4 million (before expenses). The Company will also undertake a bonus issue of Warrants to subscribe for new Ordinary Shares, at a subscription price of 18.5p per share, on the basis of one Warrant for every ten existing Ordinary Shares and for every ten new Ordinary Shares the subject of the Enron Subscription and the Rights Issue.

Separately, on 18 December, 1997, Sibir Energy announced that it has agreed terms to acquire substantial additional West Siberian oil and gas interests, for a consideration of approximately US\$36 million. These acquisitions and associated working capital requirements are to be funded through a placing and open offer to be undertaken by Sibir Energy, to raise approximately £45.3 million (before expenses) of which approximately £22 million is to be raised by an open offer. Pentex, which owns approximately 40 per cent. of the issued ordinary share capital of Sibir Energy, has committed itself to take up approximately 22 per cent. of its entitlement at a cost of £2 million and intends to take up the balance of its entitlement, at a cost of approximately a further £7 million, if the Enron Arrangements proceed.

I am now writing to give you further details of the Proposed Transactions, background information on the Enron Group and notice of an Extraordinary General Meeting, to be held at 10.00 am on Friday 16 January, 1998, at which resolutions will be put before shareholders to give effect to the Proposed Transactions. The Notice of Extraordinary General Meeting is to be found in Part 7 of this document.

Enron Group

Enron Corp., one of the world's largest integrated natural gas and electricity companies with approximately US\$23 billion in assets, operates one of the largest natural gas transmission systems in the world; is the largest marketer of natural gas and of electricity in North America; is a leading participant in liberalised energy markets in the United Kingdom and the Nordic Countries; markets natural gas liquids worldwide; manages what is believed by Enron Corp. to be the largest portfolio of fixed-price natural gas risk management contracts in the world; is among the leading entities arranging new capital to the energy industry; owns a majority interest in Enron Oil and Gas Company, one of the largest independent (non-integrated) exploration and production companies in the United States; owns and manages operating power plants and natural gas pipelines around the world; is one of the largest independent developers and producers of electricity in the world; and is a major supplier of solar and wind energy worldwide. Enron Corp's common stock is traded on the New York Stock Exchange under the ticker symbol "ENE".

The Enron Subscription

It is proposed that the Enron Group will subscribe for 40 million new Ordinary Shares, at a cash subscription price of 18.5p per new Ordinary Share, to raise approximately £7.4 million (before expenses).

The new Ordinary Shares the subject of the Enron Subscription will, when issued, rank *pari passu* with the existing Ordinary Shares, including the right to receive in full all dividends and distributions thereafter declared, paid or made on the existing Ordinary Shares and to participate in the proposed bonus issue of Warrants, except that they will not be eligible to participate in the Rights Issue.

Assuming that the Rights Issue is taken-up in full, the Enron Subscription will result in the Enron Group owning approximately 11.2 per cent. of the Company's ordinary share capital as so enlarged.

The Enron Subscription is conditional, *inter alia*, upon (i) approval by the Company's shareholders at the Extraordinary General Meeting, (ii) the Prepaid Swap and/or the Term Facility being entered into by the Enron Group and Pentex and becoming unconditional in accordance with their terms, and (iii) the Rights Issue and the bonus issue of Warrants being made as described hereinafter.

It is proposed that following completion of the Enron Subscription a nominee of the Enron Group will be appointed as a non-executive director of the Company.

The Prepaid Swap

Pentex proposes to enter into a prepaid crude oil swap with the Enron Group, whereby Pentex will sell forward approximately one third of its forecast total UK production for the next eight years, aggregating approximately 2.4 million barrels of oil. This will result in a cash payment from the Enron Group to Pentex at completion of the Prepaid Swap documentation. The amount of the cash payment is dependent *inter alia* upon the market price of Brent crude oil at the date of completion. At the time of announcement of the Enron Arrangements, the amount was expected to be approximately US\$32.4 million. The actual amount will not be known until the parties are in a position of readiness to complete. Recent weakness in the market price of Brent crude oil has created uncertainties in this regard, which are discussed in more detail below.

The Prepaid Swap is a financial instrument, not a contract for the physical delivery of oil. The actual obligation being undertaken by the Company is not a commitment to make periodic deliveries of oil but to make periodic cash payments to Enron Corp., in accordance with a schedule of payments which has been so constructed as to mirror the projected production profile of the Company throughout the life of the Prepaid Swap. Under certain conditions, the Company would be able to discharge its outstanding obligation to the Enron Group, before the conclusion of the eight year term, as if it were a debt instrument, by making a single cash payment, the amount of which would be determined by reference *inter alia* to the price of Brent crude oil at that time.

The commercial effect of the swap arrangement is, however, in all material respects, as if Pentex were to contract for the physical delivery of a like proportion of its projected oil production, at a fixed price. All of the risks of production will remain with Pentex but exposure to fluctuations in the price of Brent crude oil will be eliminated entirely, in respect of that proportion of production represented by the prepayment.

In addition, the accounting treatment of the Prepaid Swap is expected to result in a proportion of the periodic payments being treated as a notional interest charge, thus effectively insulating the Company from the effects of future movements in interest rates, to which it is currently exposed by virtue of its present borrowing arrangements.

By virtue of the materiality of the amount of the payment proposed to be made by the Enron Group, the Company is required to grant appropriate security. Subject to the factors mentioned below under the heading "Uncertainties over the pricing of the Prepaid Swap" is expected that documentation will be completed and appropriate security arrangements agreed prior to the date of the Extraordinary General Meeting.

The Prepaid Swap is conditional, *inter alia*, upon (i) the Enron Subscription being completed, (ii) satisfactory documentation, (iii) a satisfactory tax clearance and (iv) the perfection of satisfactory security arrangements and the approval thereof by the Secretary of State for Energy.

The Term Facility

It is proposed that the Enron Group will make available to Pentex an eight year term facility, in the amount of US\$75 million. The Term Facility will be available, subject to its terms and conditions, to fund the development of existing reserves and the future acquisition and development of additional oil and gas assets.

The terms and conditions of the Term Facility provide, *inter alia*, that the actual amount of funds which may from time to time be drawn down are determined by a "borrowing base" computation as agreed with the Enron Group. The "borrowing base" computation is determined from time to time by reference to the Group's estimated oil and gas reserves based on current projected production and the prevailing forward prices for Brent crude oil and interest rates. Under these arrangements, as of the date hereof and on the assumption that the Prepaid Swap is completed, approximately US\$8.5 million will be available to be drawn down against the security of the Group's existing United Kingdom oil and gas assets.

It is expected that documentation will be completed and appropriate security arrangements agreed and ready to be perfected prior to the date of the Extraordinary General Meeting.

The Term Facility is conditional, *inter alia*, upon (i) the Enron Subscription being completed, (ii) satisfactory documentation and (iii) the perfection of satisfactory security arrangements and the approval thereof by the Secretary of State for Energy.

Uncertainties over the pricing of the Prepaid Swap

The amount of the cash payment produced by the Prepaid Swap is dependent upon the market price of Brent crude oil as of the date of completion and is, as such, a constantly moving target. At the time of announcement of the Enron Arrangements, the terms agreed for the Prepaid Swap would have resulted in a cash payment of approximately US\$32.4 million. Due to subsequent adverse movements in the price of Brent crude oil, the Prepaid Swap would, at the date of this document, result in a cash payment of approximately US\$28.5 million. Although both parties are moving as rapidly as practicable to complete the definitive documentation necessary for the Prepaid Swap to be entered into, the price of crude oil remains volatile and it is not possible to predict with certainty the actual amount of the cash payment likely to be achievable at the time the transaction is completed.

The continuing weakness of the crude oil price is therefore a matter under constant review. The Directors believe that the commercial benefits which would accrue to the Company from undertaking the Prepaid Swap, and which have already been described, are substantial and that it is in the Company's best interests to seek to achieve them. Shareholders should, however, be aware that if Brent crude oil prices remain weak the Directors may be forced to conclude that the Prepaid Swap is no longer financially viable. There is thus a risk that, for reasons beyond the control of either party, the Prepaid Swap may not proceed, absent a renegotiation of its commercial terms.

Should the Directors decide not to enter into the Prepaid Swap, the Enron Group is not obliged to enter into the remainder of the Enron Arrangements, including the Enron Subscription, and has indicated that its current position is that it does not intend to do so.

In the eventuality that the Enron Arrangements cannot be completed, it is the Directors' intention to seek alternative means to finance the take up of the Company's full entitlement under the Sibir Energy open offer, as described below.

The Rights Issue

Principal Terms

The Company proposes to raise up to approximately £5.4 million (before expenses) by way of a rights issue to Qualifying Shareholders of up to 29,038,211 new Ordinary Shares at 18.5p per share, payable in full upon acceptance on the following basis:

1 new Ordinary Share for every 10 existing Ordinary Shares

held on the Record Date and so in proportion for any greater number of existing Ordinary Shares then held.

The Rights Issue has not been underwritten. However, a commitment has already been received, from Strand Associates Limited, to take up its rights and subscribe for rights not otherwise taken up by Qualifying Shareholders in an aggregate amount of £1 million. The commitment by Strand Associates Limited is conditional upon the Enron Arrangements being completed.

Messrs. Surtees, Guinness and West have confirmed that it is their intention (or the intention of their trusts) to take-up their rights in full. Messrs. Cameron and Lane have indicated that they do not intend to take up their rights but they have undertaken, irrevocably, to take up their entitlements in full in respect of the open offer of Sibir Energy plc.

Where necessary, Qualifying Shareholders' entitlements will be rounded down to the nearest whole number of new Ordinary Shares. Fractions of new Ordinary Shares will not be allotted but will be aggregated and sold in the market for the benefit of the Company. The allotment and issue of the new Ordinary Shares will be made subject to the terms and conditions set out in Part 2 of this document and in the Provisional Allotment Letters.

PART 1 — continued

The new Ordinary Shares, when allotted and fully paid, will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive in full all dividends and other distributions thereafter declared, paid or made on the existing Ordinary Shares and the right to receive the Warrants.

Conditions

The Rights Issue is conditional, *inter alia*, upon the passing of Resolution No. 1 at the Extraordinary General Meeting. The Rights Issue is not conditional upon the Enron Arrangements being completed.

Provisional Allotment Letters

It is expected that the Provisional Allotment Letters will be posted to Qualifying Shareholders on or before 23 January 1998, and that Admission will become effective and dealings in the new Ordinary Shares will commence, nil paid, on the London Stock Exchange not later than 26 January 1998. The procedure for acceptance and payment, renunciation, splitting and registration is set out in paragraph 2 of Part 2.

The Provisional Allotment Letter will be accompanied by a further circular stating whether or not the Enron Arrangements have been completed and confirming the amount of the cash payment received by the Company pursuant to the Prepaid Swap.

The Warrants

The bonus issue of Warrants is being made on the basis of **one** Warrant, entitling the holder to subscribe for **one** new Ordinary Share, at a subscription price of 18.5p per new Ordinary Share, for each **ten** existing Ordinary Shares held on the Record Date and for each **ten** new Ordinary Shares the subject of the Enron Subscription and the Rights Issue.

The Warrants will expire on 30 June, 1998, if not exercised prior thereto in accordance with their terms.

Application has been made for the Warrants to be admitted to the Official List.

Fractions of Warrants will not be allotted but will be aggregated and sold in the market for the benefit of the Company.

Further details of the Warrants are to be found in Part 5 of this document.

Background to and reasons for the Proposed Transactions

The decision by the Enron Group to make a strategic investment in Pentex is a welcome endorsement of the quality of the Company's operations and the competence of its management.

The Proposed Transactions in their totality will, if completed, enhance significantly the Company's ability to achieve its strategic objectives, which your Directors set forth very clearly at the time of the disposal of the Melrose Petroleum Group in May of this year and subsequently. These are, in summary, a commitment to building shareholder value through continued development of the existing portfolio of assets, through seeking opportunities to exploit the Company's exploration interests via carried interests and through the continuation of an aggressive approach to the acquisition of new assets and opportunities.

Of particular and immediate importance, in this regard, is the Company's approximately 40 per cent. interest in Sibir Energy. It is the Board's intention that the Company takes up its entitlement pursuant to the forthcoming proposed Open Offer by Sibir Energy, as described more fully below.

The proceeds of the Enron Subscription, the Rights Issue and the Warrants, if exercised, will enable the Company to take up its Sibir Energy entitlement in full and will provide additional working capital to continue to support this and other important investments. If the Enron Arrangements are not completed, the Company may not be able to take up its entitlement in full but has committed in any event, to subscribe for not less than £2 million worth of new ordinary shares in Sibir Energy pursuant to its open offer.

The financial flexibility accruing from the Prepaid Swap and the Term Facility would be considerable. Your Directors regard the significant protection against commodity oil price and interest rate fluctuations which these arrangements would afford as being of real benefit to the Company as it proceeds to implement its strategic objectives.

The Rights Issue and the bonus issue of Warrants are intended to provide the Company's loyal shareholders with the opportunity to participate in the benefits which the Directors believe will accrue to the Company by virtue of these developments.

Current trading and prospects

Operating profit from continuing operations for the financial year ended 30 June, 1997, was approximately £6.5 million, on turnover of approximately £24.6 million. This resulted in adjusted earnings per share, after adding back a loss realised on the disposal of discontinued operations during the year, of 1.5p. A final dividend of 0.2p per share was declared and has now been paid. Shareholders' funds at 30 June, 1997, were approximately £38.8 million.

Recent daily production from the Company's United Kingdom onshore and offshore producing oil and gas assets has continued at around 5,200 barrels since the end of the financial year. The price of Brent crude oil has, however, weakened significantly.

The Company's other principal asset is an approximate 40 per cent. interest in Sibir Energy. Recent developments in Sibir Energy are dealt with in detail below.

On the basis of the first four months' trading, the Board considers that the trading outlook for the Company's current operations during the current financial year is satisfactory.

A summary of the financial results of Pentex for the three years ended 30 June, 1997, is set out in Part 3 of this document.

Financial effects of the Proposed Transactions

The proceeds of the Enron Subscription, the Rights Issue and the Prepaid Swap would enable Pentex to repay its existing bank borrowings, of approximately US\$43.6 million, and would provide working capital for the further development of the Company's business, including the proposed take up of the Company's entitlement in respect of the proposed open offer of Sibir Energy.

The Warrants, if exercised, would provide additional working capital of up to approximately £6.6 million before the end of the Company's current financial year.

The Term Facility would enable the Company to acquire and develop additional oil and gas assets, as and when suitable opportunities present themselves.

The Prepaid Swap is a secured financial instrument, not a contract for the physical delivery of oil. The Company believes that the transaction, if completed, will represent the first of its kind in the United Kingdom. Subject to final confirmation by the Company's auditors, it is expected that the Prepaid Swap will result in the Company's balance sheet thereafter showing a liability in the exact amount of the matching cash payment. This liability will be reduced as the Company makes payments in accordance with an agreed monthly schedule over the life of the Prepaid Swap. These monthly payments will be split, in proportions yet to be determined, into capital repayments, hedge cost and a notional interest charge, which will be taken through the profit and loss account.

A proforma statement of net assets, as at 30 June, 1997, illustrating the effect of the Proposed Transactions, is to be found in Part 4 of this document.

Proposed take up of entitlement to subscribe for new ordinary shares in Sibir Energy

As I have already mentioned, Sibir Energy is proposing to raise approximately £22 million by way of an open offer of new ordinary shares. Pentex owns approximately 40 per cent. of the share capital of Sibir Energy and therefore Pentex is entitled to subscribe up to approximately £9.0 million under the open offer.

Your Board believes that Sibir Energy continues to provide an excellent investment for Pentex in view of the opportunities which Sibir Energy has to invest in the Russian oil industry at a relatively early stage in its development and therefore believes that it is in the best interests of the Company to take up its entitlement under the open offer to the maximum extent that its resources permit.

If the Enron Arrangements are completed, Pentex has undertaken irrevocably to take up its full entitlement under the open offer at a cost of approximately £9.0 million.

If the Enron Arrangements are not completed, Pentex will be able to subscribe for approximately £2 million of its entitlement from its existing resources and it has therefore irrevocably undertaken to Sibir Energy to take up its entitlement to that extent. In this eventuality the Directors will seek alternative sources of financing to enable the Company to take up the balance of its full entitlement, although there can be no certainty that such alternatives will be available.

PART 1 — continued

Extraordinary General Meeting

At the end of this document, shareholders will find a notice of the Extraordinary General Meeting to be held at 10.00 am on 16 January 1998, at 22 Tudor Street, London EC4Y 0JJ, at which resolutions will be proposed to:

- (i) increase the authorised share capital of the Company in two stages by £4 million to £26 million by the creation of 80,000,000 new Ordinary Shares;
- (ii) authorise and empower the Directors under Sections 80 and 89 of the Act to issue up to 29,038,211 new Ordinary Shares pursuant to the Rights Issue;
- (iii) authorise and empower the Directors under Sections 80 and 89 of the Act to issue 40,000,000 new Ordinary Shares to the Enron Group pursuant to the Enron Subscription;
- (iv) authorise and empower the Directors under Sections 80 and 89 of the Act to issue up to 35,942,032 Warrants;
- (v) authorise and empower the Directors under Sections 80 and 89 of the Act to issue relevant securities for the purposes of Section 80 up to an aggregate nominal amount of £6,231,881.90 and to use that authority and power to issue equity securities for the purposes of Section 89 for cash otherwise than pro rata to existing shareholders either (a) pursuant to a rights issue or open offer or (b) otherwise up to a maximum nominal amount of £1,000,000.

Action to be taken

Shareholders will find enclosed with this document a Form of Proxy for use at the Extraordinary General Meeting. Whether or not you intend to be present at the meeting, you are requested to complete, sign and return your Form of Proxy to Northern Registrars Limited as soon as possible and, in any event, so as to arrive no later than 10.00 am on 14 January, 1998. The completion and return of a Form of Proxy will not preclude you from attending the meeting and voting in person should you wish to do so.

Further information

Your attention is drawn to the further information set out in Parts 2 to 7 of this document and in the Provisional Allotment Letter, including in particular the information on the Group's current oil and gas licences in paragraph 10 of Part 7.

Recommendation

The Directors of Pentex, who have been advised by Strand Partners Limited, believe that the Proposed Transactions are in the best interests of Pentex's shareholders as a whole and recommend unanimously that shareholders vote in favour of the Resolutions at the Extraordinary General Meeting, as they intend to do in respect of their own shareholdings of existing Ordinary Shares, representing in the aggregate approximately 5.9 per cent. of the existing issued ordinary share capital of Pentex.

In providing their advice, Strand Partners Limited have had regard to the commercial assessments of the Directors.

Yours sincerely,

Anthony Surtees
Chairman

PART 2 — Further information relating to the Rights Issue

1. Terms of Issue

Subject to the conditions referred to below, Qualifying Shareholders are being offered 29,038,211 new Ordinary Shares for subscription at 18.5p per share, payable in full on acceptance on the following basis:

1 new Ordinary Share for every 10 Ordinary Shares held

and so in proportion for any greater number of Ordinary Shares held on the Record Date except that fractions of new Ordinary Shares will not be allotted but will be aggregated and sold for the benefit of the Company.

The new Ordinary Shares will, when allotted and fully paid, rank *pari passu* in all respects with the existing Ordinary Shares including the right to receive in full all dividends and other distributions thereafter declared, paid or made on the existing Ordinary Shares and the right to receive the Warrants.

The Rights Issue is conditional upon:

- (i) the passing of Resolution No. 1 at the Extraordinary General Meeting;
- (ii) Admission of the new Ordinary Shares to be issued pursuant to the Rights Issue (nil paid) and the Warrants.

2. Acceptance and payment, dealing and registration

(a) Provisional allotment and nil paid rights

It is expected that on or before 23 January 1998 the Directors will provisionally allot the required number of new Ordinary Shares in accordance with the terms of the Rights Issue and arrange for the despatch of Provisional Allotment Letters by post to Qualifying Shareholders. Such Provisional Allotment Letters will set out the holding of Ordinary Shares on which the relevant Qualifying Shareholder's entitlement has been based, the aggregate number of new Ordinary Shares provisionally allotted to such holder and the procedure to be followed if such holder wishes to dispose of all or part of his/her entitlement.

(b) Dealings in nil paid rights

Dealings on the London Stock Exchange in the rights to subscribe for the new Ordinary Shares are expected to commence, nil paid, not later than 26 January 1998. A transfer of such rights can only be made in accordance with paragraph 2(f) below.

(c) Acceptance and payment

If you wish to subscribe for all or any of the new Ordinary Shares to which you are entitled you must lodge the Provisional Allotment Letter, together with a remittance for the full amount payable on acceptance in accordance with the instructions thereon, with Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield HD8 0LA or deliver the same by hand only (during normal business hours) to that address, in either case to be received by not later than 3.00 pm on the date set out in the Provisional Allotment Letter.

All payments must be made by cheque or banker's draft in pounds sterling drawn on a bank or building society account in the United Kingdom or the Channel Islands, which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or a member of the Committees of Scottish or Belfast Clearing Houses or which has arranged for its cheques or banker's drafts (as appropriate) to be cleared through the facilities provided for any of those companies or those committees and must bear the appropriate sort code in the top right-hand corner. Eurocheques, unless drawn on a bank in the UK, will not be accepted.

Cheques and banker's drafts should be made payable to "Northern Registrars Limited—a/c Pentex Energy PLC", and crossed "A/c Payee only". No interest will be allowed on payments made before they are due.

PART 2 — Further information relating to the Rights Issue— continued

The Company reserves the right to have cheques presented on receipt and to instruct Northern Registrars Limited to seek special clearance of banker's drafts and cheques to allow the Company to obtain value for remittances at the earliest opportunity. Any person returning a Provisional Allotment Letter with a remittance in the form of a cheque thereby warrants that the cheque will be honoured on first presentation. If cheques are not honoured on first presentation, the provisional allotment may be deemed by the Company to have been declined and to have lapsed.

The Company may (in its sole discretion) treat a Provisional Allotment Letter as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required.

The Money Laundering Regulations 1993 (the "Money Laundering Regulations") may require Northern Registrars Limited to establish the identity of the person by whom or on whose behalf a Provisional Allotment Letter is lodged with payment (which requirements are referred to below as the "verification of identity requirements"). The person (the "acceptor") who, by lodging a Provisional Allotment Letter with payment, as described above, accepts the allotment of the shares or makes application for further new Ordinary Shares (the "relevant shares") comprised in such Provisional Allotment Letter (being the provisional allottee or, in the case of renunciation, the person named in Form Y on such allotment letter) and any agent lodging such Provisional Allotment Letter on his behalf shall thereby be deemed to agree to provide Northern Registrars Limited with such information and other evidence as Northern Registrars Limited may require to satisfy the verification of identity requirements. If the Provisional Allotment Letter is submitted by and/or payment is made by a United Kingdom regulated broker or intermediary acting as agent and which is itself subject to the Money Laundering Regulations, any verification of identity requirements are the responsibility of such broker or intermediary and not Northern Registrars Limited.

If Northern Registrars Limited determines that the verification of identity requirements apply to any acceptance of an allotment the relevant shares will be allotted to the acceptor but (notwithstanding any other term of the Rights Issue) will not be issued to him or registered in his name until the verification of identity requirements have been satisfied. If the verification of identity requirements are not satisfied within such period, not being less than twenty-one days after a request for evidence of identity is despatched to the acceptor, as the Company may in its absolute discretion allow, the Company will be entitled to make arrangements (in its absolute discretion as to manner, timing and terms) to sell the relevant shares and for that purpose the Company will be authorised to act as agent of the acceptor. Any proceeds of sale of the relevant shares (net expenses of sale) which shall be issued to and registered in the name of the purchaser(s) or an amount equivalent to the original payment, whichever is lower, will be held by the Company on trust for the acceptor, subject to the requirements of the Money Laundering Regulations. Northern Registrars Limited is entitled in its absolute discretion to determine whether the verification of identity requirements apply to any acceptor and whether such requirements have been satisfied and neither Northern Registrars Limited nor the Company will be liable to any person for any loss suffered or incurred as a result of the exercise of such discretion or as a result of any sale of relevant shares.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity within a reasonable time may result in delays in the despatch of a share certificate.

The verification of identity requirements will not usually apply:

- (a) if the acceptor is an organisation required to comply with the EC Money Laundering Directive; or
- (b) if the acceptor is a regulated United Kingdom broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations; or
- (c) if the acceptor (not being an acceptor who delivers his acceptance in person) makes payment by way of a cheque drawn on an account in the name of such acceptor; or if the aggregate amount payable on allotment and/or subscription for the relevant shares is less than £12,000.

In other cases the verification of identity requirements may apply. Satisfaction of these requirements may be facilitated in the following ways:

- (i) if payment is made by building society cheque (not being a cheque drawn on an account of the acceptor) or banker's draft, by the building society or bank endorsing on the cheque or draft the acceptor's name and the number of an account held in the acceptor's name at such building society or bank, such endorsement being validated by a stamp and authorised signature;

PART 2 — Further information relating to the Rights Issue — continued

- (ii) if payment is not made by cheque drawn on an account in the name of an acceptor and (i) above does not apply the acceptor should enclose with his Provisional Allotment Letter evidence of his name and address from an appropriate third party, for example, a recent bill from a gas, electricity or telephone company or a bank statement, in each case bearing the acceptor's name and address (originals of such documents (not copies) are required; such documents will be returned in due course); or
- (iii) if the Provisional Allotment Letter is lodged with payment by an agent which is an organisation of the kind referred to in (a) above or which is subject to anti-money-laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Australia, Canada, Hong Kong, Iceland, Japan, New Zealand, Norway, Singapore, Switzerland, Turkey and the United States of America) the agent should provide written confirmation that it has that status together with the Provisional Allotment Letter(s) and written assurance that it has obtained and recorded evidence of the identity of the person for whom it acts and that it will on demand make such evidence available to Northern Registrars Limited or the relevant authority.

In order to confirm the acceptability of any written assurance referred to in (iii) above or in any other case, the acceptor should contact Northern Registrars Limited.

If a Provisional Allotment Letter(s) is/are in respect of shares with an aggregate amount payable on allotment and/or subscription of £12,000 or more and is/are lodged by hand by the acceptor in person, the acceptor should ensure that he has with him evidence of identity bearing his photograph (for example his passport) and evidence of his address.

All enquiries in connection with the Provisional Allotment Letters should be addressed to Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield HD8 0LA (telephone 01484 606664).

For United Kingdom applicants, this may involve verification of names and addresses through a reputable agency. For non-United Kingdom applicants, verification of identity may be sought from the allottee's bankers or from another reputable institution or professional adviser in the allottee's country of residence.

If satisfactory evidence of identity has not been obtained within a reasonable time, then the transaction shall not proceed any further and the allotment monies (without interest) will be returned to the bank account where the cheque was drawn.

If the application is being made by the applicant as agent for one or more persons, and the applicant is not a United Kingdom or European Union regulated person or institution, they must contact Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield HR8 0LA (telephone 01484 606664).

The Company reserves the right (but shall not be obliged) to accept any Provisional Allotment Letter if received with payment in full by Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield HR8 0LA (telephone 01484 606664) through the post before 10.00 am on day following the date set out in the Provisional Allotment Letter the cover of which bears a legible postmark of no later than 3.00 pm on the date set out in the Provisional Allotment Letter.

The Company reserves the right (but shall not be obliged) to accept applications in respect of which remittances are received prior to 3.00 pm on the date set out in the Provisional Allotment Letter from an authorised person (as defined in the Financial Services Act 1986) specifying the new Ordinary Shares concerned and undertaking to lodge the relevant Provisional Allotment Letter duly completed in due course.

The Company reserves the right (but shall not be obliged) to accept Provisional Allotment Letters or remittances which are completed, executed or delivered otherwise than in accordance with the relevant instructions or which are not accompanied by a valid power of attorney where required.

All enquiries in connection with the Provisional Allotment Letters should be addressed to Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield HR8 0LA (telephone 01484 606664).

PART 2 — Further information relating to the Rights Issue — continued

(d) Procedure in respect of rights not taken up

In certain circumstances as outlined above acceptances received after 3.00 pm on the date set out in the Provisional Allotment Letter may be treated as valid. Subject thereto, if any new Ordinary Shares provisionally allotted have not been paid for in full by 3.00 pm on the date set out in the Provisional Allotment Letter (whether by the original allottee or any person in whose favour the rights have been renounced), the provisional allotment will be deemed to have been declined and will lapse. The Company will instruct Henderson Crosthwaite Institutional Brokers Limited to endeavour by no later than 3.00 pm on second day of dealings in the new Ordinary Shares fully paid to procure subscribers of such new Ordinary Shares not taken up, at a premium over the aggregate of the Issue Price and the expenses of procuring such subscribers. If subscribers of such new Ordinary Shares are procured on such basis, such shares will be reallocated to such subscribers at such price and any net proceeds (after deduction of the Issue Price and the expenses of procuring such subscribers) will be distributed (without interest) to the provisional allottees originally entitled thereto who have not taken up their entitlements *pro rata* to their lapsed provisional allotments. Cheques for the amounts due (if any) will be sent to the first named or sole holder at his/her registered address. No payment will be made of any individual amount of less than £3.00, and the aggregate of all such amounts will be retained for the benefit of the Company.

Neither the Company nor any person procuring such subscribers shall be responsible for any insufficiency or alleged insufficiency of any price at which any such new Ordinary Shares may be so subscribed or for any loss arising from the timing of any such subscription. If subscribers cannot be procured on the basis described above, the new Ordinary Shares will be reallocated at the Issue Price to any subscribers procured by the Company at the Issue Price.

(e) Dealings in fully paid rights

After acceptance of the provisional allotment and payment in accordance with the provisions set out in this document and in the Provisional Allotment Letter, the new Ordinary Shares will be registered and only transferable by written instrument of transfer in usual or common form.

(f) Renunciation and splitting

Provisional Allotment Letters will be fully renounceable, except as required by the laws of certain foreign jurisdictions. A shareholder entitled to a provisional allotment of new Ordinary Shares who wishes to transfer all the shares comprised in the Provisional Allotment Letter must complete and sign Form X on such letter and deliver the entire Provisional Allotment Letter to the transferee or the stockbroker, bank or other agent acting for such shareholder in the transaction. Once renounced, a Provisional Allotment Letter will become a negotiable document in bearer form.

If the shareholder wishes to have only some of such shares registered in his name and to transfer the remainder, or to transfer all the shares but to different persons, he must have the letter split for which purpose he must complete and sign Form X on such letter (in accordance with the instructions thereon). The letter must then be lodged with Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield HD8 0LA (telephone 01484 606664) no later than 3.00 pm on the date set out in the Provisional Allotment Letter to be cancelled and exchanged for the split letters required. The number of split letters required and the number of shares to be comprised in each such letter should be stated in an accompanying letter. Form X on split letters will be marked "original duly renounced" before issue.

(g) Registration

A shareholder entitled to a provisional allotment of new Ordinary Shares who wishes to have all such shares registered in his name must accept such allotment and make payment in accordance with the provisions set out in this document and in the Provisional Allotment Letter, but need take no further action. The Provisional Allotment Letter, with the receipt at the foot thereof duly completed, will be returned to the person making payment who, unless he is the original allottee, must have completed the paying agent's box at the foot thereof.

The renouncee of new Ordinary Shares or his agent must complete Form Y on the Provisional Allotment Letter and lodge the entire Provisional Allotment Letter by no later than 3.00 pm on the date set out in the Provisional Allotment Letter, the latest time and date for registration of renunciation, with Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield HD8 0LA (telephone 01484 606664). Registration cannot be effected unless the Provisional Allotment Letter is fully paid. After the latest time and date for registration of renunciation, the new Ordinary Shares will be in registered form and only transferable by written instrument of transfer in usual or common form.

(b) Share certificates

It is expected that definitive share certificates for the new Ordinary Shares will be despatched by post no later than 28 February 1998. Pending the issue of definitive share certificates instruments of transfer will be certified by Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield HD8 0LA (telephone 01484 606664) against lodgement of fully paid Provisional Allotment Letters or, where renunciation has been registered, against a renounced Provisional Allotment Letter in the possession of Northern Registrars Limited.

(i) CREST

The new Ordinary Shares will initially be issued in certificated form and be represented by definitive share certificates. Shareholders wishing to hold new Ordinary Shares in uncertificated form will need to comply with the relevant procedure for conversion of such shares into uncertificated form following receipt of their definitive share certificates.

(j) Posting

All documents and remittances will be sent to or by the allottees or their renounees (or their agents as appropriate) at their risk.

(k) Small Shareholdings

Holders of less than ten Ordinary Shares are not entitled to participate in the Rights Issue and, accordingly, will not be sent a Provisional Allotment Letter.

3. United Kingdom taxation

(a) Stamp duty and stamp duty reserve tax

Except in relation to depositary receipt arrangements or clearance services where special rules apply:

- (i) no United Kingdom stamp duty or stamp duty reserve tax is payable by Qualifying Shareholders on the issue of Provisional Allotment Letters or on the registration of the original holders or their renounees;
- (ii) where rights to new Ordinary Shares represented by a Provisional Allotment Letter are sold on or before the last date for registration of renunciation, the purchaser will generally be liable to stamp duty reserve tax at the rate of 50p per £100 (or part of £100) of the consideration paid;
- (iii) the transfer on the sale of or the entry into an agreement to transfer new Ordinary Shares represented by Provisional Allotment Letters after the last date for registration of renunciation will generally give rise to a liability to stamp duty reserve tax at the rate of 50p per £100 (or part of £100) of the actual consideration. If a document of transfer is executed, stamp duty, generally at the rate of 50p per £100 (or part of £100) of the actual consideration, will be payable on the document in question. Payment of the stamp duty, within six years of the charge to stamp duty reserve tax arising will result in the cancellation of the corresponding charge to stamp duty reserve tax and a refund of the stamp duty reserve tax actually paid. Liability to pay any stamp duty or stamp duty reserve tax is normally that of the transferee or purchaser.

(b) Capital gains tax

- (i) The issue of new Ordinary Shares will be treated as a reorganisation of the Company's share capital for the purposes of the United Kingdom taxation on capital gains. No liability to United Kingdom taxation on capital gains will arise if a Qualifying Shareholder takes up his entitlement to new Ordinary Shares in full.
- (ii) If Qualifying Shareholders who are resident or ordinarily resident (for taxation purposes) in the United Kingdom sell some or all of the new Ordinary Shares provisionally allotted to them, or their rights to them, or if Qualifying Shareholders allow their rights to lapse and receive a cash payment pursuant to the arrangements referred to in paragraph 2(d) above, they may, depending on their individual circumstances, incur a liability to United Kingdom taxation on capital gains.
- (iii) For the purposes of United Kingdom taxation of capital gains, any new Ordinary Shares taken up pursuant to a Qualifying Shareholder's rights will be treated as the same asset as the Qualifying Shareholder's existing Ordinary Shares by virtue of which the new Ordinary Shares are obtained and the price paid for such new Ordinary Shares will be added to the base cost of such existing Ordinary Shares (although for the purpose of the indexation allowance, the consideration for such new Ordinary Shares will be treated as having been incurred at the time when it was actually paid or liable to be paid).
- (iv) If the sale proceeds of a Qualifying Shareholder's rights are less than the greater of £3,000 and 5 per cent. of the value of his existing Ordinary Shares they may be deducted from the base cost of those shares for taxation purposes so that no immediate liability to United Kingdom taxation on capital gains will arise.

(c) Advance corporation tax

On 2 July 1997, the Chancellor of the Exchequer announced the introduction of reforms of the UK taxation treatment of dividends. The following summary is based on current UK law and Inland Revenue practice and on the changes proposed to be made as embodied in the Finance (No. 2) Act 1997 and the recent pre-Budget report. It does not apply to certain classes of shareholders. Any shareholder who is in any doubt concerning his position should consult his own professional adviser.

The Company is not required to withhold tax at source when it pays a dividend. However, it is required to account to the Inland Revenue for Advance Corporation Tax (ACT), currently at the rate of 25 per cent. of the cash dividend paid. The Chancellor of the Exchequer announced, in his pre-Budget report, that legislation would be introduced to remove the requirement on companies to account for ACT when paying a dividend with effect from 6 April 1999.

Currently, individual shareholders resident in the United Kingdom for tax purposes receive, together with any dividend, a tax credit equal to 20 per cent. of the dividend received and the associated tax credit. Individual shareholders who pay tax at the lower rate or basic rate only have no further tax liability in respect of the dividend. Individual shareholders who pay tax at the higher rate (currently 40 per cent.) are required to pay tax at that rate on the aggregate of the dividend and the tax credit received but can offset the tax credit against such liability. As a result, such shareholders are currently required to account for further tax equal to 20 per cent. of the dividend and the tax credit received. For these purposes a dividend will be treated as the top slice of an individual's income.

Whether individual shareholders who are not resident in the United Kingdom for tax purposes (other than Commonwealth citizens, EEA nationals, residents of the Channel Islands or the Isle of Man and certain other categories of shareholders) are entitled to claim the whole or any part of any tax credit in respect of a dividend will usually depend on the terms of any applicable double tax treaty between the United Kingdom and their jurisdiction of residence. Such shareholders may be subject to tax on such dividends in their jurisdiction of residence and should consult their own professional advisers.

UK resident corporate shareholders are not normally liable to UK corporation tax on any dividends received and will usually be able to treat such dividends as franked investment income. With effect from 2 July 1997, UK resident corporate shareholders (together with certain categories of exempt shareholders such as pension funds) are unable to reclaim the whole or any part of the tax credit attached to a dividend.

With effect from 6 April 1999, the tax credit attaching to a dividend will reduce to an amount equal to 10 per cent. of the dividend and the associated tax credit. As is the case now, individual shareholders resident in the United Kingdom and who pay tax at the lower or basic rate (which, in respect of dividend income, will reduce to 10 per cent. with effect from 6 April 1999) only will have no further tax liability in respect of the dividend. Individual shareholders resident in the United Kingdom who pay tax at the higher rate will pay tax at the higher rate (which, in respect of dividend income, will reduce to 32.5 per cent. with effect from 6 April 1999) on the dividend received and the tax credit, but will be able to offset the tax credit against such liability. With effect from 6 April 1999, individual shareholders will no longer be able to reclaim the whole or any part of any tax credit attaching to a dividend from the Inland Revenue.

The above statements are intended as a general guide to the current taxation position under United Kingdom law and Inland Revenue practice and may not apply to certain classes of shareholders, such as dealers. Any person who is in any doubt as to his taxation position or who is subject to taxation in any other jurisdiction should consult an appropriate professional adviser.

4. Overseas Shareholders

(a) General

The acceptance of the offer of new Ordinary Shares comprised in a Provisional Allotment Letter by persons who are resident in, or citizens of, countries other than the United Kingdom ("Overseas Shareholders") may be affected by the laws of the relevant jurisdiction. Such persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any applicable legal requirements to enable them to take up the new Ordinary Shares provisionally allotted to them. It is the responsibility of all Overseas Shareholders receiving a Provisional Allotment Letter and wishing to accept the offer of new Ordinary Shares to satisfy themselves as to the full observance of the laws of any relevant territory, including obtaining any necessary governmental or other consents which may be required, observing all other formalities needing to be observed and paying any issue, transfer or other taxes due in such territory

PART 2 — Further information relating to the Rights Issue — continued

No person receiving this document or a Provisional Allotment Letter in any territory other than the United Kingdom may treat the same as constituting an offer or invitation to him, nor should he in any event use a Provisional Allotment Letter unless, in the relevant territory, such an offer or invitation could lawfully be made to him and the Provisional Allotment Letter could lawfully be used without contravention of any unfulfilled registration or other legal requirements. The Company reserves the right to treat a provisional allotment represented by a Provisional Allotment Letter as having been declined if it believes acceptance of such allotment may violate applicable legal or regulatory requirements. In cases where Overseas Shareholders do not take up the new Ordinary Shares, such Shareholders will have the benefit of the arrangements described in paragraph 2(d) above under the heading "Procedure in respect of rights not taken up".

(b) United States of America and Canada

The new Ordinary Shares have not been and will not be registered under the US Securities Act of 1993 or under the securities legislation of any province or territory of Canada and, subject to certain exceptions, may not be offered or sold within the United States of America or Canada.

Unless otherwise determined by the Company in its sole discretion and effected in a lawful manner, Provisional Allotment Letters are not being sent to any Shareholder with a registered address in the United States of America or Canada who has not given to the Company an address in the United Kingdom for the service of notices. In cases where such Shareholders are unable to take up the new Ordinary Shares to which they are entitled the provisions of paragraph 2(d) above will apply. Accordingly, this document is being sent to such Shareholders for information only, is confidential and should not be copied or redistributed by them.

As used in this document and the Provisional Allotment Letters, "United States" means the United States of America, its territories and possessions, any State of the United States of America and the District of Columbia.

(c) Australia

In order to comply with Australian law, no Provisional Allotment Letters will be sent to Shareholders with registered addresses in Australia.

(d) Republic of Ireland

In order to comply with the law of the Republic of Ireland, no Provisional Allotment Letters will be sent to Shareholders with registered addresses in the Republic of Ireland.

(e) South Africa

In order to comply with South African law, Provisional Allotment Letters sent to Shareholders with registered addresses in South Africa will not be renounceable. Such Shareholders may require the approval of the South African exchange control authorities if they wish to take up their rights.

5. Executive Share Option Scheme

In accordance with the rules of the Company's Share Option Scheme the Directors propose to make adjustments to the number of Ordinary Shares comprised in options and/or the price at which options may be exercised and to the numerical limits imposed by the rules to take account of the Rights Issue. Such adjustments will be subject to written confirmation from the auditors of the Company that such adjustments are, in their opinion, fair and reasonable. Holders of options under the Share Option Scheme will be informed of the adjustments in accordance with the terms of the Share Option Scheme in due course.

PART 3 — Financial information relating to Pentex

Nature of financial information

The following financial information relating to Pentex has been extracted, without material adjustment, with the exception of a reclassification of turnover in 1995 between continuing and discontinued operations, from the audited financial statements of Pentex for each of the three years ended 30 June 1997. The financial information has been extracted from previously published sources and does not constitute statutory accounts within the meaning of the Companies Act 1985. Audited statutory accounts have been delivered to the Registrar of Companies for each of the three years ended 30 June 1997. Unqualified audit reports in accordance with the requirements of the Companies Act for each of the three years ended 30 June 1997 have been given by Grant Thornton, Chartered Accountants and Registered Auditors of Grant Thornton House, Melton Street, Euston Square, London NW1 2EP, being the auditors of Pentex for the relevant financial years.

Consolidated profit and loss accounts

	Notes	Year ended 30 June 1997 £'000	Year ended 30 June 1996 £'000	Year ended 30 June 1995 £'000
Turnover				
Continuing operations	2	22,740	13,156	—
Discontinued operations	2	1,882	24,011	14,081
	2	24,622	37,167	14,081
Cost of sales		(10,578)	(18,877)	(7,819)
Depletion		(4,705)	(2,640)	(79)
Gross profit		9,339	15,650	6,173
Administrative expenses		(2,825)	(1,702)	(506)
Operating profit				
Continuing operations		6,514	4,917	—
Discontinued operations		—	9,031	5,677
	3	6,514	13,948	5,677
Exceptional items	6	(43,317)	—	—
Net interest payable	7	(1,518)	(1,013)	(27)
(Loss)/profit on ordinary activities before taxation		(38,321)	12,935	5,650
Taxation on profit on ordinary activities	8	(751)	(1,493)	(310)
(Loss)/profit for the year		(39,072)	11,442	5,340
Dividends	9	(11,680)	(2,756)	(892)
Retained (loss)/profit for the year transferred to reserves	23	(50,752)	8,686	4,448
(Loss)/earnings per share (p)	10	(11.66)	4.43	4.57
Adjusted earnings per share (p)	10	1.50	4.41	3.07

Note: The Group's activities in 1995 were wholly related to the Melrose Partnership and therefore following the demerger and disposal of these activities in the financial year ended 30 June 1997 the turnover in respect of these activities has been reclassified as discontinued.

PART 3 — Financial and other information relating to Pentex — continued

Statement of total recognised gains and losses

	Year ended 30 June 1997 £'000	Year ended 30 June 1996 £'000	Year ended 30 June 1995 £'000
(Loss)/profit for the year	(39,072)	11,442	5,340
Currency translation differences on foreign currency net investment	(1,762)	41	(169)
	(40,834)	11,483	5,171

Reconciliation of movements in shareholders' funds

	Year ended 30 June 1997 £'000	Year ended 30 June 1996 £'000	Year ended 30 June 1995 £'000
(Loss)/profit for the year	(39,072)	11,442	5,340
Dividends paid and proposed	(11,680)	(2,756)	(892)
	(50,752)	8,686	4,448
Other recognised gains and losses relating to the year	(1,762)	41	(169)
New share capital subscribed	14,852	50,209	20,119
Goodwill reinstated in sale of discounted operations	26,169	—	—
Goodwill written off	(86)	(22,310)	(17,800)
Net (decrease)/increase in shareholders' funds	(11,579)	36,626	6,598
Opening shareholders' funds	50,375	13,749	7,151
Closing shareholders' funds	38,796	50,375	13,749

PART 3 — Financial and other information relating to Pentex — continued

Consolidated balance sheets

	Notes	As at 30 June 1997 £'000	As at 30 June 1996 £'000	As at 30 June 1995 £'000
Assets employed:				
Fixed assets				
Intangible	11	9,190	10,397	816
Tangible	11	43,008	62,369	11,396
Investments	12	10,773	13,953	5,029
		62,971	86,719	17,241
Current assets				
Stock	14	190	272	—
Debtors	15	5,052	12,213	4,692
Cash at bank and in hand	16	21,000	30,677	5,799
		26,242	43,162	10,491
Creditors: amounts falling due within one year	17	(10,385)	(20,750)	(9,835)
Net current assets		15,857	22,412	656
Total assets less current liabilities		78,828	109,131	17,897
Creditors: amounts falling due after more than one year	18	(32,156)	(49,374)	(3,396)
Provision for liabilities and charges	20	(7,876)	(9,382)	(752)
		38,796	50,375	13,749
Financed by:				
Capital and reserves				
Called up share capital	22	14,499	15,871	9,292
Capital redemption reserve fund	23	3,000	—	—
Share premium account	23	31,073	17,849	5,495
Other reserves	23	8,964	2,134	(6,873)
Profit and loss account	23	(18,740)	14,521	5,835
Equity shareholders' funds		38,796	50,375	13,749

PART 3 — Financial and other information relating to Pentex — continued

Consolidated cash flow statements

	Notes	Year ended 30 June 1997 £'000	Year ended 30 June 1996 £'000	Year ended 30 June 1995 £'000
Net cash inflow from operating activities	24	6,203	12,145	7,668
Returns on investments and servicing of finance				
Interest paid		(2,450)	(3,330)	(99)
Finance lease interest paid		(199)	(106)	—
Interest received		1,316	727	72
Taxation		(142)	(53)	—
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(5,469)	(4,451)	(2,026)
Purchase of fixed asset investments		—	—	(9)
Proceeds from sale of fixed assets		130	—	3
Investment in associated undertakings		—	(1,583)	(1,075)
Net cash outflow from capital expenditure and financial investment		(5,339)	(6,034)	(3,107)
Acquisitions and disposals				
Net cashflow from purchase of subsidiary undertakings		—	13,152	81
Purchase of interest in associated undertakings		(7,134)	—	—
Sale of subsidiary undertakings		(4,677)	—	—
Net cash (outflow)/inflow from acquisitions and disposals		(11,811)	13,152	81
Equity dividends paid		(1,841)	(1,510)	(464)
Financing				
Issue of shares		11,758	15,873	1,229
Expenses paid in connection with share issues		(618)	(1,060)	—
Capital element of finance lease rentals		(313)	(150)	—
Repayment of borrowings		(3,911)	(5,098)	(220)
Net cash inflow from financing		6,916	9,565	1,009
(Decrease)/increase in cash and cash equivalents		(7,347)	24,556	5,160

Notes to the financial statements

1 Accounting policies

The principal accounting policies of the Group are set out below. The policies have remained unchanged during each of the three years ended 30 June 1997.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings using the acquisition method. The financial statements of each company in the Group have been prepared for each of the three years ended 30 June 1997. All intra-group profits are eliminated on consolidation. Goodwill arising on consolidation is written off to reserves immediately on acquisition.

Associated undertakings

Undertakings, other than subsidiary undertakings, in which the Group has a participating interest and over which the Group exerts significant influence are treated as associated undertakings.

The Group's share of the results of the associated undertakings is included in the Group profit and loss account. Where audited financial statements are not coterminous with those of the Group, the share of the results of the associated undertakings is taken from the latest audited financial statements that are available.

The Group balance sheet includes the investment in associated undertakings at the Group's share of net assets. Any goodwill arising is written off directly against reserves on acquisition.

Turnover

Turnover consists of revenues from the sale of oil and gas and income receivable from limited partnerships for management services provided and for the arranging of turnkey drilling contracts on behalf of the limited partnerships. Income arising from the drilling contracts is recognised and profit is taken when the drilling contractor has been procured to fulfil the work specifications submitted by the partnerships.

Turnover in respect of the sale of oil and gas is the total amount receivable by the Group in the ordinary course of business with outside customers after the deduction of statutory severance and *ad valorem* taxes.

Petroleum revenue tax ("PRT")

PRT is provided for on a unit of production basis over the estimated economic life of each field to the extent that there is estimated that a liability will arise after taking into account available benefits and allowances.

Exploration and development costs

The Group follows the "full cost" method of accounting for costs incurred in the exploration and development of oil and gas properties.

Costs are capitalised in geographical cost pools categorised as UK onshore and UK offshore. The costs of acquisition of property (including rights and concessions) and plant and equipment are included in tangible fixed assets if they relate to proved properties. Exploration expenditure on unproved properties is initially classified as an intangible fixed asset and is excluded from the full cost pools pending determination of the recoverable reserves attributable to the Group's interests.

Investments made for the specific purpose of undertaking oil and gas exploration and development activities jointly with others are included in the full cost pool.

All costs associated with property acquisition, exploration and development are capitalised whether or not they result directly in commercial discoveries, subject to the limitation that capitalised costs less accumulated depletion do not exceed the estimated value of the proven and probable reserves of the Group. Proceeds from the disposal of oil and gas assets are deducted from the full cost pools.

Depletion

Capitalised costs in respect of oil and gas exploration and developments are depleted on the unit of production method based upon Directors' estimates of the proven and probable reserves of the Group.

Notes to the financial statements—continued

Depreciation

Depreciation is calculated by the straight line method to write down the cost less estimated residual value of fixed assets over their estimated useful lives. The rates generally applicable are:

Plant and equipment	10% to 20%
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Site restoration costs

Provision is made for site restoration costs calculated on a unit of production basis based on Directors' estimates of proven and probable reserves. Costs are estimated at current prices based upon the extent of decommissioning expected to be required.

Lease and hire purchase obligations

Assets held on finance leases and hire purchase contracts, where the risks and rewards of ownership have passed to the Group, are capitalised and depreciated in accordance with the Group's depreciation policy. Finance charges included in the total lease obligations are charged to the profit and loss account over the period of the lease at a constant proportion of the capital amount outstanding.

Operating lease rentals are charged to the profit and loss account as incurred.

Stocks

Stocks comprise oil in tanks and pipelines and materials and are stated at the lower of cost and net realisable value. Overlifts and underlifts of oil are valued at market value and are included in creditors or debtors respectively.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the transaction date. Monetary assets and liabilities are translated into sterling at the rate of exchange ruling at the balance sheet date. Differences on exchange arising from the translation of monetary assets and liabilities are dealt with through the profit and loss account subject to exchange differences arising on the translation of long term facilities to subsidiaries being taken to reserves.

Exchange differences arising from the translation, into sterling at year end rates, of assets and liabilities of foreign currency denominated branches are taken directly to reserves.

The balance sheets and profit and loss accounts of overseas subsidiaries are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the retranslation of opening balance sheet amounts are dealt with through reserves.

Deferred taxation

Deferred taxation is the taxation attributable to timing differences between profits or losses computed for taxation purposes and results as stated in the financial statements. Deferred taxation is provided for, to the extent that it is probable that a liability or asset will crystallise, at the rate at which it is estimated that the tax will be paid (or recovered) when the timing differences reverse. Unprovided deferred tax is disclosed as a contingent liability.

Pension costs

The Group contributes to a defined contribution pension scheme and to personal pension schemes. Contributions are charged to the profit and loss account as they become payable.

Notes to the financial statements—continued

2 Turnover and profit on ordinary activities before interest and taxation

Turnover and profit on ordinary activities before interest and taxation are attributable to the Group's principal activity of oil and gas exploration, development and production in the United Kingdom and the United States of America.

Segmental information	Turnover 1997 £'000	Operating profit 1997 £'000	Turnover 1996 £'000	Operating profit 1996 £'000	Turnover 1995 £'000	Operating profit 1995 £'000
Continuing operations:						
UK	22,740	8,615	13,156	4,917	—	—
Discontinued operations:						
USA	1,882	—	24,011	9,982	14,081	6,089
Group overheads	—	(2,101)	—	(951)	—	(412)
	24,622	6,514	37,167	13,948	14,081	5,677

A segmental analysis of oil and gas assets is provided in note 11. The Directors consider that the segmentation of other net operating assets between geographic areas is not practicable. There is no difference between origin and destination of turnover.

The Group's activities in 1995 wholly related to the Melrose Partnership and therefore following the demerger and disposal of these activities in the financial year ended 30 June 1997 the turnover in respect of these activities has been reclassified as discontinued.

3 Operating profit

The operating profit is stated after charging the following:

	1997 £'000	1996 £'000	1995 £'000
Auditors' remuneration			
—for audit services	57	50	40
—for other services	150	33	10
Depreciation	385	148	1
Foreign exchange loss/(gain)	1,064	202	(59)
Share of profits of associated undertakings	27	10	—
Operating lease costs	36	123	—

4 Staff costs

	1997 £'000	1996 £'000	1995 £'000
Staff costs, including executive Directors:			
Wages and salaries	1,999	1,292	252
Social security costs	186	83	16
Pension costs	58	140	—
	2,243	1,515	268
	Number	Number	Number
Average number of employees of the Group:			
Management and administration	13	11	5
Technical and operational	60	35	—
	73	46	5

Notes to the financial statements—continued

5 Directors' remuneration

	1997 £'000	1996 £'000	1995 £'000
Directors' emoluments	277	162	39
Fees	108	261	97
Pension	26	15	—
Compensation for loss of office	77	—	—
	488	438	136

6 Exceptional items

	1997 £'000	1996 £'000	1995 £'000
Loss on disposal of discounted operations	17,148	—	—
Goodwill transfer to profit and loss account previously written off to reserves	26,169	—	—
	43,317	—	—

7 Net interest payable

	1997 £'000	1996 £'000	1995 £'000
Interest payable on bank loans, other loans and overdrafts repayable			
—within five years, otherwise than by instalments	74	24	99
—after more than five years, otherwise than by instalments	2,587	1,837	—
Finance charges in respect of leases	199	106	—
	2,860	1,967	99
Interest receivable	(1,342)	(954)	(72)
	1,518	1,013	27

8 Taxation on profit on ordinary activities

	1997 £'000	1996 £'000	1995 £'000
UK corporation tax at 32.5% (1996: 33%, 1995: 33%)	1,628	133	131
Deferred tax	(877)	1,360	179
	751	1,493	310

The taxation charge for all three years has been reduced by the availability of losses brought forward from previous years.

There are unrelieved tax losses at 30 June 1997 of approximately £3 million (1996: £10 million, 1995: £3 million) available for offset against future taxable profits.

PART 3 — Financial and other information relating to Pentex — continued

Notes to the financial statements—continued

9 Dividends

	1997 £'000	1996 £'000	1995 £'000
Ordinary shares:			
Interim dividend nil (1996: 0.29p per share, 1995: 0.16p)	—	915	297
Final dividend of 0.2p per share (1996: 0.58p, 1995: 0.32p)	580	1,841	595
	580	2,756	892

Demerger dividend

This comprises shares in the Melrose Petroleum Group Limited. The resolution to give effect to the demerger, which was passed at the Extraordinary General Meeting on 7 May 1997, approved a dividend of £11.1 million to the ordinary "B" shareholders and such dividend was satisfied by the transfer of the shares in Melrose Petroleum Group Limited

11,100	—	—
11,680	2,756	892

10 Earnings per share

Earnings per share have been calculated by dividing the loss after taxation for the year ended 30 June 1997 of £39,072,000 (1996: profit £11,442,000, 1995: profit £5,340,000) by the weighted average number of shares in issue of 334,966,324 (1996: 121,088,000, 1995: 116,809,000). Fully diluted earnings per share is not materially different to the quoted amount.

Adjusted earnings per share

Adjusted earnings per share has been calculated on the basis of the adjustments set out below to take account of the full year effect of the subsidiary undertakings disposed of and acquired during the three years:

	1997 £'000	1996 £'000	1995 £'000
(Loss)/profit for the year	(39,072)	11,442	5,340
Adjustments:			
Effect of acquisition of Pentex group of companies with effect from 1 July 1995 (together with accompanying Rights Issue)	—	2,200	—
Effect of acquisition of Melpet 1 Limited	—	131	—
Effect of loss on disposal of discontinued operations	43,317	—	—
Effect of acquisition of Melrose Petroleum group of companies with effect from 1 July 1994	—	—	187
Adjusted profit for the year	4,245	13,773	5,527
	Number	Number	Number
Adjusted weighted average number of ordinary shares	283,843,036	312,635,000	186,723,000
Adjusted earnings per share (p)	1.50	4.41	2.96

PART 3 — Financial and other information relating to Pentex — continued

Notes to the financial statements—continued

11 Fixed assets — tangible and intangible

	Exploration and development costs Intangible £'000	Exploration and development costs Tangible £'000	Plant and equipment £'000	Total Tangible £'000
Cost				
At 1 July 1995	816	14,576	51	14,627
Currency movements	(155)	(351)	2	(349)
Additions	—	4,390	1,134	5,524
Acquisition of subsidiary undertakings	10,000	46,986	1,395	48,381
Reclassification	(264)	264	—	264
At 30 June 1996	10,397	65,865	2,582	68,447
Currency movements	(655)	(3,889)	(5)	(3,894)
Additions	—	5,384	1,285	6,669
Disposal of subsidiary undertakings	(552)	(20,622)	(84)	(20,706)
Disposals	—	(136)	(46)	(182)
At 30 June 1997	9,190	46,602	3,732	50,334
Depletion and depreciation				
At 1 July 1995	—	3,190	41	3,231
Currency movements	—	58	1	59
Provided during the year	—	2,640	148	2,788
At 30 June 1996	—	5,888	190	6,078
Currency movements	—	(459)	(3)	(462)
Provided during the year	—	4,704	385	5,089
Disposal of subsidiary undertakings	—	(3,320)	(59)	(3,379)
At 30 June 1997	—	6,813	513	7,326
Net book value at 30 June 1997	9,190	39,789	3,219	43,008
Net book value at 30 June 1996	10,397	59,977	2,392	62,369

Tangible exploration and development costs comprise four cost pools:

	As at 30 June 1997 £'000	As at 30 June 1996 £'000
UK onshore	38,070	39,899
UK offshore	1,719	2,362
US onshore	—	16,924
US offshore	—	792
	39,789	59,977

Intangible fixed assets are in respect of costs held outside the full cost pools against which no depletion has been charged as at each financial year end. These costs are in respect of the Group's interests in exploration licences in Italy and the coal bed methane project in the United Kingdom and as at 30 June 1996 also included the Group's interests in the outer continental shelf prospects generated by Louisiana Offshore Ventures in the Gulf of Mexico.

The costs incurred in oil and gas property additions related to development costs for field development.

PART 3 — Financial and other information relating to Pentex — continued

Notes to the financial statements—continued

11 Fixed assets — tangible and intangible—continued

In 1996 pre-production costs incurred in oil and gas property acquisitions, exploration and development were capitalised as follows:

	£'000
Development costs	1,909
Acquisition of properties	2,481
	<u>4,390</u>

Development costs amounting to £503,000 have been borne by the Melrose Partnerships on behalf of the Group in respect of its carried interests in certain properties in the USA.

Share of development costs of associated undertakings:

	£'000
At 1 July 1995	4,361
Development costs incurred during the period	3,944
Acquisition of associated undertakings	(667)
At 30 June 1996	<u>7,638</u>

Assets held under finance leases

Plant and equipment includes assets held under finance leases at cost of £3,203,000 (1996: £2,101,000) and accumulated depreciation of £338,000 (1996: £89,000). Depreciation provided during the year ended 30 June 1997 in respect of finance leases amounted to £249,000 (1996: £89,000).

12 Investments

	1997 £'000	1996 £'000
Interests in associated undertakings	10,773	3,431
Amounts owed by associated undertakings	—	10,522
	<u>10,773</u>	<u>13,953</u>

Interests in associated undertakings

At 30 June 1997 the Group had a 40.25% interest in Sibir Energy plc.

At June 1996 the Group, through subsidiary undertakings, was general partner to the Melrose Partnerships and, as such, exercised significant influence over the affairs of those entities. Accordingly, the Melrose Partnerships were included as associated undertakings. The Group was entitled to a 0.1% share of the Partnerships' profits or losses in the first two accounting periods. Thereafter, the Group was entitled to a 20.1% share of the Partnerships' profits or losses. The Group disposed of its interests in the Melrose Partnerships on 7 May 1997.

PART 3 — Financial and other information relating to Pentex — continued

Notes to the financial statements—continued

13 Investments in subsidiary undertakings

The Group's subsidiary undertakings at 30 June 1997, all of which are wholly owned, are listed below by country of operation. Unless otherwise stated all companies are directly held by the parent undertaking, incorporated in Great Britain and registered in England and Wales.

	Class of share capital held	Nature of business
Pentex Oil PLC (registered in Scotland)	Ordinary	Intermediate holding company
Pentex Oil UK Limited * (registered in Scotland)	Ordinary	Oil and gas development and production
Pentex Oil & Gas Limited*	Ordinary	Oil and gas development and production
Crossroads International Limited	Ordinary	Intermediate holding company
Gairloch Oil & Gas Investments Company Limited (registered in Scotland)	Ordinary	Intermediate holding company
Guernsey		
Melrose Overseas Investments Limited*	Common	Intermediate holding company
Italy		
Pentex Italia Limited*	Ordinary	Oil and gas exploration, development and production

*indirectly held

Disposals during 1997

Melrose Petroleum Group Limited

On 7 May 1997 Pentex disposed of the entire issued share capital of Melrose Petroleum Group Limited. The net assets and liabilities disposed of comprised:

	£'000
Tangible fixed assets	17,879
Investments in associates	3,431
Debtors	19,039
Cash at bank and in hand	6,604
Creditors	(14,872)
Provision for liabilities and charges	(756)
	<u>31,325</u>
Loss on disposal	(17,148)
Expenses of disposal	(577)
	<u>13,600</u>
Satisfied by:	
Cash	2,500
Dividend	11,100
	<u>13,600</u>

PART 3 — Financial and other information relating to Pentex — continued

Notes to the financial statements—continued

13 Investments in subsidiary undertakings—continued

Acquisitions during 1996

(i) Pentex Oil PLC

On 13 December 1995 the Group acquired the entire issued share capital of Pentex Oil PLC.

The assets and liabilities acquired comprised:

	At book value £'000	Fair value adjustments £'000	At fair value £'000
Intangible fixed assets	12,624	(2,624)	10,000
Tangible fixed assets	46,327	(1,186)	45,141
Stocks	222	—	222
Debtors	3,160	—	3,160
Cash at bank and in hand	13,152	—	13,152
Total assets	75,485	(3,810)	71,675
Bank loans and overdrafts	(47,294)	—	(47,294)
Creditors	(3,630)	—	(3,630)
Provision for liabilities and charges	(4,561)	(2,619)	(7,180)
	20,000	(6,429)	13,571

Goodwill written off to reserves

21,320

34,891

Satisfied by:

Issue of shares

34,891

The fair value adjustments comprise:

	£'000
Revaluation of oil and gas assets	(3,810)
Provisions for onerous lease obligations	(940)
Re-assessment of abandonment obligations	(1,679)
	(6,429)

The results of Pentex Oil PLC for the period prior to acquisition and the previous financial year are summarised below:

	Period from 1 January 1995 to date of acquisition £'000	Year ended 31 December 1994 £'000
Turnover	20,188	22,932
Cost of sales	(14,254)	(16,703)
Gross profit	5,934	6,229
Administrative expenses	(364)	(507)
Operating profit	5,570	5,722
Net interest payable	(2,505)	(2,467)
Profit on ordinary activities before tax	3,065	3,255
Taxation	—	—
Profit on ordinary activities after tax	3,065	3,255

PART 3 — Financial and other information relating to Pentex — continued

Notes to the financial statements—continued

Statement of total recognised gains and losses

	Period from 1 January 1995 to date of acquisition £'000
Profit for the period	3,065
Currency translation difference on foreign currency net investment	285
	<u>3,350</u>

(ii) Melpet Limited

On 23 April 1996 the Melrose Partnerships Series 1 Nos 1-4 were incorporated as Melpet 1 Limited with the Group receiving 20.1% of the issued share capital. On 6 June 1996 Pentex acquired the remaining 79.9% of the issued ordinary share capital of Melpet 1 Limited. The assets and liabilities acquired comprised:

	At book value £'000	Fair value adjustments £'000	At fair value £'000
Tangible fixed assets	3,240	—	3,240
Debtors	49	—	49
Total assets	3,289	—	3,289
Creditors	(481)	—	(481)
	<u>2,808</u>	<u>—</u>	<u>2,808</u>
Share of net assets of associated undertakings acquired			(396)
Net assets acquired			2,412
Goodwill written off to reserves			990
			<u>3,402</u>
Satisfied by:			
Cash			2,896
Issue of shares			506
			<u>3,402</u>

14 Stock

	1997 £'000	1996 £'000
Hydrocarbons	90	141
Materials and supplies	100	131
	<u>190</u>	<u>272</u>

Notes to the financial statements—continued

15 Debtors

	1997 £'000	1996 £'000
Trade debtors	2,476	2,048
Amounts owed by associated undertakings	228	7,452
Advance corporation tax recoverable	1,099	953
Other debtors	1,052	1,065
Prepayments and accrued income	197	695
	<u>5,052</u>	<u>12,213</u>

16 Cash at bank and in hand

Cash at bank and in hand includes £7,075,000 (1996: £15,980,000) held in restricted accounts reserved exclusively to meet certain of the Group's site restoration obligations, the comparative number included drilling commitments in addition to site restoration costs. A further £7,392,000 (1996: £7,533,000) is held by the Group as collateral against the Group's bank loans.

17 Creditors: amounts falling due within one year

	1997 £'000	1996 £'000
Bank loans and overdrafts	4,176	3,463
Trade creditors	855	9,889
Current taxation	2,848	1,217
Other creditors	912	3,404
Proposed dividends	580	1,841
Accruals and deferred income	614	682
Amounts due under finance leases	400	254
	<u>10,385</u>	<u>20,750</u>

18 Creditors: amounts falling due after more than one year

	1997 £'000	1996 £'000
Bank loans and overdrafts	29,856	37,443
Trade creditors	—	10,246
Amounts due under finance leases	2,300	1,685
	<u>32,156</u>	<u>49,374</u>

Notes to the financial statements—continued

19 Borrowings

	Bank loans and overdrafts £'000	Finance leases £'000	1997 Total £'000	Bank loans and overdrafts £'000	Finance leases £'000	1996 Total £'000
Repayable:						
In less than one year	4,176	400	4,576	3,463	254	3,717
Between one and two years	3,965	434	4,399	13,002	276	13,278
Between two and five years	11,895	1,485	13,380	17,805	979	18,784
After five years	13,996	381	14,377	6,636	430	7,066
	34,032	2,700	36,732	40,906	1,939	42,845

Bank loans and overdrafts includes an amount of £34,032,000 (1996: £40,478,000) drawn down under a dollar denominated revolving credit facility of US\$79,000,000 (1996: US\$79,000,000). Pentex Oil PLC has granted a bond and floating charge over all of its property and undertakings. Interest is payable at between 0.5% and 1.5% above LIBOR on the outstanding balance. The facilities are available on a revolving credit basis with all amounts repayable by 31 December 2003. The scheduling of repayments is dependent upon six monthly borrowing base calculations which are determined by reference to production deriving from oil and gas reserves, operating and capital expenditures and economic assumptions including oil prices and exchange rates.

20 Provision for liabilities and charges

	Site restoration £'000	Deferred tax £'000	Others £'000	Total £'000
At 1 July 1995	—	752	—	752
Currency movement	—	5	—	5
Acquisition of subsidiaries	6,240	—	940	7,180
Provided during the year	85	1,360	—	1,445
At 30 June 1996	6,325	2,117	940	9,382
Disposal of subsidiary undertakings	—	(757)	—	(757)
Provided/(released) during the year	257	(877)	(129)	(749)
At 30 June 1997	6,582	483	811	7,876

21 Deferred taxation

Deferred taxation provided for and not provided for in the financial statements is set out below:

	1997 £'000	1996 £'000
Amounts provided:		
Retained earnings of overseas subsidiaries	—	385
Short term timing differences	483	1,732
	483	2,117

The Group has unrelieved tax losses of approximately £2,834,000 (1996: £10,000,000) which have not been taken into account in the deferred tax provision and are available to set off against future taxable trading profits. The utilisation of these tax losses is restricted. The Group has unprovided deferred tax of £5,328,000 (1996: £4,964,000) in respect of accelerated capital allowances.

Notes to the financial statements—continued

22 Share capital

	1997 £'000	1996 £'000
Authorised:		
440,000,000 (1996: 440,000,000) ordinary shares of 5p each	22,000	22,000
Allotted, called up and fully paid:		
289,963,216 (1996: 316,151,067) ordinary shares of 5p each	14,499	15,808
To be allotted as called up and fully paid 1,256,064 ordinary shares of 5p each	—	63
	14,499	15,871

1997

On 5 September 1996, 24,109,443 and 7,631,257 ordinary shares were allotted at 48p and 48.625p per share respectively in consideration for the acquisition of an interest in Sibir Energy plc and to raise funds for working capital purposes.

On 27 September 1996, 730,385 ordinary shares were allotted pursuant to the exercise of options under the employee option plan at prices ranging from 19p to 26p per share.

On 4 December 1996, 85,000 ordinary shares were issued at a price of 20p due to the exercise of options under the executive share option scheme.

On 7 May 1997, in connection with the demerger of all the Company's in the Melrose partnership activities and US oil and gas properties to RHK Nominees Limited by a special resolution passed at an Extraordinary General Meeting 60,000,000 ordinary 5p shares in the Company held by RHK Nominees Limited were redesignated as "B" ordinary 5p shares. The ordinary 5p shares not redesignated as "B" ordinary 5p shares were designated as "A" ordinary 5p shares. The A and "B" ordinary 5p shares ranked *pari passu* in all respects except that the "A" ordinary 5p shares carried the sole right to participate in any distributions made by the Company directly or indirectly representing or attributable to the entire assets of the Company other than the "B" Assets. The "B" Assets meant the entire issued share capital of the Melrose Petroleum Group Limited. The "B" ordinary 5p shares carried the sole right to participate in any distribution made by the Company directly or indirectly representing or attributable to Melrose Petroleum Group Limited.

On 7 May 1997 by ordinary resolution passed at an extraordinary meeting a dividend was declared on the "B" ordinary 5p shares. This dividend was satisfied by Pentex Group's entire shareholding in Melrose Petroleum Group Limited which owned all the demerged entities. Forthwith on making the distribution the "B" ordinary 5p shares were redesignated as Special Deferred Shares. On 12 June 1997 the Company under the terms of a special resolution passed on 7 May 1997 purchased from RHK Nominees Limited for 1p the Special Deferred Shares because they no longer had any value following the distribution of the shareholding in Melrose Petroleum Group Limited to which they were entitled. On the purchase of the Special Deferred Shares an amount of £3 million was transferred to the Capital Redemption Reserve Fund representing the nominal value of the shares purchased and thus removed from the Company's issued share capital. On the redesignation of the "B" ordinary 5p shares as Special Deferred Shares and the subsequent purchase thereof by the Company the ordinary shares of the Company were redesignated as ordinary shares of 5p and the authorised share capital of the Company was £22,000,000 divided into 440,000,000 ordinary 5p shares each ranking *pari passu* in all respects.

Notes to the financial statements—continued

22 Share capital—continued

1996

At an Extraordinary General Meeting of the Company on 11 December 1995 a resolution was passed to increase the authorised share capital of the Company to £22,000,000 by the creation of an additional 195,000,000 ordinary shares.

On 27 October 1995, 8,088,594 ordinary shares were allotted at 25p per share to warrant holders in conversion of warrants on the first subscription date. On 6 June 1996 a further 2,285,655 ordinary shares were allotted at 29p per share on conversion of the remaining warrants.

On 13 December 1995, 81,141,102 ordinary shares were allotted at 43p per share in consideration for the acquisition of the entire issued share capital of Pentex Oil PLC.

On 6 January 1996, 38,787,385 ordinary shares were allotted at 34p per share by way of a one for five Rights Issue to provide funds for working capital.

On 23 July 1996, 1,256,063 ordinary shares were allotted at 40.25p per share in part consideration for the acquisition of Melpet 1 Limited.

23 Reserves

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
At 1 July 1995	5,495	(6,873)	5,835
Premium on shares issued (net of expenses)	12,354	31,276	—
Goodwill	—	(22,310)	—
Profit for the year	—	—	8,686
Exchange differences	—	41	—
At 30 June 1996	17,849	2,134	14,521
Premium on shares issued (net of expenses)	13,224	—	—
Goodwill	—	(86)	—
Loss for the year	—	—	(50,752)
Goodwill transfer	—	26,169	—
Capital redemption reserve fund	—	3,000	—
Exchange differences	—	—	(1,762)
Realisation of section 131 merger relief reserve	—	(19,253)	19,253
At 30 June 1997	31,073	11,964	(18,740)

The cumulative amount of goodwill arising from acquisitions which has been written off to Other Reserves amounts to £21,320,000 (1996: £47,489,000).

PART 3 — Financial and other information relating to Pentex — continued

Notes to the financial statements—continued

24 Net cash inflow from operating activities

	1997 £'000	1996 £'000	1995 £'000
Operating profit	6,514	13,948	5,677
Depletion and depreciation	5,089	2,788	80
Decrease/(Increase) in stock	82	(50)	—
Increase in debtors	(271)	(11,134)	(3,622)
(Decrease)/Increase in creditors	(5,339)	6,508	5,533
Site restoration provisions	128	85	—
Net cash inflow from operating activities	6,203	12,145	7,668

25 Reconciliation of net cash flow to movement in net debt

	1997 £'000	1996 £'000	1995 £'000
(Decrease)/Increase in cash in the year	(7,347)	24,556	5,160
Cash outflow from repayment of borrowings	3,911	5,098	220
Cash outflow from finance leases	313	150	—
Change in net debt resulting from cash flows	(3,123)	29,804	5,380
Loans and finance lease acquired with subsidiary	—	(47,294)	—
Effect of foreign exchange changes	633	596	—
Other non-cash items	(1,074)	(1,073)	—
Movement in net debt in the year	(3,564)	(17,967)	5,380
Net debt at 1 July	(12,168)	5,799	419
Net debt at 30 June	(15,732)	(12,168)	5,799

PART 3 — Financial and other information relating to Pentex — continued

26 Analysis of changes in net debt

Cash and cash equivalents comprise:

	As at 1 July 1994 £'000	Cashflow £'000	Non cash £'000	Exchange movements £'000	As at 30 June 1995 £'000
Cash at bank and in hand	660	5,139	—	—	5,799
Bank overdrafts	(21)	21	—	—	—
	639	5,160	—	—	5,799
Debt	(220)	220	—	—	—
Finance leases	—	—	—	—	—
	419	5,380	—	—	5,799

	As at 1 July 1995 £'000	Cashflow £'000	Non cash £'000	Acquisition of a subsidiary £'000	Exchange movements £'000	As at 30 June 1996 £'000
Cash at bank and in hand	5,799	24,984	—	—	(106)	30,677
Bank overdrafts	—	(428)	—	—	—	(428)
	5,799	24,556	—	—	(106)	30,249
Debt	—	5,098	—	(46,278)	702	(40,478)
Finance leases	—	150	(1,073)	(1,016)	—	(1,939)
	5,799	29,804	(1,073)	(47,294)	596	12,168

	As at 1 July 1996 £'000	Cashflow £'000	Non cash £'000	Exchange movements £'000	As at 30 June 1997 £'000
Cash at bank and in hand	30,677	(7,565)	—	(2,112)	21,000
Bank overdrafts	(428)	218	—	—	(210)
	30,249	(7,347)	—	(2,112)	20,790
Debt	(40,478)	3,911	—	2,745	(33,822)
Finance leases	(1,939)	313	(1,074)	—	(2,700)
	(12,168)	(3,123)	(1,074)	633	(15,732)

27 Capital commitments and contingencies

	1997 £'000	1996 £'000
Capital commitments:		
Contracted for	1,075	1,644
Authorised but not contracted for	—	50
	1,075	1,694

Contingent liabilities

With the exception of unprovided deferred tax (note 21 refers), the Group had no other contingent liabilities at 30 June 1997 or 30 June 1996.

Notes to the financial statements—continued

28 Other financial commitments

	Land and buildings £'000	Other £'000	1997 £'000	Land and buildings £'000	Other £'000	1996 £'000
Operating lease commitments:						
On leases expiring:						
Within one year	—	8	8	—	6	6
Between one and five years	30	93	123	—	48	48
After five years	140	—	140	240	—	240
	170	101	271	240	54	294

29 Pension commitments

The Group contributes to a defined contribution pension scheme which is administered by Standard Life Assurance Company and to various personal pension schemes.

30 Post balance sheet events

1997

On 22 August 1997 the Company issued 82,142 new ordinary shares for cash at a price of 14p.

PART 4 — Pro forma statement of net assets

Set out below is the pro forma statement of net assets of the Group illustrating the effect of the Proposed Transactions and the take-up of rights in Sibir Energy.

The pro forma statement of net assets is based on the audited consolidated balance sheet of the Group as at 30 June 1997 and the adjustments set out in the notes below. The pro forma statement is prepared for illustrative purposes only and, because of its nature, may not give a true picture of the Group's financial position.

Net assets

	Pentex as at 30 June 1997 £'000	Adjustments £'000	Pro forma £'000
Fixed assets			
Intangible	9,190	—	9,190
Tangible	43,008	—	43,008
Investments	10,773	8,997	19,770
	62,971	8,997	71,968
Stock	190	—	190
Debtors	5,052	—	5,052
Cash at bank and in hand	21,000	(5,795)	15,205
	26,242	(5,795)	20,447
Creditors: amounts falling due within one year	(10,385)	(183)	(10,568)
Net current assets	15,857	(5,978)	9,879
Total assets less current liabilities	78,828	3,019	81,847
Creditors: amounts falling due after more than one year	(32,156)	9,256	(22,900)
Provisions for liabilities and charges	(7,876)	—	(7,876)
Net assets	38,796	12,275	51,071

Notes:

- The following adjustments have been made in arriving at the pro forma statement of net assets of the Group:
 - the proceeds (before expenses) of £7.4 million from the Enron Subscription;
 - the estimated proceeds of US\$28.5 million from the Prepaid Swap, converted into sterling at the rate of \$1.6643 : £1, being the exchange rate at 30 June 1997;
 - the proceeds (before expenses) of £5.4 million from the Rights Issue, assuming all shareholders take up their entitlements under the Rights Issue;
 - the full take up of the rights in Sibir Energy of £9.0 million;
 - the repayment of bank borrowings of US\$43.6 million, converted into sterling at the rate of US\$1.6643 : £1, being the exchange rate at 30 June 1997;
 - expenses of £525,000.
- No adjustment has been made in respect of trading by the Group since 30 June 1997.
- No account has been taken in the above of the proceeds, if any, which may arise from the exercise of the Warrants to be issued as described in Part 5.



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Strand Partners Limited
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24 December 1997

Dear Sirs

Pentex Energy plc

We have reviewed the calculations and basis of preparation of the pro forma statement of net assets as at 30 June 1997 of Pentex Energy plc and its subsidiary undertakings (the pro forma statement), for which the Directors of Pentex Energy plc are solely responsible. The pro forma statement, which has been prepared for illustrative purposes only, is set out in Part 4 of the Listing Particulars dated 24 December 1997.

In our opinion:

- the pro forma statement has been properly compiled on the basis of preparation set out therein;
- the pro forma statement is presented on a basis consistent with the accounting policies of Pentex Energy plc; and
- the adjustments are appropriate for the purposes of the pro forma statement as disclosed pursuant to paragraph 12.29 of the Listing Rules.

Yours faithfully

KPMG Audit Plc

PART 5 — Further information relating to the Warrants

Up to 35,942,032 Warrants to subscribe for 35,942,032 new Ordinary Shares (each such new Ordinary Share being hereafter in this Appendix referred to as a "Share") will be issued to the Enron Group and Shareholders on the basis explained in Part I and subject to and with the benefit of the following terms and conditions. It is expected that Warrant certificates will be sent to Shareholders by first class post not later than 23 January 1998 save in the case of Warrants issued in respect of new Ordinary Shares issued pursuant to the Rights Issue, which will be sent to the persons entitled thereto by first class post not later than 28 February 1998.

Warrant certificates will not be renounceable but will be transferable in the same way as ordinary shares held in certificated form.

1. SUBSCRIPTION RIGHTS

- 1.1 A registered holder for the time being of a Warrant (a "Warrantholder") shall have rights to subscribe ("Subscription Rights") for Shares in cash on any day (a "Subscription Date") on which dealings may take place in Shares on the London Stock Exchange (a "dealing day") from the date set out in each Warrant Certificate to 30 June 1998 (both days inclusive) for all or any of the number of new shares specified on the face of the certificate representing the Warrant (a "Warrant Certificate") at a price of 18.5 pence per Share (the "Subscription Price"), payable in full on subscription. The number and/or nominal value of Shares to be subscribed and/or Subscription Price will be subject to adjustment as provided in paragraph 2 below.
- 1.2 In order to exercise the Subscription Rights in whole or in part, the Warrantholder must lodge the Warrant Certificate, having completed the notice of subscription thereon, at the office of the registrars for the time being of the Company on a Subscription Date, accompanied by a remittance for the aggregate Subscription Price for the Shares in respect of which the Subscription Rights are being exercised. Once lodged, a notice of subscription shall be irrevocable save with the consent of the Directors of the Company. Compliance must also be made with any statutory, regulatory, or governmental requirements for the time being applicable.
- 1.3 Shares issued pursuant to the exercise of Subscription Rights will be allotted not later than 14 days after, and with effect from, the relevant Subscription Date and certificates in respect of such Shares will be issued free of charge and despatched (at the risk of the person(s) entitled thereto) not later than 28 days after the relevant Subscription Date to the person(s) in whose name the Warrant is registered on the relevant Subscription Date (and, if more than one, to the first-named which shall be sufficient despatch for all) or (subject as provided by law and to the payment of stamp duty reserve tax or any like tax) to such other person(s) as may be named in the form of nomination available for the purpose from the registrars for the time being of the Company (and, if more than one, to the first named which shall be sufficient despatch for all). In the event of a partial exercise of the Subscription Rights evidenced by a Warrant Certificate, the Company shall issue free of charge a fresh Warrant Certificate in the name of the Warrantholder for the balance of his Subscription Rights remaining exercisable.
- 1.4 No fractions of a Share will be issued on the exercise of any Warrant, provided that if more than one Warrant is exercised at the same time by the same holder then, for the purposes of determining the number of Shares to be issued upon the exercise of such Warrants and whether a (and, if so, what) fraction of a share arises, the number of Shares arising on the exercise of each Warrant (including for this purpose fractions) shall first be aggregated. Any fractions of Shares arising on the exercise of Warrants on any Subscription Date shall be aggregated and, if practicable, sold in the market. The net proceeds of such sale will be paid to the holders of Warrants entitled thereto in proportion to the fractions arising on exercise of their Warrants, save that amounts of less than £3.00 will be retained for the benefit of the Company.
- 1.5 Shares allotted pursuant to the exercise of Subscription Rights will not rank for any dividends or other distributions declared, paid or made in respect of any accounting period of the Company ended prior to 1 July 1998 but subject thereto will rank in full for all dividends and (save insofar as an adjustment has been made in respect thereof following a capitalisation under paragraph 2.1 or under paragraph 2.2) other distributions in respect of the accounting period ending on or after 1 July 1998 and *pari passu* in all other respects with the Shares in issue at the relevant Subscription Date.
- 1.6 For so long as the Company's ordinary share capital is listed on the London Stock Exchange, the Company shall apply to the London Stock Exchange for the Shares allotted pursuant to the exercise of Subscription Rights to be admitted to the Official List and the Company will use all reasonable endeavours to obtain the admission thereof not later than 14 days after the relevant Subscription Date.
- 1.7 If at any time less than 25 per cent. of the Warrants originally issued remain outstanding, the Company shall be entitled, on giving not less than 14 days' notice in writing to the Warrantholders, to appoint a trustee who, provided that in his opinion the proceeds of sale after deduction of all costs and expenses incurred by him will exceed the Subscription Price, shall

PART 5 — Further information relating to the Warrants—continued

within the period of 14 days following such appointment either exercise such Subscription Rights as have not been exercised on the terms on which the same could have been exercised on the preceding Subscription Date (subject to adjustment pursuant to paragraph 2) and sell in the market the Shares acquired on such subscription or accept any offer available to Warrantholders for the purchase of those Warrants. The trustee shall distribute *pro rata* the proceeds less the Subscription Price and other costs and expenses to the persons entitled thereto as soon as practicable after such sale, provided that entitlements of under £3.00 shall be retained for the benefit of the Company.

- 1.8 Any Subscription Rights not exercised on or before 30 June 1998 will lapse.
- 1.9 The trustee referred to in paragraph 1.7 shall have no liability of any nature whatsoever where he has acted honestly and reasonably, and shall have no responsibility for the safe custody of, or to earn any interest on, any unpaid or unclaimed money.
- 1.10 Without prejudice to the generality of the final sentence of paragraph 1.2 above, the exercise of Subscription Rights by any holder or beneficial owner of Warrants who is a US Person, or the right of such a holder or beneficial owner of Warrants or other US Person to receive the Shares falling to be issued to him following the exercise of Subscription Rights, will be subject to such requirements, conditions, restrictions, limitations and/or prohibitions as the Company may at any time impose, in its absolute discretion, for the purpose of complying with the United States Securities Act of 1933 (the "Securities Act") and the rules or regulations promulgated under such law and any applicable securities laws of the United States. As used herein, "US Person" means any person or entity defined as such in Rule 902(o) under the Securities Act.

2. ADJUSTMENT OF SUBSCRIPTION RIGHTS

2.1 Forthwith on:

- (a) any allotment of fully paid Shares by way of capitalisation of profits or reserves to holders of Shares on the register on a date (or by reference to a record date) on or before 30 June 1998; or
- (b) any sub-division or consolidation of the Shares on a date (or by reference to a record date) on or before 30 June 1998

the number and/or nominal value of Shares to be subscribed on any subsequent exercise of Subscription Rights will be increased or, as the case may be reduced in due proportion (fractions being ignored) and the Subscription Price will be adjusted accordingly, with effect from the record date for such capitalisation, sub-division or consolidation. On any such capitalisation, sub-division or consolidation the auditors for the time being of the Company ("the Auditors") shall report on the appropriate adjustments and, within 28 days thereafter, notice thereof will be sent to each Warrantholder together with a Warrant Certificate in respect of the additional Shares (if any) for which the Warrantholder is entitled to subscribe in consequence of the grant of additional rights to subscribe as aforesaid. Such additional Subscription Rights shall confer the same rights and privileges and be subject to the same restrictions and obligations as are attached to the Subscription Rights which are in issue at the date of the relevant capitalisation, sub-division or consolidation subject to any adjustment to the Subscription Price which is made in pursuance of this paragraph 2.1.

- 2.2 If, on a date (or by reference to a record date) on or before 30 June 1998, the Company makes any offer or invitation (whether by rights issue or otherwise but not being an offer to which paragraph 3.6 applies) to the holders of Shares, or any offer or invitation (not being an offer to which paragraph 3.7 applies) is made to such shareholders otherwise than by the Company then the Company shall, so far as it is able, procure that at the same time the same offer or invitation is made to the then Warrantholders as if their Subscription Rights had been exercised on the day immediately preceding the record date of such offer or invitation on the terms on which the same could have been exercised on that Second date (subject to any adjustment pursuant to paragraph 2.1), provided that, if the Directors so resolve in the case of any such offer or invitation made by the Company, the Company shall not be required to procure that the same offer or invitation is made to the then Warrantholders but the Subscription Price shall be adjusted:

- (a) in the case of an offer of new Shares for subscription by way of rights at a price less than the market price at the date of announcement of the terms of the offer, by multiplying the Subscription Price in force immediately before such announcement by a fraction of which the numerator is the number of Shares in issue at the date of such announcement plus the number of Shares which the aggregate of the amount payable for the total number of new Shares comprised in such rights issue would purchase at such market price and the denominator is the number of Shares in issue on the date of such announcement plus the aggregate number of Shares offered for subscription; and

PART 5 — Further information relating to the Warrants—continued

- (b) in any other case, in such manner as the Auditors shall certify to be appropriate.

Any such adjustments shall become effective as at the record date for the offer or invitation. For the purposes of this paragraph "market price" shall mean the average of the mean of the quotations published in the London Stock Exchange Daily Official List for one Share for the five consecutive dealing days ending on the dealing day immediately preceding the day on which the market price is to be ascertained. The Auditors shall report on the appropriate adjustment and the Company shall give notice to such Warrantholder within 28 days of any adjustment made pursuant to this paragraph 2.2 and, if appropriate, despatch Warrant Certificates in the manner described in paragraph 2.1.

- 2.3 If at any time an offer is made to all holders of Shares (or all such holders other than the offeror and/or any company controlled by the offeror and/or persons acting in concert with the offeror) to acquire the whole or any part of the issued ordinary share capital of the Company and the Company becomes aware that as a result of such offer the right to cast a majority of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such persons or companies as aforesaid, the Subscription Price payable on any subsequent exercise of the Subscription Rights in accordance with paragraph 3.7 but not otherwise shall be reduced by an amount determined by the Auditors in accordance with the following formula:

$$A = (B+C) - D$$

where

A = the reduction in the Subscription Price;

B = the Subscription Price ruling immediately before the adjustment;

C = the average of the mean of the quotations as derived from the London Stock Exchange Daily Official List for one Warrant for the ten consecutive dealing days ending on the dealing day immediately preceding the date of the announcement of the offer referred to in paragraph 3.7 (or, where such offer is a revised offer, the original offer) or, if applicable and earlier, the date of the first announcement of the intention to make such an offer or original offer; and

D = the average of the mean of the quotations as derived from the London Stock Exchange Daily Official List for one Share for the ten consecutive dealing days specified in the definition of "C" above, provided that:

- (a) no adjustment shall be made to the Subscription Price where the value of D exceeds the aggregate value of B and C;
- (b) the Auditors shall be entitled to make such further adjustments to the Subscription Price payable on any subsequent exercise of the Subscription Rights in accordance with paragraph 3.7 as they shall report to be appropriate to take account of the market value of the Warrants (which shall be deemed to be equal to the value provided by calculating "C" in the above formula) having regard, *inter alia*, to the time value of money; and
- (c) the Subscription Price shall not be adjusted so as to cause the Company to be obliged to issue Shares at a discount and, if the application of the above formula would, in the absence of this sub-paragraph 2.3(c), have reduced the Subscription Price to below the then par value of a Share, the number of Shares to be subscribed on any subsequent exercise of the Subscription Rights in accordance with paragraph 3.7 but not otherwise shall be adjusted in such manner as the Auditors shall report to be appropriate to achieve the same economic result for the Warrantholders as if the Subscription Price had been adjusted without regard to this sub-paragraph 2.3(c).

Any such adjustment shall become effective on the date on which the Company becomes aware that, as a result of such offer, the right to cast a majority of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such persons or companies as aforesaid. The Company shall give notice to each Warrantholder within 7 days of any adjustment made pursuant to this sub-paragraph and, if appropriate, despatch Warrant Certificates in the manner described in paragraph 2.1 above. Publication of a scheme of arrangement under the Act providing for the acquisition by any person of the whole or any part of the issued ordinary share capital of the Company shall be deemed to be the making of an offer for the purposes of this paragraph 2.3.

PART 5 — Further information relating to the Warrants—continued

2.4 If any order is made or an effective resolution is passed for winding up the Company (except for the purposes of reconstruction or amalgamation on terms sanctioned by an extraordinary resolution of the Warrantholders), the provisions of paragraph 2.3 shall apply *mutatis mutandis* save that in “C” the ten dealing days preceding the date of presentation of the petition or the date of convening the meeting or (if earlier) the date of the first announcement of such petition or the convening of such meeting (as the case may be) or that such petition or meeting is proposed shall apply, while “D” shall be the amount per Ordinary Share (as determined by the Auditors) which the holder of such Ordinary Share should be entitled to receive on a winding-up of the Company in accordance with paragraph 3.8 on the assumption that all Subscription Rights had been exercised in full and the subscription money therefrom had been received in full by the Company, but ignoring any adjustment to the Subscription Price to be made under this paragraph 2.4.

3. OTHER PROVISIONS

So long as any Subscription Rights remain exercisable:

- 3.1 the Company shall not (except with the sanction of an extraordinary resolution of the Warrantholders) issue securities by way of capitalisation of profits or reserves except fully paid Shares issued to the holders of its Shares;
- 3.2 the Company shall not (except with the sanction of an extraordinary resolution of the Warrantholders) in any way modify the rights attached to its existing Shares as a class (but nothing herein shall restrict the right of the Company to increase or to consolidate or sub-divide its share capital), or create or issue any new class of equity share capital (as defined in section 744 of the Act) which carries rights as regards voting, dividend or return of capital more favourable than those attaching to the Shares;
- 3.3 the Company shall not take any action, including (without limiting the generality of the foregoing) issuing any Shares credited as fully paid by way of capitalisation of profits or reserves, or making any such offer as is referred to in paragraph 2.2, if in any such case as a result the Company would on any subsequent exercise of the Subscription Rights be obliged to issue Shares at a discount;
- 3.4 the Company shall not (except with the sanction of an extraordinary resolution of the Warrantholders) reduce its share capital involving repayment of capital or any uncalled or unpaid liability in respect of any of its share capital or (except as authorised by sections 130 to 134 inclusive or section 170 of the Act) any share premium account or capital redemption reserve;
- 3.5 (a) the Company shall keep available for issue sufficient authorised but unissued share capital to satisfy in full all Subscription Rights remaining exercisable without the need for the passing of any resolutions by shareholders; and
(b) the Company shall not make any allotment of fully paid Shares by way of capitalisation of capital profits or reserves unless at the date of such allotment the Directors of the Company have authority for the purposes of section 80 of the Act to grant the additional rights to subscribe to which the Warrantholders would by virtue of paragraph 2.1 (a) be entitled in consequence of such capitalisation; and
(c) the Company shall not make any such offer or invitation as is referred to in paragraph 2.2 to the holders of Shares unless:
 - (i) where such offer or invitation involves the allotment of relevant securities (as defined in section 80 of the Act) the Directors shall have authority for the purposes of the said section 80 to allot any such securities required to be allotted to the Warrantholders in consequence of the Company making the same offer or invitation to the Warrantholders in accordance with paragraph 2.2; and
 - (ii) section 89(1) of the Act shall have been disapplied to the extent (if any) necessary to enable the Company to make such offer or invitation to the Warrantholders and to effect any allotment pursuant thereto;
- 3.6 if at any time an offer or invitation is made by the Company to the holders of Shares for the purchase by the Company of any of its shares on or before 30 June 1998, the Company shall simultaneously give notice thereof to the Warrantholders who shall be entitled whilst such offer or invitation remains open for acceptance, to exercise their Subscription Rights so as to take effect as if they had exercised their Subscription Rights immediately prior to any record date applicable to such offer or invitation;
- 3.7 if at any time an offer is made to all holders of Shares (or all such holders other than the offeror and/or any company controlled by the offeror and/or persons acting in concert with the offeror) to acquire the whole or any part of the issued ordinary share capital of the Company and the Company becomes aware that as a result of such offer the right to cast a

majority of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such persons or companies as aforesaid, the Company shall give notice to the Warrantholders of such vesting within 14 days of its becoming so aware; the publication of a scheme of arrangement under the Act providing for the acquisition by any person of the whole or any part of the issued ordinary share capital of the Company shall be deemed to be the making of an offer for the purposes of this paragraph 3.7;

- 3.8 if an order is made or an effective resolution is passed for winding up the Company (except for the purposes of reconstruction or amalgamation on terms sanctioned by an extraordinary resolution of the Warrantholders) each Warrantholder will (if in such winding up and on the basis that all Warrants then unexercised had been exercised in full and the subscription moneys therefor had been received in full by the Company, there would be a surplus available for distribution amongst the holders of Shares which, on such basis, would exceed in respect of each Share a sum equal to the Subscription Price) be treated as if immediately before the date of such order or resolution his Subscription Rights had been exercised in full, on the terms on which the same could have been exercised on the last preceding Subscription Date (subject to any adjustment pursuant to paragraph 2) and shall accordingly be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such a sum as he would have received had he exercised his Subscription Rights in full and become the holder of the Shares to which he would have become entitled by virtue of such subscription after deducting a sum per share equal to the Subscription Price; subject to the foregoing all Subscription Rights shall lapse on liquidation of the Company;
- 3.9 the Company shall not grant (or agree to grant) any option in respect of, or create any rights of subscription for, any Shares, the nominal amount of which, together with the aggregate nominal amount of any Shares over which options or rights of subscription shall be subsisting at the date of such grant or creation, would exceed in the aggregate, leaving out of account the Subscription Rights, 10 per cent. of the nominal amount of the Shares then in issue, nor (except with the sanction of an extraordinary resolution of the Warrantholders) will the Company grant (or agree to grant) any option in respect of, or create any rights of subscription for, or issue any loan capital carrying rights of conversion into or issue or permit the issue of any securities carrying the rights to convert into or exchange for, equity share capital or modify the terms of any existing securities, if the price at which any such option or right is exercisable is lower than the Subscription Price for the time being; and
- 3.10 if and whenever the Company shall make any capital distribution to holders of Shares (in their capacity as such holders whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Subscription Price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the average of the mean of the quotations as derived from the London Stock Exchange Daily Official List of one Share on the dealing day immediately preceding the date on which the capital distribution or grant is publicly announced; and

B = the fair market value on the day of such announcement as determined in good faith by a reputable merchant bank reasonably selected by the Company and acting as an expert (which determination shall be, in the absence of manifest error, conclusive) of the portion of the capital distribution or of such rights attributable to one Share.

Such adjustments shall become effective on the date on which the capital distribution or grant is actually made.

The provisions of this paragraph 3.10 shall not apply in relation to the issue of Shares paid up out of reserves or profits and issued for full consideration in lieu of a cash dividend.

For the purposes of this paragraph 3.10:

“capital distribution” shall (without prejudice to the generality of that expression) include distributions in cash or specie and distributions of evidences of indebtedness or other securities, but shall not include any cash dividend if:

- (a) it is paid out of the aggregate of the consolidated net profits (less losses) attributable to the holders of Shares as shown in the then latest audited consolidated profit and loss account of the Company and its subsidiaries or as shown in the consolidated profit and loss account of the Company and its subsidiaries prepared for the purpose of the then latest unaudited interim statement of the Company; or

PART 5 — Further information relating to the Warrants—continued

- (b) to the extent that (a) above does not apply, the rate of that dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the last preceding financial period. In computing such rates such adjustments may be made as are in the opinion of the Auditors appropriate to the circumstances and shall be made in the event that the lengths of such periods differ; and

“reserves” includes (without prejudice to the generality of such expression) share premium account or capital redemption reserve and the amount standing to the credit of the consolidated profit and loss account of the Company.

4. MODIFICATION OF RIGHTS

4.1 All or any of the rights for the time being attached to the Warrants may from time to time (whether or not the Company is being wound up) be altered or abrogated with the sanction of an extraordinary resolution of the Warrantholders. All the provisions of the Articles of Association for the time being of the Company as to general meetings shall *mutatis mutandis* apply as though the Warrants were a class of shares forming part of the capital of the Company but so that:

- (a) the necessary quorum shall be the Warrantholder or Warrantholders present in person or by proxy entitled to acquire ten per cent. in nominal amount of the Shares attributable to such outstanding Warrants;
- (b) every Warrantholder present in person or by proxy at any such meeting shall be entitled on a poll to one vote for each Share for which he is entitled to subscribe;
- (c) any Warrantholder present in person or by proxy may demand or join in demanding a poll;
- (d) at any adjourned meeting the Warrantholder or Warrantholders present in person or by proxy shall be a quorum (whatever the number of Warrants held or represented by such Warrantholder or Warrantholders); and
- (e) the period of notice of any meeting of Warrantholders (other than an adjourned meeting) shall be at least 21 clear days.

5. TRANSFER

Each Warrant will be registered and will be transferable in whole or in part upon the surrender of the Warrant Certificate to be transferred together with an instrument of transfer in any usual or common form, or in any other form which may be approved by the Directors. No transfer of a right to subscribe for a fraction of a Share may be effected. Subject as aforesaid, the provisions of the Articles of Association for the time being of the Company relating to the registration, transfer and transmission of Shares and the issue of certificates shall apply *mutatis mutandis* to the Warrants. Where a Warrantholder has transferred a part only of his holding of Warrants he shall be entitled to a Warrant Certificate for the balance of such holding without charge.

6. PURCHASE OF WARRANTS

Subject to any continuing obligations of the Company to the London Stock Exchange to which it is then subject the Company and its subsidiaries may from time to time purchase any Warrants in the market or at any price by tender, private treaty or otherwise. Any Warrants so purchased shall forthwith be cancelled by the Company, which shall not be at liberty to re-issue or sell the same.

7. GENERAL

- 7.1 The Company will concurrently with the issue of the same to the holders of its Shares send to each Warrantholder (or, in the case of joint holders, to the first named) a copy of each published annual report and accounts of the Company, together with all documents required by law to be annexed thereto, and copies of all other documents issued by the Company to shareholders, including copies of every statement, notice or circular issued to the holders of Shares.
- 7.2 For the purposes of these particulars, “extraordinary resolution of the Warrantholders” means a resolution proposed at a meeting of the Warrantholders duly convened and held and passed by a majority consisting of not less than three fourths of the votes cast, whether on a show of hands or on a poll.
- 7.3 Any determination or adjustment made pursuant to these particulars by the Auditors shall be made by them as experts and not as arbitrators and any such determination or adjustment made by them shall be final and binding on the Company and each of the Warrantholders.
- 7.4 Any reference to a statutory provision shall include that provision as from time to time modified or re-enacted.
- 7.5 The Warrants and the Instrument constituting the Warrants will be governed by and constituted in accordance with English law.

PART 5 — Further information relating to the Warrants—continued

- 7.6 Every Warrantholder shall be recognised by the Company as entitled to his Warrant free from any equity, set-off or cross-claim on the part of the Company against the original or any intermediate Warrantholder.
- 7.7 No fee shall be charged by the Company for the registration of any transfer or for the registration of any confirmation, probate, letters of administration, certificate of marriage or death, power of attorney or other document relating to or affecting the title to any Warrant or for making an entry in the Register relating to or affecting the title to any Warrant.
- 7.8 If any Warrant Certificate be lost, stolen, mutilated or destroyed then a new Warrant Certificate in lieu thereof may be given to the person entitled to the Warrant represented thereby, upon payment of any exceptional out-of-pocket expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Company may require. An entry as to the issue of a new Warrant Certificate and as to the provision of an indemnity (if any) shall be made in the appropriate register. Mutilated Warrant Certificates must be surrendered before replacements will be issued.

8. TAXATION

The following is intended only as a general guide to the position under United Kingdom law and Inland Revenue practice and will not apply to certain classes of investors, such as dealers. Any person who is in doubt as to his tax position should consult an appropriate professional adviser without delay.

Provided that these arrangements are treated as a reorganisation for taxation purposes, the Warrants to be issued to Qualifying Shareholders will be treated as the same asset as their holdings of existing Ordinary Shares immediately prior to the date of issue of the Warrants and as having been acquired on the same date as those Shares and Qualifying Shareholders should have no liability to United Kingdom taxation solely by reason of receiving the Warrants. The base cost of the Shares is likely to be apportioned between the Shares and the Warrants in proportion to their respective market values on Admission.

If, however, the Inland Revenue do not treat the arrangements in this way, the receipt of the bonus issue of Warrants may be deemed to be a part disposal by Qualifying Shareholders of their shareholding in the Company. This may give rise to a charge to tax on any capital gain (or a loss which may be set off against taxable gains) which is deemed to arise. Where there is deemed to be a part disposal, the base cost of the Warrants will be the value of the bonus issue of the Warrants. The base cost of the Shares will be reduced by the amount of the base cost taken into account when computing the amount of the charge to tax on the part disposal.

The Warrants will not constitute “wasting assets” and, on their disposal or abandonment, the full base cost of the Warrants, calculated as above, will be allowed in computing any gain or loss. Shareholders, who exercise their Subscription Rights and acquire Shares as a result, will not be treated as disposing of their Warrants, but the cost of subscription together with the base cost of the Warrants, calculated as above, will be added to the base cost of the Shares in computing any gain or loss on a subsequent disposal of the Shares.

No United Kingdom stamp duty or stamp duty reserve tax will be payable on the bonus issue of the Warrants to shareholders. Any subsequent transfer or agreement to transfer Warrants may be subject to UK stamp duty or stamp duty reserve tax depending upon the circumstances.

PART 6 — Additional Information

1. The Company

- (a) The Company was incorporated in England and Wales on 21 May 1985 under the Companies Acts 1948 to 1981 as a public company limited by shares with the name of Feygram Public Limited Company and registered in England and Wales with number 1915605.

On 18 June 1985 the Company changed its name to Lysander Petroleum Plc. On 15 June 1989 the Company changed its name to Crossroads Oil Group plc. On 3 March 1995 the Company changed its name to Melrose Energy plc. On 7 May 1997 the Company changed its name to Pentex Energy plc.

- (b) The Company's registered office is at 2, St. Andrew's Hill, London EC4V 5BY. The Company's head office and principal place of business is Dunedin House, 25 Ravelston Terrace, Edinburgh EH5 3TP.

2. Responsibility

The directors of the Company, whose names appear on page 5, accept responsibility for the information contained in this document. To the best of the knowledge and belief 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 does not omit anything likely to affect the import of such information.

3. Subsidiary undertakings and interest in associated undertakings

- (a) The Company, which is the holding company of the Group, has the following subsidiary undertakings, each of which is directly or indirectly wholly-owned and is incorporated in England and Wales as a private limited company except where otherwise stated:

Name	Principal activity	Issued share capital
Scotland		
Pentex Oil plc	Intermediate holding company	20,034,840 ordinary shares of 10p
Gairloch Oil & Gas Investments Company Limited	Intermediate holding company	49,908 ordinary shares of £1
Pentex Oil UK Limited		
	Oil and gas production and development	6,995,410 ordinary shares of £1
Pentex Oil & Gas Limited		
	Oil and gas production and development	2 ordinary shares of £1
Crossroads International Limited		
	Intermediate holding company	100 ordinary shares of £1
Italy		
Pentex Italia Limited	Oil and gas exploration, production and development	116,655 ordinary shares of £1
Guernsey		
Melrose Overseas Investment Ltd	Intermediate holding company	2 ordinary shares of £1

- (b) Pentex is interested through its ownership of 100 per cent of the issued share capital of Melrose Overseas Investments Limited in 40.25 per cent of the issued shares capital of Sibir Energy, details of which are set out below:

(i) Registered Office:	2 St. Andrew's Hill, London EC4V 5BY
(ii) Field of Activity:	Oil and gas exploration and production in Western Siberia
(iii) Proportion of capital held:	40.2%
(iv) Issued capital:	268,218,793 ordinary shares of 10p
(v) Reserves:	£26.75 million at 30 June 1997
(vi) Loss for year to 30 June 1997:	£799,000

PART 6 — Additional Information—continued

(vii) Carrying value of investment:	£10,733,000
(viii) Amount still to be paid up on shares held:	NIL
(ix) Dividends received in last financial year:	NIL
(ix) Debts owed to and from:	NIL.

4. Share capital

- (a) On 5 December 1994 the Company had an authorised share capital of £5,000,000 divided into 100,000,000 Ordinary Shares and an issued share capital of £4,149,699.80 divided into 82,993,996 Ordinary Shares.
- (b) Since 5 December 1994 there have been the following changes in the authorised and issued share capital of the Company:
- (i) on 3 March 1995, the authorised share capital was increased to £12,250,000 by the creation of 145,000,000 Ordinary Shares;
 - (ii) on 3 March 1995, 80,978,986 Ordinary Shares were issued fully paid at a price of 20 pence per share in consideration of the acquisition by the Company of the entire issued share capital of Calcutta Investments Limited;
 - (iii) on 3 March 1995, 13,475,349 Ordinary Shares were issued fully paid at 20 pence per share in consideration for the transfer to the Company of the entire issued share capital of Melrose Petroleum Plc, Melrose Petroleum II Plc and part of the issued share capital of Melrose Petroleum III Plc not currently owned by the Company;
 - (iv) on 3 March 1995, 8,400,000 Ordinary Shares were issued fully paid at 20 pence per share pursuant to a placing agreement dated 8 February 1995 between Guinness Mahon & Co. Ltd (1) Melrose Energy plc (2) and Messrs Adair, Surtees and Pendock (3);
 - (v) on 27 October 1995, 8,088,594 Ordinary Shares were issued fully paid at 25 pence per share in satisfaction of entitlements to subscribe for Ordinary Shares pursuant to warrants issued by the Company at the time of its introduction to the Official List in March 1995;
 - (vi) by special resolution passed on 11 December 1995, subject to the Offer (as defined in the Offer Document dated 17 November 1995 issued by Guinness Mahon & Co. Ltd on behalf of the Company) becoming or being declared unconditional in all respects, the authorised share capital of the Company was increased to £22,000,000 by the creation of an additional 195,000,000 Ordinary Shares;
 - (vii) on 2 January 1996, 81,141,102 Ordinary Shares were issued as per the recommended offer for the entire issued share capital of Pentex Oil Plc made by the Company in an offer document dated 17 November 1995;
 - (viii) on 8 January 1996, 38,787,385 Ordinary Shares were issued fully paid at a price of 34 pence per share as part of a rights issue by the Company made to the holders of Ordinary Shares at the close of business on 28 November 1995 related to the recommended offer for the entire issued share capital of Pentex Oil Plc made by the Company in an offer document dated 17 November 1995;
 - (ix) on 12 June 1996, 2,285,655 Ordinary Shares were issued fully paid at a price of 29 pence per share in satisfaction of entitlements to subscribe for Ordinary Shares pursuant to warrants issued by the Company at the time of its introduction to the Official List in March 1995;
 - (x) on 23 July 1996, 1,256,064 Ordinary Shares were issued fully paid at a price of 40.25 pence per share in part consideration for the acquisition by the Company of Melpet 1 Limited;
 - (xi) on 5 September 1996, 9,351,116 Ordinary Shares were issued fully paid at a price of 48 pence per share pursuant to the terms of a vendor and cash placing agreement dated 4 September 1996 and entered into between Melrose Energy plc (1) Guinness Mahon & Co. Ltd (2) The Chase Manhattan Bank (3) Henderson Crosthwaite Institutional Brokers Limited (4) and Teather & Greenwood (5);
 - (xii) on 5 September 1996, 7,631,257 Ordinary Shares were issued fully paid at a price of 49 pence per share as part consideration for the purchase by Sibir Energy of the entire issued share capital of Caraline Trading Limited;

- (xiii) on 5 September 1996, 14,758,327 Ordinary Shares were issued fully paid at a price of 48 pence per share pursuant to the terms of the vendor and cash placing agreement referred to in paragraph (xi) above as part consideration for the acquisition by Sibir Energy of the entire issued share capital of Caraline Trading Limited;
 - (xiv) on 27 September 1996, 100,000 Ordinary Shares were issued fully paid at a price of 19 pence per share to S.B. Pendock and 215,000 Ordinary Shares were issued fully paid at a price of 20 pence per share and 415,385 Ordinary Shares were issued fully paid at price of 26 pence per share in both cases to a E. Trecellas due to the exercise of options under the Executive Share Option Scheme;
 - (xv) on 7 November 1996, 85,000 Ordinary Shares were issued fully paid at a price of 20 pence per share to G. Larson due to the exercise of options under the Executive Share Option Scheme;
 - (xvi) by special resolution passed on 7 May 1997, subject to and conditional upon the passing of an ordinary resolution passed on 7 May 1997 and to a placing agreement dated 7 April 1997 made between (1) the Company (2) Rysaffe Limited and Westview Investments Limited and (3) Guinness Mahon & Co. Ltd becoming unconditional in all respects and not having lapsed or been terminated in accordance with its terms:
 - (i) the Ordinary Shares were redesignated as follows:
 - (a) 60,000,000 of the Ordinary Shares registered in the name of R.H.K. Nominees Limited were redesignated as B Shares of 5 pence each;
 - (b) all of the Ordinary Shares not redesignated as B Shares were redesignated as A Shares of 5 pence each;
 - (ii) the Articles of Association of the Company were amended to reflect the share capital of the Company of £22,000,000 being divided into 380,000,000 A Shares of 5 pence each and 60,000,000 B Shares of 5 pence each;
 - (iii) on the redesignation of the B Shares as Special Deferred Shares and the purchase thereof by the Company the A Shares were automatically and without the need for any further resolution redesignated as Ordinary Shares, Article 5 of the Articles of Association of the Company ceased to have effect and the share capital of the Company was redesignated as comprising 440,000,000 Ordinary Shares of 5 pence each constituting a share capital of £22,000,000;
 - (xvii) on 12 June 1996, 60,000,000 Special Deferred Shares were purchased by the Company for 1p in aggregate as part of the arrangements referred to in paragraph (xvi) above;
 - (xviii) on 21 November 1997, 168,381 Ordinary Shares and 168,380 Ordinary Shares were allotted to Celtic Overseas Limited and Energy Solutions Limited, respectively, in consideration for consultancy services performed for the Company relating to its oil and gas interests in Venezuela.
- (c) At the Extraordinary General Meeting the following resolutions will be proposed:
1. THAT:
 - (a) the authorised share capital be and is hereby increased by £2,000,000 to £24,000,000 divided into 480,000,000 Ordinary Shares of 5 pence each by the creation of 40,000,000 new Ordinary Shares of 5 pence each;
 - (b) the Directors be and are generally and unconditionally authorised in accordance with section 80 of the Act to allot relevant securities (as defined in section 80(2) of the Companies Act 1985 ("the Act")) in substitution for and to the exclusion of any other such authority) up to an aggregate nominal amount of £1,451,910.55 in connection with the Rights Issue referred to in Part 2 of the circular from the Company to its shareholders dated 24 December 1997 ("the Circular"), such authority to expire at the conclusion of 15 months from the date of the passing of this Resolution or if earlier the Annual General Meeting of the Company to be held in 1998 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority granted by this Resolution had not expired; and
 - (c) the Directors be and are hereby empowered to allot equity securities (as defined for the purposes of sections 89 to 96 of the Act) (in substitution for and to the exclusion of any other such authority) pursuant to the authority referred to in paragraph (b) above as if sub-section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities in connection with the Rights Issue referred to in Part 2 of the Circular.

2. THAT, conditionally upon the passing of Resolution 1 above and the Enron Subscription (as defined in the Circular) becoming unconditional in all respects (save in respect of any condition relating to the passing of this Resolution):
 - (a) the authorised share capital be and is hereby increased by £2,000,000 to £26,000,000, divided into 520,000,000 Ordinary Shares of 5 pence each by the creation of 40,000,000 new Ordinary Shares of 5 pence each;
 - (b) the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Act to allot relevant securities (as defined in section 80(2) of the Act) (in addition to the authorities granted by paragraph (b) of Resolution No. 1 above but in substitution for and to the exclusion of any other such authority) up to an aggregate nominal amount of £2,000,000 in connection with the Enron Subscription, such authority to expire at the conclusion of 15 months from the date of the passing of this Resolution or if earlier the Annual General Meeting of the Company to be held in 1998 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority granted by this Resolution had not expired; and
 - (c) the Directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined for the purposes of sections 89 to 96 of the Act) (in addition to the authority granted by paragraph (c) of Resolution No. 1 above but in substitution for and to the exclusion of any other such authority) pursuant to the authority referred to in paragraph (b) above as if section 89(1) of the Act did not apply provided that such power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £2,000,000 in connection with the Enron Subscription such authority to expire at the conclusion of 15 months from the date of the passing of this Resolution or if earlier the Annual General Meeting of the Company to be held in 1998 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such an offer or agreement as if the authority granted by this Resolution had not expired.
3. THAT, conditionally upon the passing of Resolution 1 above:
 - (a) the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Act to allot relevant securities (as defined in section 80(2) of the Act) (in addition to the authority granted by paragraph (b) of Resolutions No. 1 and 2 above but in substitution for and in the exclusion of any other such authority) up to an aggregate nominal amount of £1,597,101.60 and, conditionally upon the passing of Resolution 2 above and such Resolution becoming unconditional, of £200,000, in connection with the issue of Warrants referred to in Part 5 of the Circular, such authority to expire at the conclusion of 15 months from the date of the passing of this Resolution or if earlier the Annual General Meeting of the Company to be held in 1998 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority granted by this Resolution had not expired; and
 - (b) the Directors be and are hereby empowered to allot equity securities (as defined for the purposes of sections 89 to 96 of the Act) pursuant to the authority referred to in paragraph (a) above as if sub-section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £1,597,101.60 and conditionally upon the passing of Resolution 2 above and such Resolution becoming unconditional, of £200,000, in connection with the issue of Warrants referred to in Part 5 of the Circular such authority to expire at the conclusion of 15 months from the date of the passing of this Resolution or if earlier the Annual General Meeting of the Company to be held in 1998 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such an offer or agreement as if the authority granted by this Resolution has not expired.
4. THAT, conditionally upon the passing of Resolution 1 above:
 - (a) in addition to the authorities referred to in Resolutions 1, 2 and 3 above but in substitution for and to the exclusion of all other existing authorities pursuant to section 80 of the Act the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £4,231,881.90 and, conditionally upon the

passing of Resolution No. 2 above and such Resolution becoming unconditional of £2,000,000 such authority to expire at the conclusion of 15 months from the date of the passing of this Resolution or if earlier the Annual General Meeting of the Company to be held in 1998 save that the Company may before the expiry of this authority make an offer or agreement which would or might require relevant securities to be allotted after such expiry and that the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority granted by this Resolution has not expired; and

- (b) the Directors be empowered to allot equity securities (as defined for the purposes of sections 89 to 96 of the Act) pursuant to the authorities referred to in paragraph (a) above as if sub-section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited:
 - (a) to the allotment of equity securities in connection with an issue by way of rights (including without limitation under a rights issue, open offer or similar arrangement) in favour of shareholders where the equity securities respectively attributable to the interests of all such shareholders are proportionate (as nearly as may be) to the respective value of shares held by them, the Directors having the right to make such exclusions or arrangements as the Directors shall deem necessary or expedient to deal with the laws of any territory or any requirements of any recognised registered body or any other stock exchange in any territory or as regards shares held by any approved depository or in connection with fractional entitlements or otherwise howsoever;
 - (b) to the allotment (otherwise than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal amount of £1,000,000.
- (d) (i) Immediately following Admission (nil paid) of the new Ordinary Shares to be issued pursuant to the Rights Issue ("the Rights Issue Shares") the authorised share capital of the Company will be £24,000,000 divided into 480,000,000 Ordinary Shares of which assuming that the Rights Issue is taken up in full 319,420,330 Ordinary Shares (representing 61.43 per cent. of the authorised share capital) will have been issued fully paid or credited as fully paid (except that the Rights Issue Shares will be nil paid) and 200,579,670 Ordinary Shares (representing 38.57 per cent. of the authorised share capital) will be unissued.
- (ii) Immediately following Admission of the new Ordinary Shares to be issued pursuant to the Enron Subscription, the authorised share capital will be £26,000,000 divided into 520,000,000 Ordinary Shares of which, on the above assumptions, 359,420,330 Ordinary Shares (representing 69.12 per cent. of the authorised share capital) will have been issued fully paid or credited as fully paid (except that the Rights Issue Shares will be nil paid) and 160,579,670 Ordinary Shares (representing 30.88 per cent. of the authorised share capital) will be unissued (of which up to 35,942,032 Ordinary Shares will be reserved for the exercise of the Warrants leaving 124,637,638 Ordinary Shares (representing 23.97 per cent. of the authorised share capital) unissued and uncommitted).
- (e) The provisions of section 89(1) of the Act which, to the extent not disapplied pursuant to section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash, apply to the authorised but unissued share capital of the Company, except to the extent disapplied by the Resolutions referred to in paragraph 4(c) above.
- (f) Save as disclosed in this paragraph 4 and paragraph 9 below, within the three years immediately preceding the date of this document:
 - (i) there has been no change in the amount of the issued share or loan capital of the Company and no material change in the amount of the issued share or loan capital of any of its subsidiaries other than intra-group issues by wholly-owned subsidiaries and pro rata issues by partly owned subsidiaries; and
 - (ii) no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries in connection with the issue or sale of any share capital of the Company or any of its subsidiaries.
- (g) Save as disclosed in paragraphs 6(b) and 8(a) no share of the Company or any subsidiary is under option or has been agreed conditionally or unconditionally to be put under option.
- (h) All of the existing Ordinary Shares have been admitted to the Official List

5. Memorandum and Articles of Association

The objects of Pentex are set out in full in clause 4 of its Memorandum of Association, which provides that Pentex's principal objects are to purchase, take on lease, or otherwise acquire freehold and other lands and seabeds, properties, oil fields, oil

wells, natural gas fields or wells, refineries, mines and mineral properties and also grants, concessions, leases, claims, licences of, or other interests in oil fields, natural gas fields, mines, mining rights, lands, minerals, water rights and either absolutely or conditionally and either solely, or jointly with others to prospect, explore, open and work oil fields, claims or mines, drill and sink shafts or wells and raise, pump, dig and quarry for oil petroleum and petroleum products in all its branches, natural gas, gold, silver, minerals, ores, diamonds and precious stones, coal, earth and other substances, to acquire by purchase, concession or lease, or to take in exchange or otherwise to erect and construct, and wherever necessary to alter buildings, refineries, laboratories, dwelling houses for workmen and others, railways, tramways, roads, shafts, furnaces, quartz-crushing and other machinery works for smelting, or otherwise for treating, removing and storing oil, petroleum, natural gas, metals and minerals and drawing or pumping appliances or water works and crushing, working, manufacturing, refining, purifying, curing, polishing or otherwise dealing with crude oil, petroleum, gold, silver, precious metals, minerals, ores, coal, diamonds and precious stones, earth and other substances, to construct and/or lay oil or natural gas pipelines to build construct and own rigs and to aid in, or subscribe towards, or subsidise any such objects; to employ and pay mining experts and other persons, partnerships, companies and corporations and to organise, equip and despatch, or to aid in, subscribe towards, or subsidise expeditions for prospecting, exploring, reporting on, surveying, working, developing lands, farms, districts, territories and properties and whether the same are the property of this Company; or otherwise and to promote and assist in the settlement of any lands, farms, districts, territories and properties and to promote emigration, or immigration, for that purpose and to make advances to, subsidise and/or pay for, or contribute to the expenses of and otherwise assist persons or companies prospecting, acquiring, settling on, building on, mining, or otherwise developing any lands, farms, districts, territories and properties or desirous of so doing to carry on business as refiners, stores, suppliers and distributors of petroleum and natural gases in all its branches. To provide services and supplies of all kinds in connection with the extraction, treatment, storage, marketing, sale and distribution of energy and fuel of all kinds.

The existing Articles of Association of Pentex, a copy of which is available for inspection as stated in paragraph 15 below, include provisions to the following effect:

(a) Voting rights

Every member present in person 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 him. On a show of hands a member present by proxy only shall have no vote, but a representative for a corporation is entitled to exercise the same powers on behalf of the corporation as that corporation could exercise if it were an individual member. Voting rights may not be exercised by a member who has not paid to Pentex all calls and other sums then payable by him in respect of shares in Pentex nor, unless the Directors otherwise determine, shall a member be entitled to vote at a general or any separate meeting of the holders of any class of shares either personally or by proxy if he or any person appearing to be interested in those shares has been served with a notice under section 212 of the Act and is in default for a period of twenty-eight days from such service in supplying Pentex with the information required.

(b) Dividends and other distributions

Pentex may by ordinary resolution declare dividends not exceeding the amount recommended by the Directors and may implement a scrip dividend issue. Subject to the provisions of the Act, the Directors may also pay interim dividends (including any dividend payable at a fixed rate) as they think fit. The Directors may retain any dividend or other money payable on or in respect of a share on which the Company has a lien and may apply the same in or towards the satisfaction of the debt, liabilities or engagements in respect of which the lien exists. Subject to the approval of Pentex in general meeting, any dividend declared may be satisfied, wholly or partly, by the distribution of specific assets (and in particular of paid-up shares or debentures of any other company). Any dividend or any other moneys payable on or in respect of a share, if remaining unclaimed for a period of 12 years after having become due for payment, shall (if the Board shall so resolve) be forfeited and shall revert to Pentex. The Board may, with the prior authority of an ordinary resolution of Pentex, offer to any shareholder the right to elect to receive new shares, credited as fully paid, instead of the whole (or some part, to be determined by the Directors) of any dividend specified by the ordinary resolution.

(c) Division of assets in a winding up

The liquidator (on any winding up of Pentex) may, with the authority of a special resolution, divide amongst the members in specie or kind the whole or any part of the assets of Pentex 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, or may vest the whole or any part of the assets in trustees on such trusts for the benefit of the members as he, with the sanction of an

extraordinary resolution of Pentex and any other sanction required by law, shall determine but no member shall be compelled to accept any assets on which there is liability.

If any division by a liquidator is resolved otherwise than in accordance with the rights of members, the members shall have the same right of dissent and consequential rights as if the extraordinary resolution of Pentex sanctioning the winding-up by the liquidator of Pentex were a special resolution passed pursuant to section 110 of the Insolvency Act 1986.

A special resolution sanctioning a transfer or sale to another company duly passed pursuant to section 110 of the Insolvency Act 1986 may in the like manner authorise the distribution of any shares or other consideration receivable by the liquidator among the members otherwise than in accordance with their existing rights, and any such determination shall be binding on all members, subject to the right of dissent and consequential rights conferred by the said section.

(d) Variation of rights

Whenever the share capital of Pentex is divided into shares of different classes, any of the special rights for the time being attached to any share or class of shares of Pentex may be varied or abrogated either whilst Pentex is a going concern or during or in contemplation of a winding-up, either in such manner (if any) as may be provided by such rights or by consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of the class duly convened and held as hereinafter provided (but not otherwise).

To every such separate meeting all the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum at every such meeting shall be not less than two persons holding or representing by proxy at least one-third of the capital of the issued shares of that class. Every holder of shares of that class, present in person or by proxy, may demand a poll and such holder shall on a poll be entitled to one vote for every share of that class held by him. If at any adjourned meeting of such holders such quorum as aforesaid is not present, not less than one person holding shares of that class who is present in person or by proxy shall be a quorum.

Subject to the terms of issue of or rights attached to any shares, the rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction of the capital paid up on such shares or by the purchase or redemption by Pentex of its own shares in accordance with the provisions of the Act and the Articles by Association of the Company.

(e) Transfer of shares

Each member may transfer all or any of his shares by an instrument of transfer in writing in any usual form or in any other form approved by the Board.

The Board may, in its absolute discretion and without giving any reason therefor, refuse to register any transfer of a share (or renunciation of a renounceable letter of allotment) unless:

- (a) it is in respect of a share which is fully paid up;
- (b) it is in respect of only one class of shares;
- (c) it is in favour of a single transferee or not more than four joint transferees;
- (d) it is duly stamped (if so required); and
- (e) it is delivered for registration to the registered office for the time being of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person where a certificate has not been issued or in the case of a renunciation) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution of the transfer or renunciation by him or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so

provided that the Board shall not refuse to register any transfer or renunciation of partly paid shares which are listed on the London Stock Exchange on the grounds that they are partly paid shares in circumstances where such refusal would prevent dealing in such shares from taking place on an open and proper basis.

(f) Untraced shareholders

In certain circumstances and subject to certain conditions, Pentex will be entitled to sell the shares of a member or the shares to which a person is entitled by transmission if, during a period of twelve years, at least three dividends in respect of the shares have become payable and no dividend in respect of these shares has been claimed.

(g) Purchase of own shares

Pentex may, subject to the provisions of the Act and to any rights at the time being attached to any shares, purchase any of its own shares of any class (including redeemable shares).

(h) Disenfranchisement of shares

If a member, or any other person appearing to be interested in shares held by that member (as defined), has been issued with a notice pursuant to section 212 of the Act and has failed in relation to any shares (the “default shares”) to provide Pentex with the information thereby required within a prescribed period (fourteen days in the case of members holding at least 0.25 per cent. of shares in a class and twenty eight days in other cases) the following sanctions shall apply unless the Board otherwise determines:

- (i) the member shall not be entitled in respect of the default shares to be present or to vote at any general meeting or at any separate meeting of the holders of any class of shares or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and
- (ii) where the default shares represent at least 0.25 per cent. in nominal value of the issued shares of their class:
 - (A) any dividend or other money payable in respect of the shares shall be withheld by Pentex, which shall not have any obligation to pay interest on it, and the members shall not be entitled to elect to receive shares instead of that dividend; and
 - (B) no transfer other than an excepted transfer (as defined of any shares held by the member) shall be registered unless:
 - (I) the member is not himself in default as regards supplying the information required; and
 - (II) the member proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares subject to the transfer.

Where the above sanctions apply in relation to any shares, they shall cease to have effect and any dividends withheld as above shall become payable:

- (i) if the shares are transferred by means of an excepted transfer (as defined); or
- (ii) at the end of a period of one week (or such shorter period as the Board may determine) following receipt by Pentex of the information required by the notice and the Board being fully satisfied that such information is full and complete.

Specific provisions are inserted relating to the holding by a depositary (as defined) of the default shares in which the person appears to be interested.

(j) Alteration of capital

Subject to the provisions of the Act and to any special rights for the time being attached to any existing shares, any share may be issued, which is or, at the option of Pentex or of the holder of such share, is liable to be redeemed.

Pentex in general meeting may from time to time by ordinary resolution increase its share capital, cancel any shares which at the date of passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled, and subject to the provisions of the Act, sub-divide its shares or any of them into shares of a smaller amount and may by such resolution determine that, as between the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have such preferred, deferred or other special rights to be subject to any such restrictions as Pentex has power to attach to unissued or new shares.

Where the number of shares held by any holder is not an exact multiple of the number of shares to be consolidated into a single share and as a result of such consolidation such holder would become entitled to a fraction of a consolidated share:

- (i) the Board may determine which of the shares of such holder are to be treated as giving rise to such fractional entitlement and may decide that any of those shares shall be consolidated with any of the shares of any other holder or holders which are similarly determined by it to be treated as giving rise to a fractional entitlement for such other holder or holders, into a single consolidated share and the Board may, on behalf of such holders, sell such consolidated share for the best price reasonably obtainable, to any person and distribute the net proceeds of sale after deduction of the expenses of sale in due proportion among those holders except that amounts due to a holder of less than £3, or such other sum as the Board may from time to time determine, may be retained for the benefit of Pentex;
- (ii) provided that the necessary unissued shares are available, the Board may issue to such holder credited as fully paid by way of capitalisation the minimum number of shares required to round up his holding to an exact multiple of the number of shares to be consolidated into a single share.

Subject to the provisions of the Act and to any rights for the time being attached to any shares, Pentex may by special resolution reduce its share capital or any capital redemption reserve or share premium account or other undistributable reserve in any manner.

Subject to the provisions of the Act and to any special rights for the time being attached to any existing shares, any shares may be allotted or issued with or have attached to them such preferred, deferred, or other special rights or restrictions, whether in regard to dividend, voting, transfer, return of capital or otherwise, as Pentex may from time to time by ordinary resolution determine or, if no such resolution has been passed, or so far as the resolution does not make specific provision, as the Board may determine.

6. Directors' and other interests

- (a) As at 22 December 1997 (the latest practicable date before publication of this document) the interests of the Directors and (so far as is known to the Directors or could with reasonable diligence be ascertained by them) persons connected with the Directors within the meaning of section 346 of the Act in the share capital of the Company, as required to be notified to the Company pursuant to sections 324 and 328 of the Act or as required to be shown in the register maintained under section 325 of the Act but excluding any options over Ordinary Shares, all of which are beneficial, are as follows:

Director	Number of Ordinary Shares	Percentage of issued capital
A. C. Surtees	270,000	0.09
H.O. Cameron	14,468,488	4.98
G. Lane	388,517	0.13
W.L.S. Guinness	1,786,081	0.62
A.T. West	108,108	0.03

- (b) In addition H.O. Cameron and G. Lane have been granted options under the Executive Share Option Scheme to subscribe for 1,304,000 and 956,500 Ordinary Shares respectively at an exercise price of 46 pence.
- (c) Save for the Directors' interests described in paragraphs (a) and (b) above, the Directors are aware of the following persons who, as at 22 December 1997 (the latest practicable date before publication of this document), are interested directly or indirectly in 3 per cent. or more of the issued share capital of the Company:

	No. of shares	%
Popeshead Nominees Limited (a/c 5)	15,500,000	5.3
Midland Bank Trust Company Limited (a/c 19258901)	12,200,000	4.2
Strand Associates Limited	11,000,000	3.8
Midland Bank Trust Company Limited (a/c 19205309)	8,800,000	3.0
RHK Nominees Limited	8,744,161	3.0

- (d) H.O. Cameron and W.L.S. Guinness are interested in transactions entered into by the Company and its subsidiaries in relation to Sibir Energy (details of which are contained in paragraph 9 below) by virtue of the subscription by them and/or associated companies as trustees established for their benefit and the benefit of their families of 250,000 and

280,000 ordinary shares of £1 each in the capital of Sibir Energy. Save as otherwise disclosed in this paragraph 6(d), no Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and was effected during the current or immediately preceding financial year or effected during any earlier financial year and which remains outstanding and unperformed.

7. Directors Service Contracts and Emoluments

- (a) None of the Directors has an existing service or consultancy contract which has not already been made available for inspection and which does not expire or is not terminable by the Company with payment of compensation for any unexpired period of the contract within one year.
- (b) Under the terms of their letters of engagement as non-executive directors of the Company A.C. Surtees is entitled to an annual fee of £15,000 per annum and W.L.S. Guinness and A.T. West are each entitled to an annual fee of £12,000 per annum.
- (c) The aggregate emoluments of the Directors (including benefits in kind) for the year ended 30 June 1997 amounted to £488,000.

8. Executive Share Option Scheme

- (a) At the date of this document, in consideration of £1 for the grant of each tranche of options, a total of 7,293,092 options to subscribe for Ordinary Shares have been granted to employees of the Group exercisable at an exercise price of either 20 pence, 26 pence or 46 pence per Ordinary Share.

321,053 options exercisable at 19 pence and 571,154 options exercisable at 26 pence have been granted to a former employee, S.B. Pendock and 215,000 options exercisable at 20 pence, 415,385 options exercisable at 26 pence and 89,000 options exercisable at 46 pence have been granted to a former consultant to the Company, M. Corjay.

- (b) Pentex adopted the Executive Share Option Scheme on 5 June 1989 (the “**Adoption Date**”). The Executive Share Option Scheme is not an Inland Revenue approved scheme.

The principal feature of the Executive Share Option Scheme, which is administered by the Board, or a duly authorised committee thereof (the “**Committee**”), the terms of which are set out in full in the Rules of the Executive Share Option Scheme, as amended at the date of this document, are as follows:

(i) Eligible employees

Participants in the Executive Share Option Scheme are such full-time employees and consultants (including directors) of the Group who devote at least 25 hours of their working time each week to working for the Group as the Committee may in its absolute discretion select.

Employees and/or consultants due for retirement at normal retirement age within two years or who, together with an associate, at the date of the offer or of the grant of an option own or would own 5% or more of Pentex's issued share capital are not eligible to participate in the Executive Share Option Scheme.

(ii) Offers of options

Offers to subscribe for Ordinary Shares may be granted to participants in the period commencing on the second London Stock Exchange dealing day after the announcement of Pentex's annual or half-yearly results and ending 42 days following such announcement.

No payment will be made for the grant of an option. The grant of an option shall be made by deed in such form as the Committee may decide. The Committee may grant options subject to such objective condition or conditions of exercise as it may determine.

(iii) Subscription price

The price per share at which options may be exercised is determined by the Committee and will be not less than the greater of the nominal value of an Ordinary Share and the average of the prices at which business is transacted in the Ordinary Shares on the three dealing days immediately preceding the date of the offer of the relevant option as derived from the London Stock Exchange Daily Official List, provided that none of such dealing days shall be a dealing day preceding the latest announcement of the results of Pentex for any period.

(iv) *Exercise of Options*

The period in which an option may be exercised shall be determined by the Committee prior to its grant, being between the first and seventh anniversaries of such grant. An option which has not already lapsed for any other reason shall lapse automatically on the seventh anniversary of its grant. Subject as mentioned below, however, an option lapses where the participant ceases to be an employee (or a director) of the Group.

If, prior to the full exercise of an option, the participant's employment terminates:

- (A) by reason of his injury, disability, retirement at or before normal retirement age or dismissal for redundancy; or
- (B) if the company by which the participant is employed leaves the Group and the participant does not within one month thereof become or continue to be in the employment of another company in the Group or a substituted company or a company under the control of a substituted company; or
- (C) in such other circumstances (other than the participant's death) as the Board determines, prior to the date on which the option would otherwise lapse

then exercise is permitted on or before the expiry of 12 months from the date of such cessation and save in respect of (iv)(C) above the Committee retains the right to extend this period at any time during the 12 months after cessation.

An unexercised option may also be exercised in the case of:

- (A) a general offer being made to all holders of Ordinary Shares and such offer becoming or being declared unconditional, within 4 months from the date on which such offer becomes or is declared unconditional;
- (B) the death of the participant, within 12 months of his death by his personal representatives;
- (C) a court sanctioning a compromise or arrangement proposed for the purposes of a scheme for reconstruction of Pentex or its amalgamation with any other company, within one month of such compromise or arrangement becoming effective; and
- (D) Pentex convening a general meeting for the purpose of considering a resolution for winding-up at any time prior to the passing of such resolution.

(v) *Issue of Shares*

Ordinary Shares allotted on exercise of an option will on allotment rank *pari passu* with the Ordinary Shares then in issue, save as regards any rights attached thereto by reference to a record date prior to the date of such exercise. Pentex will apply to the London Stock Exchange for the Ordinary Shares issued on the exercise of options pursuant to the Executive Share Option Scheme to be admitted to the Official List. Pentex will at all times keep available sufficient unissued share capital to satisfy outstanding options.

(vi) *Scheme limits*

The nominal value of Ordinary Shares issued or remaining issuable pursuant to the options on any date shall not, when added to the nominal value of Ordinary Shares issued or remaining issuable pursuant to rights granted within the previous 10 years under other share option schemes operated by Pentex and under schemes established by other companies which Pentex has effectively taken over and where it has exchanged options, exceed 5 per cent of the nominal value of the issued share capital immediately before that date. This 5 per cent limit does not apply to options granted under a savings related share option scheme.

The nominal value of Ordinary Shares issued or issuable pursuant to the options on any date shall not, when added to the nominal value of Ordinary Shares issued or remaining issuable pursuant to rights granted within the previous 10 years under any other share incentive scheme or profit-sharing scheme operated by Pentex exceed 10 per cent. (or 3 per cent. in respect of such rights granted within the previous 3 years) of the nominal value of the issued share capital immediately before that date.

(vii) *Individual limits*

A participant is not entitled to have outstanding at any time under the Executive Share Option Scheme or under any other share option scheme established by Pentex (other than a savings related share option scheme) or any associated company options over shares the aggregate market value of which at grant exceeds four times his Relevant Emoluments for the then current or preceding year of assessment. For this purpose, "Relevant Emoluments" are defined as

emoluments of the participant which are liable to be paid under deduction of tax pursuant to section 203 Income and Corporation taxes Act 1988 (after deduction of benefits in kind) or which would have been so liable had they been paid in the United Kingdom to a participant resident there. In the case of participants who are not full-time employees (including Directors) of the Group, Relevant Emoluments has been defined as being the remuneration which the participant receives in respect of consultancy services provided to the Group. Additionally (the “**additional individual limit**”), no option may be granted to a participant which would result in the aggregate market value at grant of Ordinary Shares which he may acquire, might have acquired or has acquired in pursuance of rights granted under the Executive Share Option Scheme or under any other share option scheme operated by Pentex and under schemes established by other companies which Pentex has effectively taken over and where it has exchanged options, in each case where such rights were granted within the 10 years ending on the date of the proposed grant, exceeding four times his total annual earnings from Group companies at the rate of salary which applies on the date of the proposed grant.

(viii) *Amendments*

The number, nominal value and subscription price of Ordinary Shares subject to any option are subject to appropriate adjustment by the Committee in the event of any capitalisation issue (other than one to which section 249 Income and Corporation Taxes Act 1988 applies) or rights issue by Pentex or any consolidation, sub-division or reduction of Pentex’s share capital.

The Board may make such amendments to the Executive Share Option Scheme as are necessary to retain compliance with any statutory provision in force at the Adoption Date or with the requirement of any regulatory authority or body but the provisions summarised above may not be amended to the advantage of current or prospective participants in the Executive Share Option Scheme without the prior consent of Pentex in general meeting, nor may the terms of any existing option be altered or the option cancelled without the consent of the participant concerned.

9. Material contracts

Set out below are details of the contracts, not being contracts entered into in the ordinary course of business, which are, or may be, material and which have been entered into by the Company or its subsidiaries within the two years immediately preceding the date of this document:

- (a) an Agreement dated June, 1996 entered into by the persons specified in column 1 of part 1 of such agreement (the “Vendors”) (1) and the Company (2) relating to the sale by the Vendors to the Company of their 2,737 shares (in aggregate) of 1p each in the capital of Melpet 1 Limited in consideration of which the Company was obliged to issue to the Vendors a number of shares such that the aggregate value thereof at the market price on the Settlement Date (as defined in the agreement) was at least equivalent to £3,382,220. The Vendors could also require that the Company place some or all of such shares at the market price on the Settlement Date which proceeds applied in satisfaction of the consideration;
- (b) an undertaking dated 23rd July 1996 under which the Company undertook to Neill Clerk Capital Limited and to each of the Pentex Partnerships IV to procure full performance by Pentex Petroleum (US) Limited of the drilling programme committed to the Pentex Partnerships IV;
- (c) a vendor and cash placing agreement dated 4th September, 1996 between the Company (1) Guinness Mahon & Co. Ltd (2) the Bank (3) Henderson Crosthwaite Institutional Brokers Limited (4) and Teather & Greenwood (5) in respect of the placing of 31,740,610 Shares by Guinness Mahon & Co. Ltd for a fee of £175,000 and a 0.5 per cent. commission on the placing price of 48p per placing share (together with any value added tax payable in respect thereof);
- (d) an Agreement dated 5th September, 1996 entered into by Angelica Trading Limited (“Angelica”) (1) Sibir Energy (2) Caraline Trading Limited (“Caraline”) (3) and the Company (4) and relating to the acquisition by Sibir Energy of the entire issued share capital of Caraline from Angelica. The consideration of US\$30,000,000 was satisfied as to US\$20,000,000 in cash, as to US\$5,000,000 by the issue to Angelica of Shares and as to US\$5,000,000 by the issue to Angelica of ordinary shares at £1 per share in the capital of Sibir Energy;
- (e) an agreement dated 5 September 1996 entered into by Sibir Energy (1) the Company (2) and Melrose Overseas Investments Limited (“MOIL”) (3) and relating to the sale and purchase of part of the issued share capital of Caraline. Pursuant to the terms of the agreement Sibir Energy acquired 188 ordinary shares in the share capital of Caraline for a consideration of £3,663,003 payable to the Company which sum was left outstanding as a non-interest bearing intra-group loan repayable on demand; the Company acquired 546 ordinary shares in the share capital of Caraline from Sibir Energy for a consideration of (i) £3,663,003

PART 6 — Additional Information—continued

which obligation to pay was set off against the obligation of Sibir Energy to discharge the intra-group loan referred to above and (ii) the allotment and issue of 14,758,327 Shares to Guinness Mahon & Co. Ltd or as Guinness Mahon & Co. Ltd directed and MOIL acquired 546 ordinary shares in the capital of Caraline from the Company for 310,747,000 payable by MOIL to the Company which sum was left outstanding as a non-interest bearing intra-group loan repayable on demand;

- (f) the following agreements were entered into in order to effect the Sibir Energy investment:
- (1) a loan agreement dated 5 September 1996 between The Chase Manhattan Bank NA (the "Bank") (1) and the Company (2) pursuant to which the Bank made available to the Company a loan in an aggregate principal amount not exceeding US\$20 million to fund the acquisition by Sibir Energy referred to in paragraph 9 (e) above at an interest rate of 0.75 per cent. above the rate at which the Bank is offered deposits in US\$. The agreement contained an obligation on the Company to pay the Bank a commitment fee of 0.3751 per cent. on any unborrowed money, certain specified fees and its costs and expenses. This loan has been repaid in full;
 - (2) a deed of assignment dated 5 September 1996 between the Company (1) and the Bank (2) pursuant to which the Company assigned by way of security to the Bank in respect of Liabilities (as defined in such deed) owned by the Company to the Bank all its rights, title and interest in and to the underwriting agreement referred to in sub-paragraph (j) below;
 - (3) a deed of assignment dated 5 September 1996 entered into between Sibir Energy (1) the Company (2) and the Bank (3) pursuant to which Sibir Energy and the Company assigned to the Bank all of their rights, title and interest in and to the investment agreement dated 5 September 1996 and described in sub-paragraph (g) below;
 - (4) a loan agreement dated 5 September 1996 and entered into between the Company (1) and Sibir Energy (2) pursuant to which the Company made available to Sibir Energy a loan in an aggregate principal amount of up to US\$20,000,000 for the purposes of the acquisition by Sibir Energy of the entire issued capital of Caraline at a rate of interest equal to the rate paid by the Company pursuant to the loan agreement referred to in sub-paragraph (f)(i) above. The loan has been repaid in full;
- (g) an investment agreement dated 5 September 1996 entered into between Rysaffe Nominees (CI) Limited and others as Non-Institutional Subscribers (1) the persons whose respective names are set out in schedule 2 of such agreement as institutional subscribers (2) Angelica (3) Geoffrey Colclough (4) Saints Bay Trust Company Limited (5) Guinness Mahon & Co. Ltd (6) the Company (7) MOIL (8) and Sibir Energy (9) pursuant to which the Non-Institutional Subscribers and the Institutional Subscribers (as defined in the investment agreement) subscribed for "A" ordinary shares and "B" ordinary shares in the share capital of Eriskay Investments Limited in consideration of the issue of 750,000 "B" ordinary shares in the capital of Sibir Energy credited as fully paid at par to the shareholders of Eriskay Investments Limited; 3,205,128 "B" ordinary shares in the share capital of Sibir Energy credited as fully paid at par were issued to Angelica in part satisfaction of the consideration payable pursuant to the agreement described at sub-paragraph (e) above; the loan of US\$20,000,000 from the Company to Sibir Energy referred to in sub-paragraph (f)(i) above was repaid out of the proceeds of the subscription for ordinary shares in the capital of Sibir Energy pursuant to the investment agreement;
- (h) an agreement dated 5 September 1996 and entered into by Sibir Energy (1) and MOIL (2) relating to the sale and purchase of the issued share capital of Caraline. Pursuant to the agreement Sibir Energy sold 546 shares in the capital of Caraline to MOIL in consideration for the allotment and issue to MOIL of 10,747,000 ordinary shares of £1 each in the capital of Sibir Energy;
- (i) a management agreement dated 17 March 1997 entered into by Sibir Energy (1) and the Company (2) pursuant to the investment agreement described in sub-paragraph (g) above and relating to the appointment of the Company to manage Sibir Energy's indirect investments in Evikhon, Ugraneft and Yugra under which the Company will receive fees calculated by reference to the time spent by each member of its staff on Sibir Energy's affairs and the direct and indirect cost of each staff member;
- (j) an underwriting agreement dated 17 March 1997 entered into between Sibir Energy (1) the Company (2) Guinness Mahon & Co. Ltd (3) and Henderson Crosthwaite Institutional Brokers Limited pursuant to which Guinness Mahon & Co. Ltd agreed, as agent for Sibir Energy, to use its reasonable endeavours to procure sub-underwriters for the 35,000,000 new ordinary shares of 10p each in the capital of Sibir Energy;
- (k) the demerger agreement dated 7 April 1997 between Cablade (1), the Company (2) and the B Shareholder (as defined in the agreement) (3) on terms that, conditional upon the placing agreement becoming unconditional by 20 May 1997:

PART 6 — Additional Information—continued

- (i) a dividend of £11.1 million be declared by the Company to be satisfied by a distribution in specie of the Company's shareholding in MPG to Cabglade in consideration of which Cabglade is to procure the issue, fully paid, of 60 million ordinary shares in 1p each in its capital to the B Shareholder ranking *pari passu* with Cabglade's existing issued share capital;
- (ii) any stamp duty in respect of the distribution in specie in excess of £10,000 to be paid by the Company;
- (l) the sale and purchase agreement dated 7 April 1997 between Crossroads International Limited ("CIL") (1), the Company (2) and MPG (3) upon terms that, conditional upon the placing agreement becoming unconditional:
 - (i) CIL sells shareholdings in the companies comprising the Melrose Petroleum Group ("MPG Companies") to MPG for a consideration of £11.1 million to be satisfied by the allotment to CIL of 998 shares of 31 each in the capital of MPG;
 - (ii) MPG procures the repayment of a £2.5 million debt owed by Melrose Petroleum (US) Limited to the Company;
 - (iii) the Company undertakes not to carry on tax shelter business competing with that of the MPG Companies or to solicit their employees for a period of three years after completion of the sale;
 - (iv) the Company undertakes for a period of six months after completion of the sale to provide specified employees to the MPG Companies at a fee equivalent to the cost to the Company of such provisions;
 - (v) MPG is to have the unfettered right to the name "Melrose";
 - (vi) the Company guarantees due performance of CIL's obligations under the agreement.

The parties to the agreement also entered into a deed of covenant concerning related taxation matters.

- (m) an agreement dated 7 April 1997 between the Company (1), Rysaffe and Westview (2), Rysaffe (3) and Rysaffe and R F M Adair Esq (4) on terms that, conditional upon the placing agreement having become unconditional:
 - (i) subject, *inter alia*, to compliance by the Company with its obligations under the demerger agreement referred to in sub-paragraph (k) above:
 - (1) the parties to the agreement other than the Company (the "other parties") procure the resignation of R F M Adair from all his positions in the Melrose Group (as defined) in the agreement;
 - (2) subject to the payment of accrued fees and expenses under a consultancy agreement (the "Consultancy Agreement") dated 14 November 1995 between R F M Adair, Pentex and Westview Services Limited, the Consultancy Agreement be terminated;
 - (ii) the parties procure that Terrace Hill Group plc ("Terrace") execute the Terrace Hill Property Agreement (as defined in the agreement) and the Company pay the sums due to the Terrace thereunder;
 - (iii) the other parties procure that the sum of US\$1.9 million is repaid by the Company to Melrose Petroleum (US) Limited ("MPUS") pursuant to the Placing Agreement will not be used by MPUS to make a loan or repay a debt to the Adair Shareholders and any parties connected with them until the Company is released by Neill Clerk Capital Limited from obligations to fund and drilling obligations of the Melrose IV Partnerships;
- (n) a placing agreement dated 7 April 1997 between the Company (1) Rysaffe and Westview (2) and Guinness Mahon & Co. Ltd (3), pursuant to which Guinness Mahon & Co. Ltd conditionally agreed to procure purchasers for or to purchase itself 50,000,000 shares held by certain of the Adair Shareholders at 18½p per share on terms that:
 - (i) Rysaffe and Westview agreed to pay a commission to Guinness Mahon & Co. Ltd of ½% of the proceeds of the placing, and a commission to Henderson Crosthwaite Institutional Brokers Limited of 1¾% of the proceeds of the placing;
 - (ii) the Company agreed to pay a fee of £150,000 to Guinness Mahon & Co. Ltd and in the event that the placing is not completed, to pay the ½% commission referred to in sub-paragraph (n)(i) above; and
 - (iii) The vendor and the Company gave certain warranties and indemnities to Guinness Mahon & Co. Ltd.

The agreement is conditional on various matters including the approval by shareholders of the disposal.

- (o) an undertaking given by Strand Associates Limited ("Strand") to the Company dated 24 December 1997 under which Strand agreed to take up its full entitlement under the Rights Issue and to subscribe for new Ordinary Shares not taken up by the

Qualifying Shareholders provided that the maximum amount which Strand is obliged to subscribe for its own rights and for the rights of other Qualifying Shareholders shall not exceed £1 million in aggregate. The consideration payable by the Company for that undertaking is £2. Strand has the right to terminate the undertaking prior to Admission ("Admission") of the new Ordinary Shares to be issued pursuant to the Rights Issue (nil paid). The undertakings are conditional on *inter alia* the Enron Arrangements being completed prior to Admission and on the Provisional Allotment Letters being posted and on Admission having occurred on or before 23 January 1998 (or such other date not being later than 31 January 1998) as Strand and the Company may agree.

9.2 Save as described in paragraph 9.1 above, there are no material contracts not entered into in the ordinary course of business, which are, or may be, material and which have been entered into by any member of the Group within the two years prior to the date of this document.

10. Information on the Group's Licences

In this paragraph, the following definitions have been used:

"Proven reserves" of petroleum means those reserves which, on the available evidence and taking into account technical and economic factors have a better than 90 per cent. chance of being produced.

"Probable reserves" of petroleum means those reserves which are not yet "proven", but which, on the available evidence, and taking into account technical and economic factors, have a better than 50 per cent. chance of being produced.

"Petroleum" means oil and/or gas.

"Remaining" when stating reserves of petroleum, means the total amount of petroleum which is expected to be produced from the reference date to the end of commercial production.

"Barrel" or "bb" refers to a volume of 42 US gallons or 5.615 cubic feet.

"Stock Tank Barrel" or "stb" refers to oil volumes measured at 14.7 psia and 60 degrees Fahrenheit.

Prefixes "M" and "MM" refer to thousands and millions respectively.

The prefix "B", as in "Bscf" refers to billions, one billion being 1,000 million.

"kwh" refers to kilowatt hours, 1 kwt = 3.6 Megajoules.

"Therm" refers to 100,000 British thermal units (BThUs).

"Net remaining" when stating reserves of petroleum, means that portion of the remaining reserves in any oil or gas field due to Pentex by virtue of its working interest in that field.

RESERVES

The following summary represents an estimate of the remaining reserves attributable to Pentex at 1 July 1997:

Proven Oil Reserves	13.995 MMbbls
Proven Gas Reserves	9.816 Bscf
Probable Oil Reserves	3.858 MMbbls
Probable Gas Reserves	2.251 Bscf

Reserves and future production profiles have been estimated by the extrapolation of observed historical production trends. In the event that such trends were not sufficiently established to be used in this way, reserve estimates were made by volumetric methods, and by analogy.

DESCRIPTION OF RESERVES

Pentex and its subsidiaries have interests in 19 producing oil fields in the United Kingdom, and these can be assigned into three main groups according to the oil producing province in which they are found. These areas are the onshore East Midlands basin, the onshore Weald basin in southern England, and the Central Graben area of the North Sea. Pentex, and its subsidiaries, are the operators of the major oilfield interests held by them in the two onshore basins.

ONSHORE EAST MIDLANDS FIELDS

The East Midlands basin has been an oil producing province since before the second world war, with further field developments taking place during the 1950s and 60s by BP. The rise in the oil price in the early 1970s renewed exploration interests in the region, and additional fields were developed by BP. In 1988 and 1989 Pentex purchased many of the licence interests held by BP in the East Midlands basin, and assumed operatorship. All the licences listed below are operated by Pentex Oil and Gas Limited, with 100 per cent. working interest held by Pentex Oil UK Limited and Pentex Oil and Gas Limited:

Field	Licence	Expiry date
Egmanton	ML3	17 November 2008
Bothamsall	ML6	30 March 2015
Corringham	ML4c	30 March 2015
Gainsborough/Beckingham	ML4a/b PL178	30 March 2015
South Leverton	ML7a	30 March 2015
Glentworth	ML4c	30 March 2015
Kirklington	PL216	7 August 2016
Rempstone	PL220d	7 August 2016
Long Clawson	PL220c	7 August 2016
East Glentworth	PL179a	18 November 2005

The licence prefix letters define the licence types as follows:

- ML Mining Licence
- EXL Exploration Licence
- PL Production Licence
- DL Development Licence

The general rights and obligations attached to these licences are defined in the model clauses of The Petroleum (Production) Act 1934, The Continental Shelf Act 1964, The Petroleum (Production) (Landward Areas) Regulations 1984, and The Petroleum (Production) (Seaward Areas) Regulations, plus such amendments as may have been subsequently enacted.

The reservoirs of the East Midlands Basin belong to the Westphalian and Namurian sections of the Carboniferous Silesian sub-system.

The Silesian is characterised by a series of evolving delta systems. The distributary channel sand bodies of the late Namurian to early Westphalian shallow water deltas which form the major reservoirs in this area, were deposited in low-lying, near emerged conditions, marine bands are common, and regionally correlatable coals few. In the late Westphalian, much of the area was prone to freshwater swamp environments, giving rise to frequent coal seams which can be correlated over wide areas. These coal seams form the basis for the deep mined coal industry of Nottinghamshire and South Yorkshire.

The channel sands and occasional crevasse splays form good reservoir rocks at their centres, but porosity and permeability deteriorate on the channel margins as the clay mineral content increases. Sand continuity and connectivity is enhanced along the axis of the main channels. However, lack of sand continuity over appreciable distances reduces the possibility of significant pressure support from water influx, and with few exceptions this is the case. Except for the fields which have currently active water injection schemes, the predominant production mechanism in the East Midlands fields is natural depletion/gravity drainage.

GAINSBOROUGH/BECKINGHAM FIELD

The field lies beneath the two towns of the same name, straddling the Nottinghamshire-Lincolnshire county border, and it contains over 65 per cent. of the remaining proven reserves of the East Midlands fields operated by Pentex. Production is predominantly from the Westphalian B sandstones, with significant contributions also coming from the Namurian sandstone reservoirs. The upper reservoirs are encountered at a depth of approximately 3,200 feet, with lower reservoirs extending down to below 4,500 feet. The field produces 38 degree API oil, which at original reservoir conditions is estimated to have had a solution gas-oil ratio of around 370 scf/stb. In the northern part of the field, a primary gas cap exists, and plans are in hand to exploit this gas via existing wells, for power generation and sale. Pressure data indicate that this gas cap effectively isolated from the main Westphalian B oil accumulation.

PART 6 — Additional Information—continued

The field was discovered in 1959, and its extension into the Beckingham area proved in 1964. A total of 104 wells have been drilled in the field to date, of which 38 are currently producing at a combined rate of approximately 580 barrels of oil per day.

For most of the field life, production has been by primary recovery, and the reservoir pressure has declined markedly from its initial value of approximately 1,500 psia at a depth of 3,300 feet. A water injection scheme was implemented in 1990 in order to raise the reservoir pressure and improve oil recovery.

The wells are produced by rod pumps, and are connected by flowlines to a gathering centre on the western edge of Gainsborough town. This size contains the oil separation and treatment facilities, together with the water injection pumps. Stabilised oil is piped to a rail terminal in Gainsborough for storage and export by rail tank cars.

These facilities also handle all the produced oil and water gathered from all the other Pentex operated East Midlands fields. The produced fluids are collected from these other fields by road tankers.

Associated gas from the Gainsborough/Beckingham field is sold under contract to local industrial consumers. Any major imbalance between supply and demand can be made up from the gas cap wells, which supply gas to the system automatically in the event of a shortfall. These gas cap wells will also supply the fuel to the power generation project, which commenced June 1995 and reached total capacity of 9 megawatts in January 1997. The majority of the gas reserves are associated with this project.

Because all the East Midlands group of fields currently use the processing and export infrastructure of the Gainsborough—Beckingham field, they have been evaluated as a group, and the aggregate summary of reserves as at 1 July 1997 are presented below:

Reserves as at 1 July 1997

Proven Oil Reserves	7.408 MMbbls
Proven Gas Reserves	9.816 Bscf
Proven & Probable Oil Reserves	8.841 MMbbls
Proven & Probable Gas Reserves	12.067 Bscf

Under Pentex base case economic assumption, commercial production from the Gainsborough/Beckingham field, and several of the smaller East Midlands fields will be possible beyond the current licence expiry dates. Under these circumstances it is expected that an extension to the licence(s) would be forthcoming from the DTI, and the reserves have been computed on this basis.

The other fields in the group are discussed briefly below.

Egmanton

The Egmanton field is a mature field, producing from the Westphalian A sands via 3 wells at a modest aggregate rate of slightly over 35 barrels of oil per day. The field was discovered in 1955, and had 67 wells drilled in it.

Bothamsall

The Bothamsall field produces from the same Westphalian A sandstone groups as the Egmanton field, and it is similarly mature, having been discovered in 1958. Only 3 wells continue to produce, out of an original complement of 21, at a combined rate of approximately 50 barrels of oil per day.

Corringham

Corringham produces from 3 wells at a combined rate of approximately 200 barrels of oil per day, from the Westphalian A siltstone rock and the deeper Namurian Chatsworth and Ashover Grit sands. One water injection well is active, injecting water at rates averaging 60 barrels per day.

South Leverton

The South Leverton field was discovered in 1960, and currently produces approximately 30 barrels of oil per day from 4 wells from the Westphalian A Crawshaw sands.

Glentworth

The Glentworth field produces approximately 250 barrels of oil per day via four wells from the Westphalian C Mexborough Rock formation.

Kirklington

Kirklington is a single well field producing from the Westphalian A Crawshaw sand. The Lower Chatsworth sand was also oil bearing in this well but the presence of sour oil in this horizon renders it unattractive for exploitation. This field currently produces approximately 10 barrels of oil per day.

Rempstone

In common with Kirklington, Rempstone was discovered in 1985, and the field currently produces approximately 70 barrels of oil per day from a stacked sequence of Namurian sands. The structure is faulted. Two (re-entry) wells were drilled in May 1995 and October 1995 to better exploit the reserves in the main fault block.

Long Clawson

Long Clawson was discovered in 1986, and the field currently produces approximately 150 barrels of oil per day via 4 wells from a sequence of Namurian sands. Water injection is planned for February 1998.

East Glentworth

East Glentworth was discovered in 1987, and produces approximately 65 barrels of oil per day from the discovery well, which is completed in the Westphalian C Mexborough Rock formation. The well has been fracture stimulated to increase offtake.

Weald Basin Fields

Pentex has interests in four producing oil fields of the Weald Basin of Southern England, the largest of which, the Stockbridge field, is owned and operated 100 per cent. by Pentex.

All four fields produce oil from the Middle Jurassic limestones of the Great Oolite formation, which are believed to have been deposited as oolite shoals on an existing carbonate shelf. Parts of the sequence were later exposed, leading to karstification and secondary porosity development. In general the reservoir properties of the Great Oolite are poor, except in areas where localised diagenetic or fracture induced secondary porosity enhance the connectivity of the reservoir.

The licences in the Weald Basin in which Pentex has an interest are as follows:

Field	Licence	Expiry date
Stockbridge	PL233/PL249a/DL002	26 October 2008
Hordean	PL211C	6 April 2007
Singleton	PL240	30 November 2008
Goodworth	PEDL021	3 April 2026

Stockbridge

Pentex operate the Stockbridge field and have a 100 per cent. working interest in it. It is located approximately 5 km to the north of Winchester, and it was discovered in 1984.

The field produces from the middle Jurassic Great Oolite formation, which is encountered at a depth of approximately 3,300 feet in this area. Nine producing wells are currently active, producing an aggregate total of approximately 1,450 barrels of oil per day.

Production is by primary depletion and artificial lift is provided to the wells in the form of downhole hydraulic jet pumps. Some water is produced from the field, but large scale pressure support from water influx is unlikely except in localised areas where a pre-existing fracture system may extend into the aquifer.

The Stockbridge oil is highly undersaturated, having a solution gas-oil ratio of approximately 20 scf/stb, and a bubble point pressure of only 230 psi, which is much lower than the initial reservoir pressure of 1,536 psi. The oil is sweet, with a gravity of 38 degrees API, and after treatment and separation at the Stockbridge site it is exported to the Hamble terminal by road tanker.

For 1998 a seismic survey is planned and water injection is being considered.

The estimated net remaining reserves in the Stockbridge Field at 1 July 1997 are as follows:

Proven Oil Reserves	— 4.914MMbbls
Proven + Probable Oil Reserves	— 6.714 MMbbls

Commercial production from the Stockbridge field is predicted to be possible beyond the current licence expiry date, and the reserves have been estimated on the basis that an extension of the licence would be forthcoming from the DTI, which the Directors believe will be the case. Under the best case economic assumptions production is predicted to be commercially viable beyond the year 2015, although for the purpose of the reserves estimation the production profile was truncated at 2015.

Singleton

The Singleton field is situated 9 km to the north of Chichester. The field is operated by SOCO and Pentex has an 18.75 per cent. working interest. Production comes from the middle Jurassic Great Oolite formation, which is encountered at a depth of approximately 4,000 feet. The field comprises two separate fault blocks, which contain oils with slightly different properties. Singleton oil is sweet, having a gravity of 39 degrees API, with solution gas/oil ratios in the range 200 to 320 scf/stb. Original reservoir pressure was 1,852 psi at 4,427 feet. Four wells are currently completed in the field, although one remains shut due to high water production. Two of the remainder are horizontal re-drills of original deviated wells and together they produce of the order of 830 barrels of oil per day. Artificial lift is provided to the wells via downhole hydraulic jet pumps, and produced water is disposed of to the Ashdown sand beds, down the annulus of one of the producing wells. The northern of the two fault blocks has developed a small gas cap as the reservoir pressure has declined. Produced gas used to be flared, but a power generation scheme has been implemented to utilise the associated gas, which generates electricity for use in production operations, and the small excess amounts of power are sold.

The estimated net remaining reserves in the Singleton field at 1 July 1997 are as follows:

Proven Oil Reserves	— 0.265 MMbbls
Proven + Probable Oil Reserves	— 0.265 MMbbls

Goodworth

The field is situated 5 kms north of Stockbridge, and is 100 per cent. owned and operated by Pentex. A re-entry of an abandoned well was drilled horizontally in October 1997. Production is currently flowing at the rate of approximately 140 barrels per day from 1 well. A further well is planned for 1998.

Proven Oil Reserves	— 0.550 MMbbls (1 July 1997)
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Horndean

The Horndean field is located 13 km to the north of Portsmouth. Horndean is operated by SOCO, and Pentex has an 18.75 per cent. working interest. Production is from the middle Jurassic Great Oolite formation which is at a depth of 4,100 feet at the structure Horndean structure crest. The field produces approximately 320 barrels per day of sweet 37 degree API oil via four wells, three of which are horizontal. A further horizontal redrill is planned for 1998. The Horndean oil has a low solution gas-oil ratio of between 100 and 136 scf/stb and therefore a very low saturation pressure.

In common with the other Great Oolite fields in the area, the production mechanism is by primary depletion, and the reservoir pressure has fallen considerably from its initial value of 1,965 psia at 4,300 feet. Artificial lift is provided by rod pumps, and produced water is disposed of down a water disposal well. Oil is exported to the Hamble terminal by road tanker.

The estimated net remaining reserves in the Horndean field at 1 July 1997 are as follows:

Proven Oil Reserves	— 0.110 MMbbls
Proven + Probable Oil Reserves	— 1.110 MMbbls

Central Graben Fields

Pentex hold an interest in two licences in the Central Graben area of the North Sea, which each contain a major oilfield, together with additional smaller satellite accumulations. The licence details are outlined below:

<i>Field</i>	<i>Licence</i>	<i>Block</i>	<i>Expiry date</i>
Balmoral	P201	16/21a	2017
Glamis	P201	16/21a	2017
Stirling	P201	16/21a	2017
Maureen	P110	16/29	2016
Moir	P110	16/29	2016
Mary	P110	16/29	2016
Morag	P110	16/29	2016
Maria	P110	16/29	2016

The Central Graben area of the North Sea saw the earliest UK offshore oilfield development in the 1970s, including the Forties field operated by BP. Both the Balmoral and Maureen fields produce from the same Paleocene Andrew sandstone as the Forties field. The Balmoral block contains a Jurassic satellite field, Glamis and a Devonian field, Stirling, which is currently the subject of an extended well test. Likewise the Maureen field block contains a significant number of satellite fields, including Moira, a Paleocene structure, Mary and Maria which are Jurassic reservoirs, and Morag, which has produced from the Permian Zechstein dolomite.

In each block, the satellite fields are dependent on the main paleocene field for processing capacity and services, as they are mainly sub-sea completions tied back to the main field production facility.

Balmoral

The Balmoral field lies in the central North Sea block 16/21. It underlies two part blocks, the Arco operated block 16/21b, and the Agip operated block 16/21a. The field is unitised with Agip as unit operator and Pentex have a unit interest of 6.65 per cent. The unit agreement has no provision for any further redeterminations of its equity, and therefore the existing participants have their unit equity fixed at the current values for the remainder of the field life.

Balmoral was discovered in 1975, and appraised by a further five appraisal wells over the subsequent eight years. Development plan (Annex B) approval was given in 1983, and production commenced in late 1986.

The productive horizon in Balmoral is the Andrew sand of Palaeocene age. This sand has very good reservoir properties, having formation porosities averaging 25 per cent. with most samples being between 15 per cent. and 30 per cent. Permeabilities vary from over 1 Darcy to 1 millidarcy, although the average level of permeability is in the low hundreds of millidarcies. Some reservoir layers are poorly consolidated, necessitating the use of gravel pack completions.

Production mechanism is a combination of edge/bottom water drive, dependant on the local degree of vertical communication between the main reservoir layers. Locally, beneath some wells coning phenomena cause water production in wells whose perforated intervals are still above the prevailing oil-water contact depth. The in-situ oil-water mobility ratio is very favourable, so on a microscopic scale oil displacement by water will be very efficient. The oil in Balmoral is undersaturated with the bubble point being almost 1,700 psi below the initial reservoir pressure of 4,350 psi at 10,000 feet. Balmoral oil has an API gravity of 40 degrees and a solution gas-oil ratio of 363 scf/stb.

Natural water influx is supplemented by water injection to maintain the average reservoir pressure at close to initial, in order to maximise well productivity, and to avoid any potential problems with gas production. Gas lift is provided to lift the wells as water cuts increase.

Initial oil in place is estimated to be almost 200 million barrels, and the reserves will represent an ultimate recovery in excess of fifty per cent. This is not untypical of fields of this type, developed in this way.

The water depth in the Balmoral area is over 470 feet, and therefore the field has been developed using a floating production facility ("FPF") with sub-sea completed oil production and water injection wells. Most of the oil production wells are manifolded together on a template beneath the FPF, which is then tied back to the FPF via two flexible risers. The remaining producers, and all the injectors, are satellite wells which are connected to the FPF via the sub-sea manifold. After treatment aboard the FPF oil is exported via a pipeline which connects with the Brae system pipeline, from where it flows on through the Forties' pipeline system to Cruden Bay/Hound Point.

Balmoral field partners obtain additional income in the form of tariff receipts from the Glamis and Stirling fields, which produce to the Balmoral FPF in order to utilise its fluid processing and oil export facilities.

Average daily production from Balmoral is currently 10,000 barrels of oil per day.

The estimated net remaining reserves in the Balmoral field at 1 July 1997 are as follows:

Proven Oil Reserves	— 0.364 MMbbls
Proven + Probable Oil Reserves	— 0.364 MMbbls

Glamis

The Glamis field is a small satellite accumulation within the 16/21a block approximately 8km to the south south-west of the Balmoral field. Pentex holds an 8 per cent. interest in the Glamis Field.

PART 6 — Additional Information—continued

Production is via two sub-sea completed wells tied back to the Balmoral sub-sea manifold. The reservoir is in Volgian late Jurassic sands which have excellent reservoir properties.

The production mechanism is displacement of oil by injected water, which is provided from a single water injection well tied back to the Balmoral manifold. As in the palaeocene reservoir of Balmoral, oil recoveries are expected to be high as a result of the favourable formation and fluid properties. Glamis oil has an API gravity of 41.5 degrees, and a solution gas-oil ratio of 1.040 scf/stb. This high gas content supplements the field gas requirements of the Balmoral floating production facility. The flowrate from the one production well is currently 1,200 barrels per day.

The estimated net remaining reserves in the Glamis field at 1 July 1997 are as follows:

Proven Oil Reserves	— 0.031 MMbbls
Proven + Probable Oil Reserves	— 0.031 MMbbls

Stirling

Stirling is a fractured Devonian sandstone reservoir partially underlying the Balmoral reservoir. Pentex has a 4.8 per cent. interest in Stirling. The one production well is producing 650 barrels per day.

The estimated net remaining reserves in the Stirling field at 1 July 1997 are as follows:

Proven Oil Reserves	— 0.024 MMbbls
Proven + Probable Oil Reserves	— 0.024 MMbbls

Maureen

Maureen is the other major Central Graben Palaeocene oilfield in which Pentex holds an interest. The field is operated by Philips Petroleum Company UK Limited, and Pentex has an interest of 8.5 per cent.

The producing horizon in the Maureen field is the Palaeocene Andrew sandstone which is at a depth of 8,100 feet at its crest. Maureen was discovered in early 1973, and was appraised by a further three successful wells during the period 1974-1978. Development plan (Annex B) approval was granted in early 1978, and development drilling commenced the following year through a 24 slot sub-sea drilling template. The production platform was installed over the template in mid 1983 and production commenced in the autumn of the same year. Since the development drilling programme had been almost completed by this time, the field commenced production at its plateau production rate, which was in excess of 70,000 barrels of oil per day.

Water depth in the Maureen area is 315 feet, and the production platform is based on a unique design, being a triangular area gravity structure, each vertex of the triangle being a support leg and a crude storage tank. The tanks have a combined storage capacity of 650,000 barrels of oil. Produced oil is accumulated in the tanks, and then loaded onto shuttle tankers for export.

In common with the other Paleocene reservoirs in the area the reservoir production mechanism is a planned waterflood, augmenting any natural water influx by seawater injection at the periphery of the structure. The formation and fluid properties are very favourable for this mode of exploitation, and oil recovery is already high, and will ultimately reach almost 55 per cent. of the 392 million barrels of the oil initially in place. Formation permeabilities are of the order of hundreds of millidarcies, and porosities are in the range 18-25 per cent. The waterflood performance of the Maureen field has been extremely efficient, as the watercut remained below 20 per cent. until the cumulative gross oil recovery had exceeded 160 MMbbls.

Gas lift is implemented as the wells produce water, and all the produced water is reinjected into the reservoir. Maureen oil is sweet, with an API gravity of 43 degrees, a solution gas-oil ratio of 393 scf/bbl and a saturation pressure of 1.786 psia. which is well below the initial reservoir pressure of 3.972 psia at 8,300 feet. Water injection has maintained the reservoir pressure well above this level, in order to avoid the liberation of gas in the reservoir, and to maintain well deliverabilities.

Seven production wells in Maureen remain active from an initial complement of twelve. These wells currently produce at a rate of the order of 8,000 barrels of oil per day. The field is very mature, and further reservoir development options are limited, and therefore effort has concentrated on improving efficiencies and control of operating costs to extend the productive life of the field. As part of this strategy one well has been fitted with an electric submersible pump to increase the fluid lifting capability from the wells. Additional pump installations may be attempted if the existing pump trial proves cost effective.

Any opportunities to tariff outside fluids for use of the Maureen process, storage, and export facilities will also impact on the Maureen reserves, as such additional sources of revenue will help to offset the Maureen field operating costs and extend the economic life of the field. Abandonment of Maureen is predicted to take place in 1999.

PART 6—Additional Information—continued

The estimated net remaining reserves in the Maureen field at 1 July 1997 are as follows:

Proven Oil Reserves	— 0.230 MMbbls
Proven + Probable Oil Reserves	— 0.230 MMbbls

Moira

The Moira field is a small Paleocene satellite field 10 km to the south of the Maureen platform. Pentex has an 8.5 per cent. working interest in the field and it is exploited via a single sub-sea well tied back to the Maureen platform producing approximately 400 barrels per day.

The estimated net remaining reserves in the Moira field at 1 July 1997 are as follows:

Proven Oil Reserves	— 0.016 MMbbls
Proven + Probable Oil Reserves	— 0.016 MMbbls

Morag

Morag is a small Zechstein dolomite accumulation underlying the Maureen field, which was exploited by a platform well which was originally a Maureen producer. Production from the well ceased at the end of 1993, having produced 2.5 million barrels of oil. The reservoir is understood to be very compartmented and there may be opportunities to produce from other compartments if enough oil in place can be defined from the available data. At present no reserves are attributed to Morag.

Pentex hold an 8.5 per cent. interest in the field.

Mary

Mary is a small Jurassic reservoir below the Maureen field, which, like Morag, was exploited by a single platform well. Production ceased in late 1992 after having produced just over 320,000 barrels of oil. Recently a well was drilled in the field and is currently producing approximately 6,000 barrels per day. A further well is planned to be drilled in the first quarter of 1998.

Pentex hold an 8.5 per cent. working interest in the field. Proven reserves have been attributed to the Mary field as outlined below, as at 1 July 1997.

Proven Oil Reserves	— 0.083 MMbbls
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Maria

Maria is an accumulation of high shrinkage, high gas-oil ratio volatile crude oil underlying the Moira field, which was recently tested by an exploration well. The well tested in excess of 5,000 barrels of oil per day from a 150 foot thick Jurassic section, and mapped probable oil in place is of the order of 37 million barrels.

Pentex holds an 8.5 per cent. working interest in the Maria discovery.

Probable reserves have been attributed to the Maria field as outlined below:

Probable Oil Reserves	— 0.425 MMbbls
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Exploration Potential

In addition to the interests in producing fields outlined above, Pentex holds interests in various exploration licences which are briefly described below.

Summary of Licences

A summary of the exploration licences held by Pentex is presented below.

<i>Base</i>	<i>Licence(s)</i>	<i>Percentage held</i>	<i>Area</i>
Central Graben	2	8.5% for 16/29a 8.0% for 16/21	Offshore UK (Central North Sea)
East Midlands	4	100%	Onshore UK (East Midlands)
Midland Valley	1	100%	Onshore UK (Central Scotland)
Weald Basin	2	100% (PEDL 021), 18.75% (EXL 222)	Onshore UK (Southern England)
Strangolagalli	1	50%	Onshore Italy

Italy (Strangolagalli Concession)

The Strangolagalli block has within it the Pentex operated Ripi Field, which produces oil from the Miocene sands. However, production operations in Ripi are barely economic, and the Directors do not credit the field with any remaining reserves. The concession does however have additional potential in the form of exploration prospects in deeper intra-Mesozoic carbonate objectives, which have yet to be tested by drilling. This is considered a moderate to high risk objective. An exploration project including seismic and satellite interpretation will be completed in early 1998.

Onshore UK — East Midlands

Pentex owns a number of properties on the East Midlands shelf oil and gas province, which were acquired mainly from purchase of the interests of BP. Two drillable prospects have been defined in the Carboniferous section at depths ranging from 1,500 to 4,000 ft below ground level. Furthermore, a deep gas play has been recognised below the Gainsborough/Beckingham field.

The East Midlands basin also offers potential for significant reserves of coalbed methane, which could be exploited through the existing well and production infrastructure. Pentex plans to test the coalbed methane potential in the Gainsborough/Beckingham area.

Midland Valley of Scotland (EXL240)

Pentex operates a single block in the Midland Valley of Scotland. It is centred on the northern coast of the Firth of Forth north of Edinburgh. The potential for liquid hydrocarbons in the block is low, with the remaining potential being centred around coalbed methane extraction which is currently underway in a block around forty miles to the west.

11. Working capital

The Directors believe that having regard to the bank and other facilities available to the Group and the net proceeds receivable from the Proposed Transactions, the working capital available to the Group is sufficient for its present requirements.

12. Indebtedness

At the close of business on 14 November 1997, the Group had outstanding borrowings or indebtedness in the nature of borrowings of £36.5 million, comprising secured loans of £33.2 million and finance lease commitments of £3.3 million.

Save for the aforesaid, and apart from intra group indebtedness and guarantees, neither Pentex nor any other company in the Group had outstanding at the close of business on 14 November 1997 any mortgages, charges, debentures, loan capital (whether outstanding or created but unissued), term loans or other borrowings or indebtedness in nature of borrowings, including bank overdrafts, liabilities under acceptance (other than normal trade bills), acceptance credits, hire purchase or finance lease commitments, guarantees or other contingent liabilities.

At the same date, the Group had cash balances and short term deposits of £15.5 million.

13. General

- (a) Save as disclosed in the paragraph entitled "Current Trading and Prospects" in Section 1, there has been no significant change in the trading or financial position of the Group since 30 June 1997 the latest date to which audited accounts have been prepared for the Group.
- (b) In his budget statement on 26 November, 1996, the Chancellor of the Exchequer announced that the tax deductions available to oil and gas companies in respect of intangible drilling costs on development wells were to be reduced substantially with immediate effect. A significant part of the Company's business relied on the ability to pass through to limited partners in the Company's partnership business the benefit of a 100% deduction in respect of intangible drilling costs at the time such expenditure was incurred and, consequently, on 27 November 1996, the Company issued a profit warning in respect of the financial year ended 30 June 1997.
- (c) On 5 September 1996, the Company subscribed for approximately 49% of the issued share capital of Sibir Energy via its wholly-owned subsidiary, Melrose Overseas Investments Limited, a subsidiary formed specifically for this purpose, representing an investment of £10.79 million. This investment formed part of the acquisition by Sibir Energy, for approximately £19.69 million, of an indirect beneficial ownership interest in 10% of a joint venture to develop approximately 1.25 billion barrels of technical ultimate recoverable oil reserves located in Western Siberia and certain other interests, by the acquisition of an indirect 20% interest in Evikhon Oil Joint Stock Company.

PART 6 — Additional Information—continued

- (d) The expenses of, and incidental to, the Proposed Transactions, including registration and listing fees, printing, advertising and distribution costs, legal and accounting fees and expenses, are estimated to amount to approximately £525,000 (inclusive of VAT) and are payable by the Company.
- (e) The new Ordinary Shares and Warrants to be issued pursuant to the Proposed Transactions have not been sold, nor are they available, in whole or in part, to the public in conjunction with the application for listing, except pursuant to the Rights Issue.
- (f) The Ordinary Shares and the Warrants are in registered form.
- (g) The financial information relating to the Group contained in this document does not constitute statutory accounts within the meaning of section 240 of the Act. Copies of the audited consolidated accounts of the Group for the three years ended 30 June 1997 have been delivered to the registrar of companies. These accounts contained unqualified auditors' reports as required by section 235 of the Act. Messrs Grant Thornton of Grant Thornton House, Melton Street, Euston Square, London NW1 2EP, Chartered Accountants, have audited the accounts of the Group for each of the last three financial years.
- (h) Temporary documents of title will not be issued. It is expected that share certificates will be despatched at the risk of the persons entitled thereto no later than 28 February 1998.
- (i) A T West, a non-executive director of the Company, is also a director of Strand Partners Limited which is receiving a fee in relation to the Proposed Transactions. This document has been authorised by an independent director of Strand Partners Limited.
- (j) The new Ordinary Shares are to be issued at 18.5 pence per share of which 5 pence relates to the nominal value and 13.5 pence represents a premium.
- (k) There have been no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have had since 24 December 1996 a significant effect on the Company's financial position.
- (l) The table below lists the middle market quotations for an Ordinary Share as derived from the Official List, at the close of business on the first dealing day in each of the preceding six months, the last dealing day before the announcement of the Rights Issue and on 22 December, 1997 (being the latest practicable date prior to the printing of this document):

Date	Pence
1 July, 1997	15.5
1 August, 1997	14.5
1 September, 1997	14.5
1 October, 1997	14.75
3 November, 1997	18.25
12 November	17.75
1 December, 1997	19.5
22 December 1997	20.0

- (m) Strand Partners Limited is registered in England (No. 2780169) and its registered office is at 110 Park Street, London W1Y 3RB. Strand Partners Limited is regulated by The Securities and Futures Authority Limited.

13. Consents

- (a) Strand Partners Limited has given and not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which those references appear and has authorised the contents of Section 2 of this document for the purpose of Section 152(l)(e) of the Financial Services Act 1986.
- (b) KPMG Audit Plc has given and not withdrawn its written consent to the inclusion of its letter in Section 4 in the form and context in which it appears and has authorised the contents of its letter for the purposes of Section 152(l)(e) of the Financial Services Act 1986.

15. Documents Available for Inspection

Copies of the following documents will be available for inspection at the offices of Gouldens, 22 Tudor Street, London EC4Y 0JJ during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) until the latest time for acceptance and payment in full under the Rights Issue:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the audited and consolidated accounts of the Company and its subsidiary undertakings for the three years ended 30 June 1997;
- (c) the rules of the Executive Share Option Scheme referred to in paragraph 8 above;
- (d) the material contracts referred to in paragraph 9 above;
- (e) the directors' service contracts referred to in paragraph 6 above;
- (f) the written consents referred to in paragraph 13 above;
- (g) this document.

Dated 24 December 1997

PART 7

Pentex Energy plc

(Registered in England and Wales No. 1915605)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the holders of Ordinary Shares of 5 pence each in the capital of Pentex Energy plc will be held at 22, Tudor Street, London EC4Y 0JJ on Friday 16 January 1998 at 10.00 a.m. to consider and, if thought fit, pass the following resolutions as Special Resolutions:

SPECIAL RESOLUTIONS

1. THAT,
 - (a) the authorised share capital be and is hereby increased by £2,000,000 to £24,000,000 divided into 480,000,000 Ordinary Shares of 5 pence each by the creation of 40,000,000 new Ordinary Shares of 5 pence each;
 - (b) the Directors be and are generally and unconditionally authorised in accordance with section 80 of the Act to allot relevant securities (as defined in section 80(2) of the Companies Act 1985 ("the Act") in substitution for and to the exclusion of any other such authority) up to an aggregate nominal amount of £1,451,910.55 in connection with the Rights Issue referred to in Part 2 of the circular from the Company to its shareholders dated 24 December 1997 (the "Circular"), such authority to expire at the conclusion of 15 months from the date of the passing of this Resolution or if earlier the Annual General Meeting of the Company to be held in 1998 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority granted by this Resolution had not expired; and
 - (c) the Directors be and are hereby empowered to allot equity securities (as defined for the purposes of sections 89 to 96 of the Act) (in substitution for and to the exclusion of any other such authority) pursuant to the authority referred to in paragraph (b) above as if sub-section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities in connection with the Rights Issue referred to in Part 2 of the Circular.
2. THAT, conditionally upon the passing of Resolution 1 above and the Enron Subscription (as defined in the Circular) becoming unconditional in all respects (save in respect of any condition relating to the passing of this Resolution):
 - (a) the authorised share capital be and is hereby increased by £2,000,000 to £26,000,000, divided into 520,000,000 Ordinary Shares of 5 pence each by the creation of 40,000,000 new Ordinary Shares of 5 pence each;
 - (b) the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Act to allot relevant securities (as defined in section 80(2) of the Act) (in addition to the authority granted by paragraph (b) of Resolution No. 1 above but in substitution for and to the exclusion of any other such authority) up to an aggregate nominal amount of £2,000,000 in connection with the Enron Subscription, such authority to expire at the conclusion of 15 months from the date of the passing of this Resolution or if earlier the Annual General Meeting of the Company to be held in 1998 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority granted by this Resolution had not expired; and
 - (c) the Directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined for the purposes of sections 89 to 96 of the Act) (in addition to the authority granted by paragraph (c) of Resolution No. 1 above but in substitution for and to the exclusion of any other such authority) pursuant to the authority referred to in paragraph (b) above as if section 89(1) of the Act did not apply provided that such power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £2,000,000 in connection with the Enron Subscription such authority to expire at the conclusion of 15 months from the date of the passing of this Resolution or if earlier the Annual General Meeting of the Company to be held in 1998 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such an offer or agreement as if the authority granted by this Resolution had not expired.

3. THAT, conditionally upon the passing of Resolution 1 above:

- (a) the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Act to allot relevant securities (as defined in section 80(2) of the Act) (in addition to the authorities granted by paragraph (b) of Resolutions Nos. 1 and 2 above but in substitution for and to the exclusion of any other such authority) up to an aggregate nominal amount of £1,597,101.60 and, conditionally upon the passing of Resolution 2 above and such Resolution becoming unconditional, of £200,000, in connection with the issue of Warrants referred to in Part 5 of the Circular, such authority to expire at the conclusion of 15 months from the date of the passing of this Resolution or if earlier the Annual General Meeting of the Company to be held in 1998 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority granted by this Resolution had not expired; and
- (b) the Directors be and are hereby empowered to allot equity securities (as defined for the purposes of sections 89 to 96 of the Act) pursuant to the authority referred to in paragraph (a) above as if sub-section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £1,597,101.60 and conditionally upon the passing of Resolution 2 above and such Resolution becoming unconditional, of £200,000, in connection with the issue of Warrants referred to in Part 2 of the Circular such authority to expire at the conclusion of 15 months from the date of the passing of this Resolution or if earlier the Annual General Meeting of the Company to be held in 1998 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such an offer or agreement as if the authority granted by this Resolution has not expired.

4. THAT, conditionally upon the passing of Resolution 1 above:

- (a) in addition to the authorities referred to in Resolutions 1, 2 and 3 above but in substitution for and to the exclusion of all other existing authorities pursuant to section 80 of the Act the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £4,231,881.90 and, conditionally upon the passing of Resolution No. 2 above and such Resolution becoming unconditional, £2,000,000 such authority to expire at the conclusion of 15 months from the date of the passing of this Resolution or if earlier the Annual General Meeting of the Company to be held in 1998 save that the Company may before the expiry of this authority make an offer or agreement which would or might require relevant securities to be allotted after such expiry and that the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority granted by this Resolution has not expired; and
- (b) the Directors be empowered to allot equity securities (as defined for the purposes of sections 89 to 96 of the Act) pursuant to the authorities referred to in paragraph (a) above as if sub-section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited:
 - (a) to the allotment of equity securities in connection with an issue by way of rights (including without limitation under a rights issue, open offer or similar arrangement) in favour of shareholders where the equity securities respectively attributable to the interests of all such shareholders are proportionate (as nearly as may be) to the respective value of shares held by them, the Directors having the right to make such exclusions or arrangements as the Directors shall deem necessary or expedient to deal with the laws of any territory or any requirements of any recognised registered body or any other stock exchange in any territory or as regards shares held by any approved depository or in connection with fractional entitlements or otherwise howsoever;
 - (b) to the allotment (otherwise than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal amount of £1,000,000.

Registered Office:
2, St. Andrews Hill
London
EC4V 5BY

Dated 24 December 1997

By Order of the Board
M. L. Manderson
Secretary

PART 7—continued

NOTES:

- (i) A holder of shares entitled to attend the above meeting is entitled to appoint a proxy or proxies to attend and vote on his behalf at the meeting. Such proxy is also entitled to vote on a poll at the meeting. A proxy need not be a member of the Company.
- (ii) A form of proxy is enclosed for use by shareholders. To be valid a form of proxy must (save as otherwise provided in the Company's articles of association) be deposited together with any power of attorney or other authority (if any) under which it is signed (or a copy of such authority certified notarially or in some other way approved by the board), at the offices of the Company's registrars, Northern Registrars Limited, Northern House, Penistone Road, Fenay Bridge, Huddersfield HD8 0LA so as to be received no less than 48 hours before the time appointed for the meeting or adjourned meeting.
- (iii) Deposit of a form of proxy will not prevent a member from attending and voting in person at the meeting or any adjournment thereof.
- (iv) The Company pursuant to Resolution 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the Company as at 10.00 a.m. on 14 January 1998 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 10.00 a.m. on 14 January 1998 shall be disregarded in determining the rights of any person to attend or vote at the meeting.