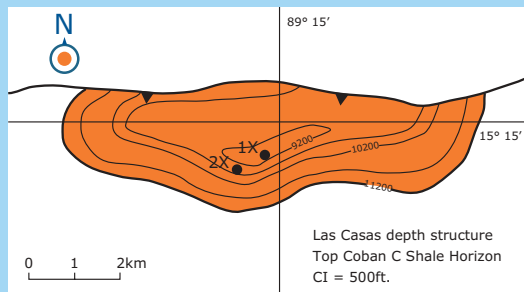


Taghmen Energy Plc

Admission to AIM



Creating value with responsibility

Nominated Adviser and Broker



Canaccord Capital (Europe) Limited

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. The whole of the text of this document should be read. You should be aware that an investment in the Company involves a high degree of risk. Your attention is drawn to Part II of this document entitled "Risk Factors".

This document is an admission document relating to Taghmen Energy Plc (the "Company") for the purposes of AIM ("AIM"), a market operated by the London Stock Exchange plc (the "Exchange"). Whilst it has been drawn up in accordance with the Public Offers of Securities Regulations 1995 (as amended) ("POS Regulations") and the rules of AIM (the "AIM Rules") it does not comprise a prospectus for the purposes of such regulations and a copy has not been and will not be delivered to the Registrar of Companies in England and Wales for registration.

Application has been made for the whole of the issued ordinary share capital of the Company comprising of ordinary shares of US\$0.10 each ("Ordinary Shares") to be admitted to trading on AIM. It is expected that admission will become effective and that dealings in the Ordinary Shares will commence on AIM on 14 January 2005.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority ("UKLA"). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The AIM Rules are less demanding than those of the Official List and it is emphasised that no application is being made for admission of these securities to the Official List. Neither the Exchange nor the UKLA have itself examined or approved the contents of this document.

Taghmen Energy Plc

(Incorporated in England and Wales under the Companies Acts 1985 to 1989 with Registered No. 5173588)

Admission to trading on AIM

Nominated Adviser and Broker

Canaccord Capital (Europe) Limited

ORDINARY SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION

<i>Number of Ordinary Shares</i>	<i>Authorised Nominal Value</i>	<i>Issued and fully paid Number of Ordinary Shares*</i>	<i>Nominal Value*</i>
150,000,000	US\$15,000,000	Ordinary Shares of US\$0.10 each 49,923,120	US\$4,992,312

**(assuming no exercise of any Options, Warrants or the Conversion of Loan Notes)*

The Directors of the Company, whose names appear on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. 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.

Canaccord Capital (Europe) Limited ("Canaccord"), which is regulated by the Financial Services Authority, is acting solely as nominated adviser and broker to the Company for the purposes of the AIM Rules in connection with the Admission and is not acting for and will not be responsible to any other person other than the Company for providing the protections afforded to customers of Canaccord or for advising any other person on the contents of this document or any transaction or arrangement referred to in this document. Canaccord's responsibilities as the nominated adviser to the Company are solely owed to the Exchange. No representation or warranty, express or implied, is made by Canaccord as to any of the contents of this document for which the Directors are solely responsible. Canaccord has not authorised the contents of, or any part of, this document and (without limiting the statutory rights of any person to whom this document is issued) no liability whatsoever is accepted by Canaccord for the accuracy of any information or opinions contained in this document or for the omission of any material information for which the Company and its Directors are solely responsible.

Neither this document nor any copy of it may be (i) taken or transmitted into the United States of America (ii) distributed, directly or indirectly, in the United States of America or to any US person (within the meaning of regulations made under the United States Securities Act of 1933, as amended) or (iii) taken or transmitted into or distributed in Canada or to any resident thereof, except in compliance with the applicable securities laws. Any failure to comply with these restrictions may constitute a violation of the securities laws or the laws of any such jurisdiction. The distribution of this document in other jurisdictions may be restricted by law and the persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

Copies of this document will be available during normal business hours on any day (except Saturdays, Sundays and public holidays) free of charge to the public at the offices of Canaccord, 1st Floor, Brook House, 27 Upper Brook Street, London W1K 7QF for one month from the date of Admission.

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DIRECTORS, SENIOR MANAGEMENT, SECRETARY & ADVISERS

Directors	Gregory Charles Smith, <i>Executive Chairman</i> Nicholas Hugo Gay, <i>President, Chief Executive Officer</i> John McNeil Scott, <i>Chief Operating Officer</i> James De Vaux Brillantes Guiang, <i>Non-Executive Director</i> Joseph George Strubel, <i>Non-Executive Director</i> all of: 2nd Floor, 27 Berkeley Square, London W1J 6EL
Senior management	Geoffrey Killick, <i>Chief Financial Officer</i> Michael Joseph Realini, <i>President, Mexpetrol (Guatemala) Corp</i>
Company Secretary	GMRLAW Services Limited 4th Floor, Imperial House, 15/19 Kingsway, London WC2B 6UN
Registered Office	4th Floor, Imperial House, 15/19 Kingsway, London WC2B 6UN
Nominated Adviser and Broker	Canaccord Capital (Europe) Limited 1st Floor, Brook House, 27 Upper Brook Street, London W1K 7QF
Solicitors to the Company	<i>As to English Law:</i> Grundberg Mocatta Rakison LLP 4th Floor, Imperial House, 15/19 Kingsway, London WC2B 6UN <i>As to Guatemalan Law:</i> A.D. Sosa & Soto 15 Calle "A", 14-44 Zona 10, Edificio Mamamella, Oficina 702 Guatemala, C.A. 01010 <i>As to Bahamian Law:</i> McKinney, Turner & Co. Oakbridge House, 6 West Hill Street, P.O. Box N-8195, Nassau, Bahamas
Solicitors to Canaccord	Charles Russell 8-10 New Fetter Lane, London, EC4A 1RS
Auditors to the Company and Reporting Accountants	BDO Stoy Hayward LLP 8 Baker Street, London W1U 3LL
Independent Petroleum Engineers	PetroSolutions Ltd. Ashford Crossing II, 1880 South Dairy Ashford, Suite 530, Houston, Texas 77077, USA
Registrar	Computershare Investor Services PLC P.O. Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH

DEFINITIONS

The following abbreviations, definitions and technical terms apply throughout this document, unless the context requires otherwise. For further abbreviations, definitions and technical terms used in this document, your attention is drawn to the definitions in the glossary in Part III of this document:

“Act”	the Companies Act 1985
“Admission”	admission of the entire issued Ordinary share capital to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	AIM, a market operated by the Exchange
“AIM Rules”	the rules issued by the Exchange governing admission to and the operation of AIM
“API”	American Petroleum Institute units of specific gravity of liquid hydrocarbon
“arch”	a broad anticlinal fold of rock on a regional scale
“Articles”	the articles of association of the Company
“basin”	a low area of the Earth’s crust, of tectonic origin in which sediments have accumulated
“Bitech”	Bitech Petroleum Corporation, a corporation incorporated in Canada, and subsequently acquired by OAO Lukoil in 2001
“Board” or “Directors”	the board of directors of the Company
“Business Day”	a day (other than a Saturday or a Sunday) on which commercial banks are generally open in London for the transaction of normal business
“Canaccord”	Canaccord Capital (Europe) Limited, a private limited company incorporated under the laws of England and Wales with registered number 2814897 and having its registered office at 1st Floor, Brook House, 27 Upper Brook Street, London W1K 7QF
“Carried Interest”	a Working Interest, the costs normally attributable to which are paid by another
“CIA”	Central Intelligence Agency of the United States of America
“Cenozoic”	a period of geological time from about 65 million years ago to the present
“City Code”	the City Code on Takeovers and Mergers issued on behalf of the Panel on Takeovers and Mergers
“Combined Code”	the Code of best practice, including the principles of good governance, set out in the “Combined Code on Corporate Governance” published in July 2003 by the Financial Reporting Council and appended to the Listing Rules of the U.K. Listing Authority
“Company “ or “Taghmen”	Taghmen Energy Plc, a company incorporated under the laws of England and Wales with number 5173588 and having its registered office at 4th Floor, Imperial House, 15-19 Kingsway, London WC2B 6UN

“CREST”	the computerised settlement system to facilitate the transfer of title to or interests in securities in uncertificated form operated by CRESTCo Limited
“CREST Member”	a person who has been admitted by CRESTCo Limited as a system member (as defined in the CREST Regulations)
“CREST Participant”	a person who is, in relation to CREST, a system participant (as defined in the CREST Regulations)
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
“Cretaceous”	a period of geological time from about 65 to 132 million years ago
“Deferred Shares”	fully paid deferred ordinary shares of £0.0011 par value in the capital of the Company
“Exchange”	London Stock Exchange plc
“FSA”	the Financial Services Authority Limited
“FSMA”	the Financial Services and Markets Act 2000
“Group”	the Company and its subsidiary, Mexpetrol
“Guatemala”	the Republic of Guatemala
“hectares”	metric system of measure equal to 10,000 square metres or equivalent to 2.5 acres
“Late Paleozoic”	a period of geological time from the Devonian Period to the end of the Permian Period (245 to 409 million years ago)
“Lower Jurassic”	a period of geological time referring to rocks deposited between 178 to 208 million years ago
“Licence”	the Contract for Exploitation of Petroleum in the Peten Basin at Las Casas 6-93 granted to Pentagon Petroleum, Inc. and subsequently assigned to Mexpetrol
“Licence Application”	an application to be submitted pursuant to a licensing application process for up to three hydrocarbon licences to be held by the Guatemalan Government in the first quarter of 2005
“Loan Notes”	10% fixed rate convertible loan notes
“Mesozoic”	a period of geological time covering the Triassic, Jurassic and Cretaceous periods (65 to 245 million years ago)
“Metamorphic”	rocks that have undergone mineralogical, chemical and structural adjustment below the surface zones of weathering and cementation
“Mexpetrol”	Mexpetrol (Guatemala) Corp., a company incorporated under the laws of the Commonwealth of the Bahamas pursuant to the International Business Corporation Act 1989 (No 2 of 1990)
“Ministry”	The Ministry of Energy and Mines of Guatemala
“Miocene”	a period of geological time from about 5.2 to 23.5 million years ago
“Ordinary Shares”	ordinary shares of US\$0.10 each in the capital of the Company

“Overseas Shareholders”	persons who are resident in, or citizens of, countries other than the U.K.
“Payback”	the point in time at which the exploration and development costs for the Licence and any concessions to be granted over the area covered by Area 1-2003 (Tortugas) have been recouped by the Group
“Permian Metamorphic sediments”	sediments from the Permian Period that have been metamorphosed
“POS Regulations”	Public Offers of Securities Regulations 1995
“Petroleum Engineers Report”	the report prepared by PetroSolutions, a summary of which is reproduced in Part III of this document
“PetroSolutions”	PetroSolutions Ltd, whose details are set out on page 3 of this document
“Share Options”	options issued pursuant to the Share Option Plan
“Share Option Plan”	the share option plan adopted by the Company, further details of which are set out in paragraph 5, of Part VI of this document
“Shareholder(s)”	holder(s) of Ordinary Shares or Deferred Shares
“Subsidiary”	a subsidiary of the Company
“Triassic”	a period of geological time from about 208 to 245 million years ago
“TVL”	Taghmen Ventures Limited, a company incorporated under the laws of the British Virgin Islands pursuant to the International Business Companies Act, (Cap. 291)
“U.K.” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“U.K. Listing Authority”	the FSA, acting in its capacity as the competent authority for the purposes of Part VI of FSMA
“U.S.”	the United States of America
“US\$” and “\$”	U.S. dollars
“Warrants”	warrants to subscribe for Ordinary Shares
“Working Interest”	an interest (after payment of any royalty interests or other royalties) in a lease which conveys the right to a portion of any production on the lease and in respect of which the owner is responsible for some portion of the exploration and development costs
“£” and “p”	U.K. pounds and pence sterling respectively
“uncertificated” or “in uncertificated form”	a share or security recorded on the relevant register as being held in uncertificated form in CREST and entitlement to which, by virtue of the CREST Regulations, may be transferred by means of CREST

Notes

Any reference to any provision of any legislation in any jurisdiction shall include any amendment, modification, replacement, re-enactment or extension thereof as at the date of this document.

Unless otherwise stated, all references to legislation refer to the laws of the United Kingdom.

KEY INFORMATION

The following information should be read in conjunction with the full text of this document, from which it is derived. This summary does not contain all of the information that investors should consider before investing in the Ordinary Shares. You should read the whole of this document and not just rely on the key information set out below or any other summarised information in this document. **In particular, your attention is drawn to the risk factors, set out in Part II of this document.**

Introduction

The Company was formed to acquire and pursue exploration, development and production of oil and gas assets with an initial focus in Latin America. The Company's current operations comprise the exploration and development of oil and gas reserves in Guatemala, in particular pursuant to the Licence. In 2004 the Company raised US\$21.3 million (net of costs) through private placements to fund the acquisition of Mexpetrol.

Management

The management has extensive international oil and gas experience in finding and developing oil and gas fields and projects within both developing and developed countries including Russia, Egypt, Kazakhstan, Canada, Azerbaijan and the UK. A number of the members of the Board and senior management have previously worked together in developing oil and gas assets.

Strategy

The Company's initial intention is to identify projects within three to four countries in Latin America that are capable of meeting the technical and economic criteria and which fit with management's experience in onshore operations in emerging markets. The Directors will seek to provide the potential for strong economic returns to Shareholders. The Company has initially identified Guatemala as a country in which to build a core business. Guatemala is relatively under explored region with a high level of prospectivity that is demonstrated by its proximity to Mexico and the level of oil finds that have been made in that country.

Current trading and prospects

The Group's strategy is to explore, develop and bring to production its licensed assets. The Group will also remain alert to opportunities to pursue, and acquire, hydrocarbon exploration and development licences in Latin America, including pursuant to the licensing application process, which the Directors consider would add value for Shareholders. The Directors consider that access to additional capital following Admission, together with the technical and operational expertise available to the Group, should provide a firm foundation for the Group to achieve its strategic goals.

Principal Reserves

Based on an independent evaluation prepared by PetroSolutions, it is estimated that the area covered by the Licence contains potential gross reserves of approximately 29.6 mmbbls.

Reasons for Admission to AIM

Admission is proposed to raise the profile of the Company within Europe, to provide a means by which the Company can more easily access further capital for the future development of the Company's projects and to make it easier for potential investors to invest in the Company.

Risk Factors

Your attention is drawn to the Risk Factors in Part II of this document.

PART I

INFORMATION ON THE COMPANY

Introduction

The Company was formed in July 2004 to acquire and pursue exploration, development and production of oil and gas assets with an initial focus in Latin America. The Company's current operations comprise the exploration and development of oil and gas reserves in Guatemala, in particular the Las Casas 6-93 concession covering 130,186 hectares in the Peten Basin of Guatemala. Based on an independent evaluation prepared by PetroSolutions, it is estimated that the area covered by the Licence contains potential gross reserves of approximately 29.6 mmbbls.

In 2004 the Company raised US\$21.3 million (net of costs) through private placements principally with institutional investors to fund the acquisition of Mexpetrol which owns the licence in Guatemala and subsequent operations related thereto.

In July 2004, the Company acquired the right to purchase a 100% interest in Mexpetrol in consideration of the issuance of 9 million Ordinary Shares and subsequently acquired a 100% interest in Mexpetrol for an aggregate consideration of US\$3.3 million. Mexpetrol owns a 100% interest in the Licence. The Group plans to work-over two existing wells and drill two new wells on the area covered by the Licence during the course of 2005 and early 2006. Additionally, the Group proposes making at least two applications for new licences during the Licence Application round expected to be held by the Guatemalan government in the first quarter of 2005.

The Company

Management

Various members of the management of the Group have previously worked together and they have extensive international oil and gas experience in a number of projects within both developing and developed countries including Russia, Egypt, Kazakhstan, Canada, Azerbaijan and the U.K.

The Directors consider that the key strength of the Group's management team lies in its track record in finding and developing oil and gas fields in developing countries, accessing the necessary operating personnel and developing local staff.

Nicholas Gay and John Scott worked together in Russia at Bitech. While at Bitech, Bitech acquired Vanguard Oil Corporation where, together with Geoffrey Killick, they discovered and developed the Rabeh East oil field in Egypt, which was at the time estimated by Bitech's management to have proved and probable in excess of 20 million barrels of oil.

Separately, Nicholas Gay was a key player in the development and success of PetroKazakhstan Inc (formerly Hurricane Hydrocarbons Limited) in Kazakhstan, while John Scott was Chief Operating Officer of Arawak Energy Corporation, a Canadian publicly listed company, in Azerbaijan and was instrumental in the development of that company.

Michael Realini, currently President of Mexpetrol has worked in Guatemala between 1992 and 1998 as the Vice President of Exploration of Pentagon Petroleum, Inc. He was appointed as the General Manager of Mexpetrol in 2002.

Gregory Smith and Nicholas Gay have relationships with the financial and banking community and have a proven track record in raising both equity and debt finance.

Objectives and Strategy

The Company is an international oil and gas exploration company with an initial focus on Latin America. Latin America has historically proven to be a significant source of commercial hydrocarbons. According to the CIA World Fact Book 2004, reserves and production for the following countries in Latin America were:

<i>Country</i>	<i>Proved Reserves mmbbls</i>	<i>Estimated Production for 2004 bopds</i>
Argentina	2,927 ¹	828,600
Brazil	8,507 ¹	1,561,000
Bolivia	458 ²	44,340
Chile	81 ²	13,640
Colombia	1,800 ¹	614,400
Ecuador	2,358 ¹	421,200
Guatemala	263 ²	21,080
Mexico	15,110 ¹	3,590,000
Peru	614 ¹	95,100
Venezuela	63,950 ¹	3,080,000

¹estimated for 2004

²estimated at January 2002

As a result of a number of positive changes in the political and economic environment in Latin America the Directors believe that opportunities now exist for small entrepreneurial companies to enter these markets and seek to develop oil and gas prospects within these hydrocarbon rich countries.

It is the Company's initial intention to identify projects within three to four countries in Latin America that are capable of meeting the Board's technical and economic criteria and which fit with management's experience in onshore operations in emerging markets.

The management of the Company also recognise that, although the primary aim of the Company is to provide the potential for strong economic returns to Shareholders, it must do so in a manner which is environmentally sound and allows for the development of its staff in the countries in which it operates.

The Company has initially identified Guatemala as a country in which to build a core business. The Directors consider that Guatemala is attractive for a number of reasons, including a stable democratically elected government that seeks foreign investment, and a geological environment favourable for hydrocarbon development.

The Directors consider Guatemala to be a relatively under explored region with a high level of prospectivity that is demonstrated by its proximity to Mexico and the level of oil finds that have been made in that country.

The oil and gas fields along the southern margin of the south Peten Basin including Rubelsanto and the area covered by the Licence lie in a similar geological setting to the oil and gas fields in southern Mexico. The reservoirs under these fields are of the same age and the two areas have undergone a similar geological history. Many comparisons can therefore be made between the two areas as seismic and subsurface data suggests that the Chiapas southwestern geological trend extends into the southern Peten (Chapayal) basin. The Directors consider reservoir quality "reefal" deposits, such as are proven in Mexico have not yet been drilled in Guatemala and could be a valid exploration target in Guatemala.

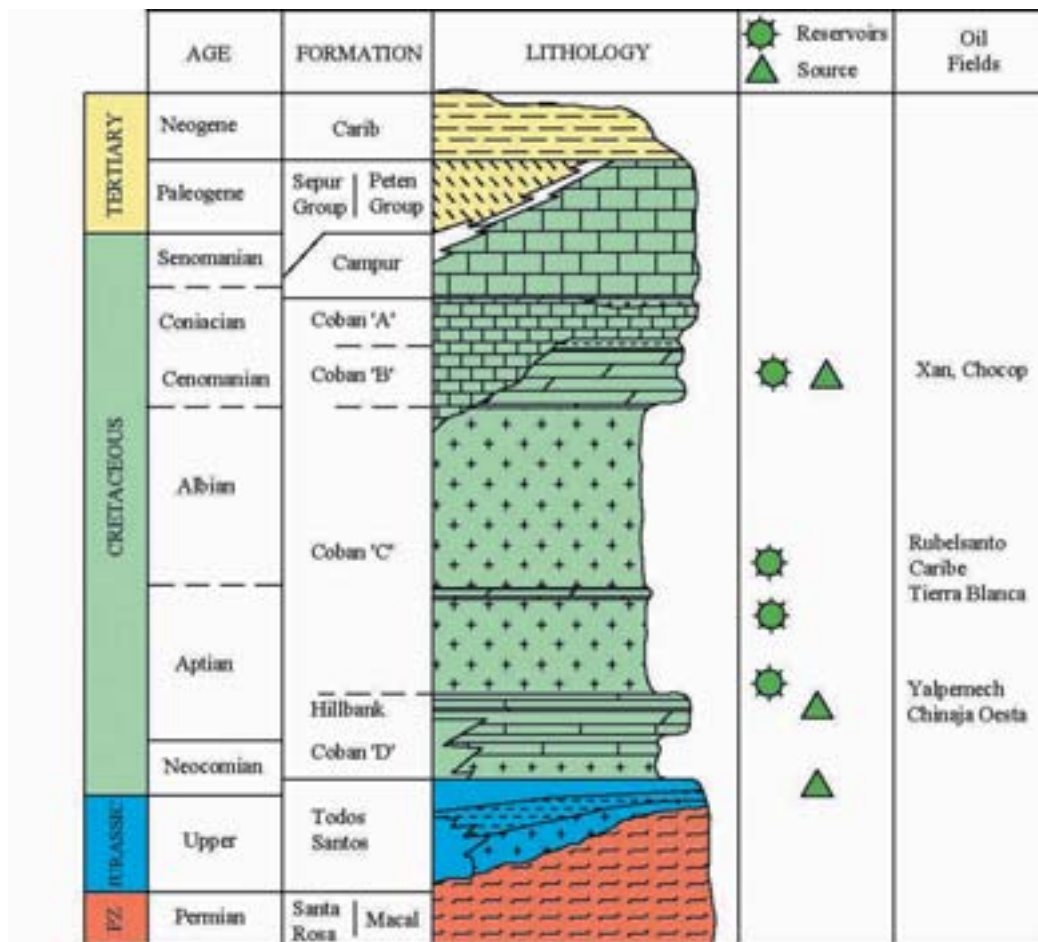
The economy of Guatemala is growing and there is a strong demand and need for oil and gas energy. The recently elected Government is keen to promote inward investment in general and specifically from small entrepreneurial companies, such as Taghmen.

Geology

The sedimentary basins of southern Mexico and northern Guatemala have shared similar geological developments and depositional histories and, therefore, many source and reservoir rocks are of the same age. Much of central and northern Guatemala and parts of southern Mexico are covered by two sedimentary basins, South Peten or Chapayal and North Peten Basins, separated by the La Libertad Arch. The Licence areas are situated at the southern end of the South Peten Basin.



In the South Peten Basin more than 30,000 feet of Late Paleozoic (basal Permian metamorphic sediments) through Cenozoic sediments have accumulated. The main Mesozoic through Cenozoic section thickens from over 4,000 feet in the east to over 18,000 feet in the west. The basin's stratigraphy encompasses Triassic and Lower Jurassic continental sediments overlain by shallow marine carbonates and evaporites which are of Cretaceous to Miocene in age.



Source: Ministry

Continental red siltstones and sandstones of the Upper Jurassic to Lower Cretaceous Todos Santos Group lie at the base of the main stratigraphic section. The Todos Santos thickens toward the west.

The Cretaceous Coban Formation overlies the Todos Santos and is divided into four discrete lithofacies units; the Coban A, B, C, and D, with commercial oil discoveries in the Coban B and C and known hydrocarbon shows documented in the Coban D. These units have been further subdivided into a large number of sub-units. It should be noted, however, that the stratigraphy is defined by lithology and the Directors believe that correlation between units and subunits across even short distances can be very difficult and is often impossible to verify due to rapid lateral facies changes across the depositional environment. The Directors believe that the application of modern geological techniques, such as sequence stratigraphy and 3D seismic data, will increase the Group's understanding of the petroleum system and may lead to further discoveries of reserves.

Significant production from reservoirs within both the Coban B and C limestones occurs in the Chiapas area of southern Mexico. In Guatemala's North Peten Basin, oil is produced from the Coban B at Xan. In the South Peten-Chapayal Basin, oil production occurs from limestone and dolomite in the Coban C at Rubelsanto, with several undeveloped discoveries known from the same interval elsewhere in the basin, e.g., Las Casas.

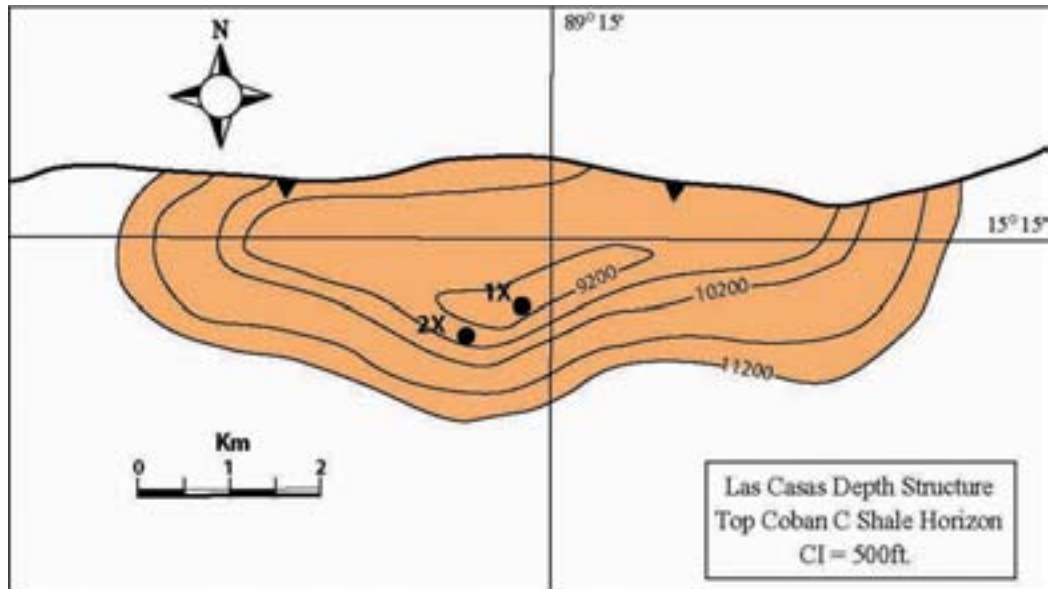
Sample oil recoveries from the Huapac Wildcat in the area covered by the Licence corroborate the hydrocarbon potential from the Coban D unit.

The organic rich black shale and limestone source rock facies of Late Jurassic age in Reforma and offshore Campeche areas may be present throughout much of the main salt area in the Gulf coast basins and along the western border of the Yucatan platform. A similar facies may be present in southern Mexico and Guatemala. Lower Cretaceous dark shale and shaly limestone beds are also probable source beds for oil and other potential source beds may include Upper Cretaceous deep water sediments within the main bank carbonate complex and in the fore deep area north of the Sierra Madre del Sur in Guatemala.

Seal should be provided by the anhydrites within the Coban Formation interbedded with the reservoir carbonates.

Las Casas

The Las Casas structure was mapped by Getty Oil Company Guatemala Inc. in the early 1980's as an east-western orientated roll over anticline on the upthrown side of a high angle thrust fault.



The Las Casas 1X well was drilled to a total depth of 11,468 feet by Getty Oil Company Guatemala Inc. in early 1980's. Numerous mud log shows were recorded in the Coban C and Coban B Formations at depths of 7,000-11,000 feet, but no testing was done. In 1989, the well was re-entered and perforated across several zones and tested approximately 40° API oil for a short period. Log analysis indicates up to 27 feet of net pay most of which is in other zones to the ones perforated. The well was re-entered in 2003 and was tested again, producing limited quantities of oil. Since that time it has been shut in.

The Las Casas 2X well was drilled in 1995 400m south west of the 1X well. The 2X was drilled to a depth of 9,400 feet to the Coban 'C9'. A completion attempt was made on the well but the well did not flow. In 1996 a Coleman Jet Pump was installed and the well produced 864 barrels of fluid of which 328 barrels were oil. Log analysis indicates a possible 41 feet of net pay.

Huapac

The Huapac structure, which lies within the areas covered by the Licence is situated north east of the Las Casas structure and on a north – south orientated tilted fault block with anticlinal closure at the crest was mapped by Getty Oil Company Inc.



The Huapac 1X well was drilled by Getty in 1980 to a total depth of 8,920 feet in the Lower Cretaceous/Upper Jurassic Todos Santos Formation. The fractured Lower Coban C was the primary target and small quantities of live oil were recovered from three intervals but because of low formation pressure and high water production the well was abandoned. The well also encountered good oil shows in the Coban D but these were not tested. Log analysis over the Coban D indicates a possible 162 feet of net pay. To further evaluate the Huapac structure it is likely that a new well will need to be drilled.

The Licence

The Company through its subsidiary Mexpetrol holds the exploration and production contract to the Las Casas 6-93 concession. This Licence allows for the exploration and development of the property covering a total of 130,186 hectares in the Peten Basin of Guatemala. The Licence was granted in October 1993 for a 25 year period. Under the Licence, Mexpetrol is required to pay a surface fee of US\$0.50 per hectare, personnel training fees, and a royalty at varying rates dependent on the API and the quantity of the crude produced. It is currently estimated that the royalty will be payable at the rate of 28% of revenue. Royalty is paid to the government of Guatemala.

Mexpetrol has to submit an annual work programme to the Ministry for approval and a summary of the planned work programme is set out below. A summary of the Licence is set out in Part V of this document.

Planned work programme

Mexpetrol has an outstanding work programme commitment at Las Casas for the completion of a work-over of the well designated as 2X and drilling of a new well designated as 3X. The 3X well has to be drilled to a depth of approximately 8,200 feet. Under this work programme drilling of the 3X well needs to be commenced by 7 February 2005. However, to ensure compliance with the work programme, Mexpetrol applied for, and has received a 3 month extension to this deadline. The Company has no reason to believe that it will not fulfil this work programme. The total cost of this programme is estimated to be US\$3.18 million.

On 8 November 2004, Mexpetrol agreed with the government of Guatemala that its 2005 work programme at Las Casas would comprise the drilling of a fourth well (designated Las Casas 4X) to a depth of currently expected to be approximately 8,200 feet and the Directors also intend to complete the completion of a work over of well 1X. The total cost of this programme is estimated to be US\$3.17 million. The costs of the outstanding and 2005 work programmes will be met from the Group's existing resources.

Should production be obtained from these planned work-overs or drilling, Mexpetrol will be subject to a state royalty on test production of 35% until such a time that commercial production is declared by Mexpetrol at which point the fiscal terms of the production sharing agreement will come into play. These terms are contained in the licence and are summarised in Part V of this document.

Licence Application

The government of Guatemala have indicated that they will hold a licencing application round in early 2005. Under this, parties will be invited to apply for up to three licences. These are Area 6-2003 (Rubelsantos), Area 7-2003 (Tortugas) and Area 9- 2003 (Piedras Blancas).

Information packs on the areas to be licenced are expected to be made available to prospective bidders in January 2005 and bids will need to be submitted within 2 months of the information packs becoming available. The government of Guatemala has indicated that it will announce the award of licences by 30 April 2005.

In order to participate in the licensing application rounds, the Group will need to pay non-refundable application fees on submission of an application of US\$75,000 for an exploitation licence (Area 7-2003 (Tortugas)). The Group will also need to submit a US\$100,000 bond to ensure completion of the tender process. Should the Group be successful in the licensing application round, it is anticipated it will have to commit to a work programme and provide additional bonds as security. Due to the commercial sensitivities the estimated costs of such work programmes cannot be quantified at this stage.

The map below shows the proximity of the areas covered by the licencing application round to Las Casas.



Area 9-2003 (Piedras Blancas)

Piedras Blancas is the geologic extension of the Sierra Lacandon trend extending southeast from Mexico. The Sierra Lacandon trend contains numerous discoveries such as the Nazareth and Lacondon fields. High initial flow rates from wells often exceeded 2,000 bopd.

Area 7-2003 (Tortugas)

This area contains two oilfields: Tortugas and Atzam. Both these fields contain oil in the Coban C Formation and the structures are related to salt tectonics. Tortugas lies on the edge of a salt diapir that exposes salt on the surface and Atzam is a salt cored anticline.

Tortugas has proven production for the Coban C17 from shallow depths (<2800') at rates of over 600bopd. Additional potential has been identified in the Coban C13 through to C16 reservoirs. The reservoirs in Tortugas lie at greater depths (c.3500') and oil has been produced from the Coban C19 at rates in excess of 1800 bopd.

Area 6-2003 (Rubelsanto)

This area contains three faulted anticlines trending north western – south eastern with reservoirs in the Upper Cretaceous Coban C carbonates. The Directors understand current production from the area is approximately 1,700 bopd and extensive facilities are present at Rubelsantos. Additional undrilled prospects have been identified in the area and the north flank of Rubelsantos field has not been explored.

Carried Interest

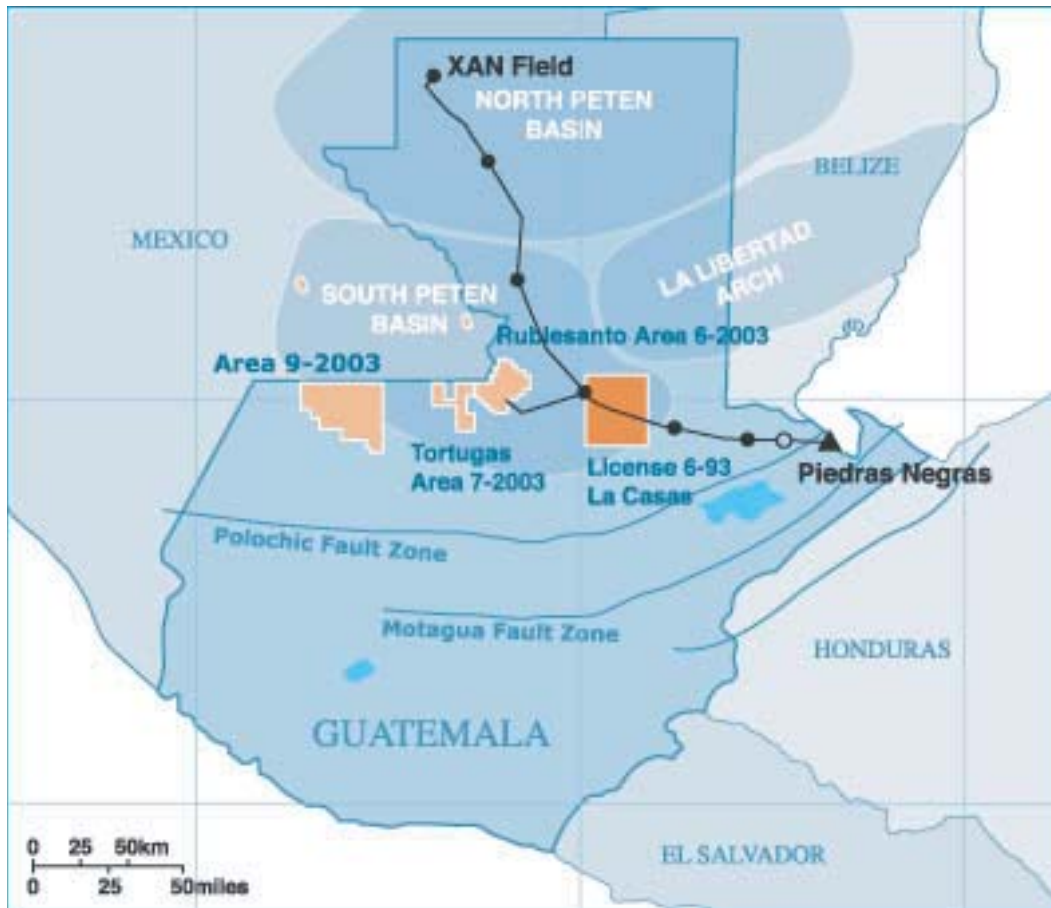
Under the terms of the sale and purchase agreement for Mexpetrol, two separate carried interests, each for 5% were created in respect of the Las Casas 3X well in favour of Mr. Lawrence Linnartz and Mr. Edward Greer. This well is expected to be drilled in 2005. These Carried Interests will convert to separate 5% Working Interests after the 3X well has been drilled and after Payback has occurred.

Additionally, should the Group apply for and obtain the Area 7-2003 (Tortugas) licence in the forthcoming licencing application round, Messrs Linnartz and Greer will each obtain a 2.5% Carried Interest in the first two wells to be drilled and Michael Realini will obtain a 5% Carried Interest in the same wells. After Payback these Carried Interests will convert to Working Interests equivalent to 3.75% in the case of Messrs Linnartz and Greer and 7.5% in the case of Michael Realini.

Export opportunities

The map on page 16 shows the routing of a pipeline from XAN Field, in the northwest corner of Guatemala, to Piedras Negras on the Gulf of Honduras. This pipeline and the storage facility at Piedras Negras are operated by the owner and operator of the XAN Field. Under the laws of Guatemala, access to the pipeline is available to other producers. Subject to securing the relevant contracts, the Directors believe that spare capacity exists in the pipeline.

Initial assays of the Las Casas crude indicate that this has an API of 37° whereas that of the XAN Field has an API of 16°. In the absence of a quality adjustment factor, should the two crudes be mixed in the pipeline, the Las Casas crude would suffer a decline in value. Due to the differing crude qualities, representatives from the government of Guatemala have stated, in principle, that should Taghmen wish to use the pipeline, they will allow batch shipments. In so doing, the higher values of the Las Casas crude will be preserved.



The pipeline passes close to Las Casas but the nearest tie in point to the pipeline is approximately 35 kms from the Las Casas Field. As an alternative to the pipeline, the crude could be trucked by road to Piedras Negras. This is an approximate distance of 120 kms. Depending on the prevailing conditions at the relevant port, tankers of between 250,000 and 300,000 bbls can be handled.

Marketing of crude oil

Mexpetrol has the right to export its crude oil production from Las Casas. Whilst the Group currently has no agreements in place to market any crude oil there are a number of options available to it. These include export through the Gulf of Honduras and sales to various industrial users. Mexpetrol has storage facilities at the Las Casas well 1X site of approximately 7,000 bbls.

Refining of crude

As an alternative or an additional option, the Directors believe that the Company may be able to sell crude to the newly built refinery at El Rancho (San Agustin Acasaguaslan), which is 300 kms from the Las Casas field. The refinery is in a start up phase, programmed to commence operations within 3 months. The crude oil can either be delivered to the refinery by truck or sold at Las Casas. The refinery has indicated that it might be willing to purchase the crude oil at the Las Casas well sites.

Guatemala

Guatemala is bounded on the north and west by Mexico, on the east by Belize and the Caribbean sea, on the south-east by Honduras and El Salvador, and on the south-east by the Pacific ocean. The total land area covers approximately 108,890 sq kms.

More than half of Guatemalans are descendants of indigenous Maya people. Most of Guatemala's population is rural, though urbanisation is accelerating. Guatemala has a population of approximately 14 million.

Guatemala's current constitution was adopted in 1985, and revised in 1993. It provides for a directly elected president who serves a single four year term. The President of Guatemala, currently, Oscar Berger, acts as the Chief of State and Head of Government. In his executive role, the President is assisted by a cabinet of ministers, which he appoints.

Guatemala's economy has traditionally been based on agriculture which accounts for approximately one quarter of its GDP, and one half of the labour force. Coffee, sugar and bananas are Guatemala's main agricultural products. Manufacturing and construction account for approximately one fifth of GDP. Guatemala's estimated annual GDP in 2004 was about US\$56 billion. GDP growth was estimated by the CIA to be 2.1% in 2004.

Guatemalan history has been marked by revolutions, coups, non democratic government, and various interventions by the U.S. A 36 year war between the guerrillas and the Guatemalan army ended in 1996 with the signing of a peace treaty. Since Guatemala's oil industry was first opened up to foreign investment, one vertically integrated company, Basic Petroleum, has dominated the industry, albeit under the stewardship of multiple different owners. Private French oil company Perenco acquired Basic Petroleum in 2001 and now controls virtually all of the country's independently owned producing fields, a 2,000 bopd mini refinery and operated the primary 440km crude oil pipeline, as well as the related storage and loading facilities.

Financial record, Current trading and prospects

The attention of investors is drawn to the contents of the accountants' reports on the Company and Mexpetrol prepared by BDO Stoy Hayward LLP which are set out in Part IV of this document.

Mexpetrol is currently an exploration company and, therefore, has not yet generated any revenue. The Directors do not expect the Company or the Group to be profitable for some time.

Future Prospects

The Group's strategy is to explore, develop and bring to production its licenced assets.

The Group will also remain alert to opportunities to pursue and acquire, hydrocarbon exploration and development licences in Latin America, including pursuant to the Licencing Application round, which the Directors consider would add value for Shareholders. For such acquisitions and exploitation, the Directors will consider placing further new Ordinary Shares to raise additional finance both in the short and long term.

The Directors consider that the potential access to additional capital following Admission, together with the technical and operational expertise available to the Group, should provide a firm foundation for the Group to achieve its strategic goals.

Experts Report

The attention of investors is drawn to the text of the report prepared by PetroSolutions which is set out in Part III of this document.

Directors, senior management and employees

The Directors believe that the present Board and operational management structure is appropriate and reflects the current scale of the Company's operations.

Directors

At the date of this document, there are five members of the Board.

Gregory Charles Smith, Executive Chairman and Director, aged 44

Gregory Smith was appointed Chairman on the incorporation of the Company. Before establishing Taghmen, he was the managing partner in TVL, a company that specialises in raising venture capital for the energy and mining sector. Between 1998 and 2001 he was the chairman of Powder River Basin Gas Corporation, which was a successful operator of coal bed methane in Wyoming, US. This merged with Imperial Petroleum in April 2003. From 1993 to 2001 he was President of Renaissance Companies Inc, a structured finance group specialising in fund raising in varying forms for the energy and real estate sectors in the U.S. He has a degree in managerial sciences from the University of Nevada.

Nicholas Hugo Gay, President, Chief Executive Officer, aged 49

Nicholas Gay was appointed as the Company's President and Chief Executive Officer effective 1 November 2004. He has 26 years of international experience in the oil and gas industry. Prior to joining the Company he was Senior Vice-President, Finance and Chief Financial Officer of Petrokazakhstan Inc., President and Chief Executive Officer of Bitech Petroleum Corporation, Chief Financial Officer of Pan African Energy Corporation (formerly Ocelot International), both Canadian Companies and Managing Director of Brabant Petroleum Limited based in the UK. From 1984 to 1991, Mr Gay worked at Kerr – McGee Plc, where he held various positions including Director of Finance and Administration. Prior to 1984, he worked at LL & E Inc and Arthur Andersen & Co. He holds a Bachelor of Arts Honors Degree in economics and economic history from the University of Durham, and is a fellow of the Institute of Chartered Accountants in England and Wales and an associate member of the Chartered Institute of Taxation.

John ("Jay") McNeil Scott, Chief Operating Officer, aged 51

Jay Scott joined the Company in November 2004. He has over 30 years of experience of well workovers and completion, drilling and production operations, and project and corporate management. Prior to joining the Company he was President of Commonwealth Gobustan Limited and of its wholly owned subsidiary Gobustan Operating Company Limited and Executive Vice-President and Chief Operating Officer of Bitech Petroleum Corporation. Mr Scott has 10 years experience in the management of Russian operations, including starting a new oil company, building its own infrastructure, opening up three new fields and increasing production to 10,000 barrels per day in four years. While at Bitech, Mr Scott was instrumental in the acquisition of Vanguard Oil Corporation, which was publicly traded on the Toronto Stock Exchange, and the subsequent increase in Vanguard's production from 700 to 6,300 bopd per day in six months. Prior to joining Bitech, Mr Scott was Project Manager of the BP/Statoil alliance's Tarasov Workover Project in Russia, and completions work-over superintendent of BP Canada Resource in Calgary, Alberta. In 2000/2001 Mr Scott served as co-chair of the fuel and energy working group of the Canadian Russian Inter-Governmental Economic Commission.

Joseph George Strubel, Non-Executive Director, aged 40

Joseph Strubel joined the Company in January 2005 and is responsible for debt and high yield strategies in his role, managing the Millennium Global High Yield Fund. He has over seventeen years' experience in portfolio management, trading and research of high yield, distressed and special situation investments, on a global basis. From 1997-1999 he was Head of Fixed Income Investments for Renaissance Capital Asset Management, where he managed portfolios of corporate debt instruments in Emerging Europe. From 1996-97, he was a Director, Credit Fixed Income Trading, with SBC Warburg Inc. Additionally, he worked from 1991-95 in distressed debt portfolio management with the HSBC Group, and began his postgraduate career from 1987-90 as a Senior Economist with Merrill Lynch & Co. Mr Strubel graduated from the University of Rochester with a Masters of Business Administration degree in Finance and Applied Economics and a Bachelor of Arts degree in Economics. Mr Strubel is registered with the FSA and the Commodity Futures Trading Commission.

James De Vaux Brillantes Guiang, Non-Executive Director, aged 48

James De V. B. Guiang joined the Company in January 2005. Having trained in the USA as a petroleum geophysicist and geologist and began his career in the energy industry in 1979 as a geoscientist with Exxon, and subsequently Amerada Hess and Conoco International. At Conoco (London) he was a senior geophysicist and was credited with drilling 13 successful wells in the North Sea between 1982 and 1988. Since 1988 he has advised and co-managed oil and gas investments, working closely with Lion Resource

Management and Lake Asset Management, specialist resource investment management companies registered with the FSA in the United Kingdom. Mr. Guiang is a graduate of Boston College (Bachelor of Science in Geophysics & Geology 1979), Boston University (Master of Science in Business Administration 1987), the London Business School (Corporate Finance Evening Programme 1987), and was a visiting student at the Colorado School of Mines (Geology 1976). Mr Guiang is registered with the FSA and is a member of the Petroleum Society of Great Britain.

Senior Management

Geoffrey Killick, Chief Financial Officer, aged 47

Geoffrey Killick joined the Company in December 2004. He has 24 years experience in general management, finance and accounting within the international oil industry. Prior to joining the Company he was General Manager for Bitech's operations in Egypt, Finance Director of Felix Mining Ltd, and Deputy General Manager & Finance Manager for Nimir Petroleum Company, Yemen. From 1989 to 1992 he worked for Kerr McGee plc as Accounting Manager, UK. Prior to 1989, he worked for Texas Eastern North Sea (UK) Inc, Charterhouse Petroleum plc and Phillips Petroleum (Europe Africa) Inc. He holds an honours degree in Economics from University of Wales, Swansea and is a Fellow of the Institute of Chartered Management Accountants.

Michael Realini, President, Mexpetrol, aged 53

Michael Realini was appointed President of Mexpetrol in June 2004. He has 20 years of experience in the oil and gas business, the last twelve of which have been based in Guatemala. Before joining Mexpetrol in 2001, he was Vice President of Exploration at Pentagon Petroleum, Inc. from 1992 to 1998, and involved in El Condor Resources, the minerals division of Pentagon from 1998 to 2004. He has also worked as an exploration and development geologist with KCA Baron/Firecreek Petroleum, Sunmark Exploration Company and Amoco Production Company. He holds both a Bachelors and Masters degrees in Geology from the University of Northern Illinois.

The Company's head office is located in London. It also has operations in Guatemala. As at the date hereof, the Group's employees, consultants and contractors allocated by geographic location is as set out in the table below.

<i>Location</i>	<i>London, England</i>	<i>Guatemala</i>
Number of employees	3	24
Number of consultants/contractors	2	19
Total	5	43

Reasons for Admission to AIM

Admission is proposed to raise the profile of the Company within Europe, to provide a means by which the Company can more easily access further capital for future development of the Company's projects and to make it easier for potential investors to invest in the Company.

Share Option Plan and Warrants

Details of the Company's Share Option Plan and Warrants can be found in paragraphs 5 and 4 respectively of Part VI of this document.

Dividend policy

Neither the Company nor Mexpetrol has declared or paid dividends during the last five fiscal periods. The Directors' anticipate that future earnings will be retained for the development of the Group's business and do not anticipate the payment of dividends to Shareholders for the foreseeable future. Any future decision to declare dividends on Ordinary Shares will be made by the Directors taking into consideration the availability of distributable reserves, an appropriate level of dividend cover, the financial requirements of the Group to finance growth, the financial condition of the Group and other factors which they may consider appropriate in the circumstances.

Corporate governance

The Board comprises 3 directors with executive functions and 2 non-executive directors. The Company will hold at least 6 board meetings throughout the year at which reports relating to the Group's operations, together with finance report, will be considered. The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets, major items of capital expenditure and acquisitions.

The Directors intend to comply, as far as is practicable, with the Combined Code in such respects as are appropriate for a company of its size and nature. An audit committee and a remuneration committee (each comprising non-executive directors) will be established to operate with effect from Admission.

The audit committee will meet at least twice each year. The audit committee will be responsible for ensuring that the financial performance of the Company is properly monitored and reported on. It will have the opportunity to meet the auditors without executive Board members being present, and will review reports relating to accounts and internal control systems. The Chairman of the audit committee will be Joseph Strubel and the other member will be James Guiang.

The remuneration committee will review the performance of executive directors and set their remuneration. The remuneration committee will also make recommendations to the full Board concerning remuneration and the allocation of share options to directors and employees. The remuneration and terms of appointment of non-executive directors will be set by the Board. The Chairman of the remuneration committee will be James Guiang and the other member will be Joseph Strubel.

The Company has adopted and will operate a share dealing code for Directors and applicable employees in order to ensure compliance with the AIM Rules on share dealing.

Lock-in and orderly market arrangements

Each of Gregory Smith, TVL, Euro Americas Securities Limited, John Scott, Nicholas Gay, James Guiang, Argentiare Holdings Ltd, Rhodes Ventures S.A., Michael Realini, Joseph Strubel and Acadia Life Limited have under the terms of the Lock-In Agreements, agreed that for the period of 12 months from the date of Admission, he or it will not dispose of any Ordinary Shares or Options or Warrants or other interests in securities of the Company, save in certain limited circumstances.

Admission, dealing and settlement

The Company has made an application for all of its issued Ordinary Share Capital to be admitted to trading on AIM. CREST is an electronic paperless share transfer and settlement system that allows shares and other securities, including depository receipts, to be held in electronic rather than paper form. CREST is a voluntary system and Shareholders who wish to retain certificates will be able to do so.

Further information

Your attention is drawn to the additional information in Parts II to VI of this document.

PART II

RISK FACTORS

Prospective investors should be aware that an investment in the Company involves a high degree of risk and should only be made by those with necessary expertise to appraise the investment. The following are considered by the Board to be the main risk factors which could have a material adverse effect on the business, financial condition, results or future operations of the Group. The following list is not intended to be exhaustive but it should be considered carefully by prospective investors in evaluating whether to make an investment in the Company in addition to the other information contained in this document.

The exploration and development of natural resources is a highly speculative activity that involves a high degree of financial risk. The risk factors which should be taken into account in assessing the Company's activities and investment in the Company include, but are not necessarily limited to, those set out below. Any one or more of those risks could have a material adverse effect on the value of any investment in the Company and should be taken into account in assessing the Company's activities.

There can be no certainty that the Company will be able to implement successfully the strategy set out in this document. No representation is or can be made as to the future performance of the Company and there can be no assurance that the Company will achieve its objectives.

Exploration risks

Limited oil or gas discoveries have been made in the areas covered by the Licence. There is no certainty that such discoveries will be commercial or additional discoveries will ever be made or that the work programme due to be undertaken this year will justify further work planned for late 2005, or that even if the 2005 work programme is undertaken it will justify subsequent drilling.

Oil and gas exploration involves significant risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that oil and gas will be discovered or even if they are, that commercial quantities of oil and/or gas can be recovered from the Company's licence acreage. No assurances can be given that if oil and gas are discovered the Company will be able to exploit such reserves as intended.

Future funding requirements

The Company will need to raise additional funds to undertake work beyond that for which the Company has already secured. There is no certainty that this will be possible at all or on acceptable terms. In some cases, the Company may finance development by farming out or otherwise reduce its level of participation in interests in which it holds. This could substantially dilute the Company's interest in the Licence. However, given the size of the Company's existing holding, it would be expected, although there is no guarantee, that the Company will retain significant equity interests in the Licence.

Any additional equity financing may be dilutive to Shareholders and debt financing, if available, may involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Group or at all. If the Group is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, forfeit its interest in some or all of its properties and licences, incur financial penalties and reduce or terminate its operations.

Drilling and operating risks

Oil and gas drilling activities are subject to numerous risks, many of which are beyond the Company's control. The Group's operation may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, shortage or delays in the delivery of rigs and/or other equipment and compliance with governmental requirements. Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells which, though yielding some petroleum, are not sufficiently productive to justify commercial development or cover operating and other costs. Completion of a well does not assure a profit on the investment or recovery of operating costs on completion of drilling. Hazards incident to the

exploration and development of oil and gas properties such as unusual or expected formations, pressures, oceanographic conditions or other factors are inherent in drilling and operating wells and may well be encountered by the Group.

The operations of the Group may be disrupted by a variety of risks and hazards which are beyond the control of the Group, including geological, geotechnical and seismic factors, environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, unusual or unexpected rock formations, flooding and extended interruptions due to inclement or hazardous weather conditions, explosions and other acts of God. These risks and hazards could also result in damage to, or destruction of, production facilities, personal injury, environmental damage, business interruption, monetary losses and possible legal liability. No assurance can be given that the Group will be able to obtain insurance coverage at reasonable rates (or at all), or that any coverage it obtains will be adequate and available to cover any such claims.

The occurrence of any of these hazards can delay activities of the Company and may result in liability. The Company may become subject to liability for pollution or other hazards against which it has not insured or cannot insure, including those in respect of past mining activities for which it was not responsible.

Specific additional risks are noted by PetroSolutions in their Report in Part III of this document.

Expansion targets and operational delays

The Group plans to bring to production and expand oil and gas assets. However, there can be no assurance that it will be able to complete these expansions on time or to budget, or that the current personnel, systems, procedures and controls will be adequate to support the Group's operations. Failure of management to identify problems at an early stage could have an adverse impact on the Group's financial performance.

Governmental regulations and processing licences

Governmental approvals, licences and permits are, as a practical matter, subject to the discretion of the applicable governments or governmental offices. The Group must comply with known standards, existing laws and regulations in particular those of Guatemala that may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and the interpretation of the laws and regulations implemented by the permitting authority. New laws and regulations, amendments to existing laws and regulations, or more stringent enforcement of existing laws and regulations, could have a material adverse impact on the Group's results of operations, financial condition and prospects.

The Group's exploration and processing activities are dependent upon the grant and continuation of appropriate licences, concessions, leases, permits and regulatory consents which may be withdrawn or made subject to limitations. There can also be no assurance that they will be renewed or if so, on what terms.

The Licence contains an annual work programme, which must be met to maintain the Licence. In some cases there could be adverse consequences of breach of these obligations, ranging from penalties to, in extreme cases, suspension or termination of the licenses or related contracts.

Development projects

The Group has limited history of developing oil fields in Guatemala. For development projects, estimates of proven and probable reserves and cash operating costs are, to a large extent, based upon the interpretation of geological data obtained from wells and seismic and feasibility studies which derive estimates of cash operating costs based upon the quality of oil discovered, the number of development wells to be drilled and equipment it is expected to be used to extract the proven and probable reserves. Estimates will also be based on comparable facility and equipment operating costs, anticipated climatic conditions and other factors. As a result, it is possible that actual cash operating costs and economic returns may differ from those currently estimated.

Limited operating history

The Company has no properties producing positive cash flow and its ultimate success will depend on its ability to generate cash flow from properties producing in the future. The Group has not earned profits to date and there is no assurance that it will do so in the future. A portion of the Group's activities will be directed to the exploration for and the development of oil and gas licences. Significant capital investment will be required to achieve commercial production from the Group's existing project and from successful exploration efforts. There is no assurance that the Group will be able to raise the required funds to continue these activities.

Reserve and resource estimates

The Group has derived the reserves presented in this document from the calculations and estimates reported in the PetroSolutions Report set out in Part III of this document.

The oil and gas reserves data included in this document represent estimates only. Actual production, revenues, expenditures and future cash flow with respect to the Group's reserves will vary from these estimates, and those variances may be material. Many of the factors, assumptions and variables involved in estimating reserves are beyond the Group's control and over time, may prove to be incorrect.

Environmental factors

The Group's operations are subject to environmental regulations (including regular environmental impact assessments and permitting) in all the jurisdictions in which it operates. Such regulations cover a wide variety of matters, including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations and worker safety. Under such regulations there are clean-up costs and liabilities for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. Environmental legislation and legislation relating to exploration and production of natural resources are likely to evolve in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors and employees.

Economic and political risks

All of the Group's oil and natural gas properties and operations are located in a foreign jurisdiction. As a result, the Group is subject to political, economic and other uncertainties, including but not limited to, changes, sometimes frequent, in energy policies or the personnel administering them, terrorism, nationalisation, appropriation of property without fair compensation, cancellation or modification of contract rights, foreign exchange restrictions, currency fluctuations, export quotas, royalty and tax increases and other risks arising out of foreign governmental sovereignty over the area in which these operations are conducted, as well as risks of loss due to civil strife, acts of war, guerilla activities and insurrection.

Although political conditions in the countries in which the Group operates or may operate are generally stable, changes may occur in their political, fiscal and legal systems which might affect the ownership or operation of the Group's interests, including *inter alia*, changes in exchange control regulations, expropriation of exploitation rights, changes in government and in the legislative and regulatory regimes.

Guatemala has been undergoing a substantial political transformation having emerged from several years of civil war. There can be no assurance that the political and economic reforms necessary to complete such a transformation will continue or succeed.

Oil and gas pricing and demand

The price of and demand for oil and gas is highly dependent on a number of factors, including world-wide supply and demand level, energy policies, weather, competitiveness of alternative energy sources, global economic and political developments and the volatile trading patterns of the Commodity Futures Market. Natural gas prices also continue to be highly volatile. Changes in oil and gas prices can adversely impact on the Group's valuation of reserves and operations. International oil and gas prices have fluctuated widely

in recent years and may continue to do so in the future. Lower oil and gas prices will adversely affect the Group's revenues, business or financial condition and its valuation of its reserves. In periods of sharply lower commodity prices, the Group may curtail production and capital spending projects and may defer drilling wells because of lower cash flows. In addition, the demand for and supply of oil and gas in Guatemala and world-wide may affect the Group's level of production.

Delays in production, marketing and transportation

Various production, marketing and transportation conditions may cause delays in oil production and adversely affect the Group's business. Drilling wells in areas remote from distribution and production facilities may delay production from those wells until sufficient reserves are established to justify construction of the necessary transportation and production facilities. The Group's inability to complete wells in a timely manner would result in production delays.

In addition, marketing demands, which tend to be seasonal, may reduce or delay production from wells. The marketability and price of oil and natural gas that may be acquired or discovered by the Group will be affected by numerous factors beyond the control of the Group. The ability of the Group to market any natural gas it discovers may depend upon its ability to acquire space in pipelines that deliver natural gas to commercial markets. The Group is also subject to deliverability uncertainties related to the proximity of its reserves to adequate pipeline and processing facilities and extensive government regulation relating to price, taxes, royalties, licences, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. Moreover, weather conditions may impede the transportation and delivery of oil by sea.

Decommissioning Costs

The Group may become responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines which it may use for production of oil and gas. Abandonment and reclamation of facilities and the costs associated therewith is often referred to as "decommissioning". There are no immediate plans to establish a cash reserve account for these potential costs, rather, the costs of decommissioning are expected to be paid from the proceeds of production in accordance with the practice generally employed in onshore and offshore oilfield operations. Should decommissioning be required, the costs of decommissioning may exceed the value of hydrocarbon reserves remaining at any particular time to cover such decommissioning costs. The Group may have to draw on funds from other sources to satisfy such costs. The use of other funds to satisfy such decommissioning costs could have a materially adverse effect on the Group's financial position and future results of operations.

Uninsured risks

The Group, as a participant in exploration and development programmes, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs or other reasons. The Group may incur a liability to third parties (in excess of any insurance cover) arising from pollution or other damage or injury.

Dependence on key personnel

The Group is dependent upon its current executive management team. Whilst it has entered into contractual arrangements with the aim of securing the services of these personnel, the retention of their services cannot be guaranteed. Accordingly, the loss of any key management of the Group may have an adverse effect on the future of the Group's business. The Group competes with numerous other oil and gas companies (many of which have greater resources) and individuals in the search for and acquisition of oil and gas licences and leases, as well as for the recruitment and retention of qualified employees and contractors.

Currency risk

Currency fluctuations may affect the cash flow that the Group will realise from its operations, as oil is sold in the world market in U.S. dollars. The Group's operating costs are incurred in Quetzels, Pounds sterling and U.S. dollars. Fluctuations in exchange rates between currencies in which the Group operates may

cause fluctuations in its financial results that are not necessarily related to the Group's underlying operations.

Litigation

Legal proceedings may arise from time to time in the course of the Group's business. There have been a number of cases where the rights and privileges of oil and gas companies have been the subject of litigation. The Directors cannot preclude that such litigation may be brought against the Group in the future from time to time or that it may be subject to any other form of litigation.

Competitive industry

The oil and gas industry is highly competitive. Taghmen competes with numerous other participants in the acquisition of oil and gas exploration licences and properties and in the marketing of oil. Competitors include oil companies which have greater financial resources, staff and facilities than Taghmen has. Taghmen's ability to increase reserves in the future will depend not only on its ability to develop existing properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil include price, methods and reliability of delivery and availability of imported products.

Labour

The Group is highly dependent on local labour to carry out site work in its licensed areas in Guatemala. The Group has directly employed local workers and is subject to local labour laws. While the Group has not been materially adversely affected by any labour related developments or industrial action in the past there can be no assurance that such developments or actions may not occur in the future. Such occurrences may have a material adverse impact on the business, operations and financial performance of the Group.

Profit sharing, taxes and price fixing

The profits generated from the Group's operations pursuant to the Licence have to be shared with the Government of Guatemala in the proportions as set out Part V of this document. The proportion of profits that have to be paid to the Government of Guatemala may increase adversely affecting the financial position of the Group and/or its ability to commercially operate in Guatemala.

The Group is required to pay various fees, taxes and royalties in order to operate in the Licence areas. These charges are set by the Government of Guatemala and may increase adversely affecting the Group's financial position.

Oil and gas pricing and demand

The Government of Guatemala sets the price of oil and gas for all the oil that is produced and exported from Guatemala. The price is set based on prevailing market prices and takes into account various taxes that are payable to the Government of Guatemala. Any oil or gas produced and sold by the Group will be subject to the prices set by the Government of Guatemala which may be below the market price of oil and gas.

Forward looking statements

This document contains "forward looking statements" that reflect the Directors' current expectations and projections about its future results. When used in this document words such as "estimate", "intend", "expect", "anticipate", "planned" and similar expressions are intended to identify forward looking statements, which are, by their very nature, not guarantees of the Group's future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause the Group's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by these forward looking statements. Such forward looking statements involve risks and other factors which may cause the actual results, achievements or performance of the Group to be materially different from any future results, achievements or performance expressed or implied by such forward

looking statements. Such risks and other factors include, but are not limited to, general economic and business conditions, changes in government regulation, currency fluctuations, the Group's ability to develop its existing or new resources, competition, changes in development plans and the other risks described in this document. There can be no assurance that the results and events contemplated by the forward looking statements contained in this document will, in fact, occur. These forward looking statements are correct only as at the date of this document. Investors are cautioned not to place undue reliance on these forward looking statements. The Company will not undertake any obligation to release publicly any revisions to these forward looking statements to reflect events, circumstance or unanticipated events occurring after the date of this document except as required by law or by any regulatory authority.

AIM and liquidity of the Ordinary Shares

AIM is not the Official List. The Ordinary Shares will not be listed on the Official List. Notwithstanding that Admission becomes effective and dealings commence in the Ordinary Shares, this should not be taken as implying that there will be a liquid market for the Ordinary Shares. An investment in the Ordinary Shares may thus be difficult to realise.

Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up. Investors may, on disposing of Ordinary Shares, realise less than their original investment or may lose their entire investment. The Ordinary Shares may, therefore, not be suitable as a short-term investment. In addition, the market price of the Ordinary Shares may not reflect the underlying value of the Group's net assets. The price at which the Ordinary Shares will be traded and the price at which investors may realise their Ordinary Shares will be influenced by a large number of factors, some specific to the Group and its proposed operations, and some which may affect the business sectors in which the Group operates. Such factors could also include the performance of the Group's operations, large purchases or sales of the Ordinary Shares, liquidity or the absence of liquidity in the Ordinary Shares, legislative or regulatory changes.

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Market perception of small oil and gas exploration and/or production companies may change, potentially affecting the value of investors' holdings and the ability of the Group to raise further funds by the issue of further Ordinary Shares or otherwise.

Inadequate infrastructure could adversely affect the Group's business and results of operations

The Group's drilling, production and refining activities could suffer due to inadequate infrastructure in Guatemala and such other regions in which it may decide to operate in the future. The Group has experienced power outages at its fields on a few occasions, although they have not materially impacted the operations to date. Any problem or adverse change affecting the power supply for the Group's operations or other operational infrastructure provided by third parties could have a material adverse effect on the Group's ability to operate, its financial condition and results of operations.

The risks above do not necessarily comprise all those faced by the Group and are not intended to be presented in any assumed order of priority.

PART III
INDEPENDENT PETROLEUM ENGINEER'S REPORT

PetroSolutions Ltd.
1880 Dairy Ashford, Suite 530
Houston, Texas 77077

To: The Directors
Taghmen Energy Plc
27 Berkeley Square
London
W1J 6EL

The Directors
Canaccord Capital (Europe) Ltd
1st Floor Brook House
27 Upper Brook Street
London, England W1K 7QF

Dear Sirs:

13 January 2005

Re: Las Casas-Huapac Exploration Reserve Assessment for the South Peten Basin, Guatemala

PetroSolutions Ltd. (PSL) was asked by Taghmen Energy Plc ("Company") to quantify the potential reserves for exploration evaluation wells in the Las Casas and Huapac structures in the southern Peten Basin of Guatemala, which are licensed to Mexpetrol (Guatemala) Corp. Two wells, 1X and 2X, exist in the Las Casas structure and one well, 1X, in the Huapac structure. There are no proved (P_{90}) reserves in the Las Casas or Huapac structures, because there has been no commercial production. There are probable (P_{50}) reserves of 120 MBO up-dip, within one offset of the Las Casas 1X and 2X wells. Additionally, there are potential (P_{10}) reserves of 26,270 MBO up-dip of the Las Casas 1X and 2X wells in two areas: 1) the Las Casas 3X exploration area and 2) the up-dip exploration area north east of the current wells. The Las Casas 3X location encompasses an exploration area of approximately 2,560 acres which contains two potential target zones. The upper target is a potential "organic build-up" observed in seismic data and the lower target is inferred by well log correlations to the Las Casas 1X and 2X wells. The exploration area north east of the existing wells is approximately 5,740 acres. The Las Casas 3X exploration well has potential reserves of 1,095 MBO based primarily on analog production from the nearby Rubelsanto field.

The Huapac structure has thicker potential pay, with higher permeability than Las Casas, but the structure is less well defined by seismic data. PetroSolutions has calculated a potential exploration area of 915 acres that are found no more than 100 feet below the current Huapac 1X well. The potential reserves in the Huapac structure have been computed at 3,310 MBO, with six drill locations of 160 acres spacing.

This summary report contains sufficient technical detail to support an admission to AIM. The data for this report was provided by Mexpetrol (Guatemala) Corp ("Mexpetrol"). PSL believes the data collected, analyzed and presented represents the most complete assessment possible at this time.

PSL is an independent oil and gas consulting firm specializing in reservoir characterization and reservoir depletion planning. This report contains our best professional judgments regarding the potential reserves in the Las Casas and Huapac structures. Our interpretations were based on these structures and a nearby producing field, thought to have similar geology and the potential for similar production behavior. PSL is incorporated in the State of Texas and registered with the federal government through EIN 76-0681278.

Yours faithfully

Wesley W. Johnson,
Vice President, Partner
State of Texas Professional Geologist
License # 4080

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INTRODUCTION



Figure 1 Las Casas-Huapac Area in Southern Peten Basin

Las Casas and Huapac are located in the Southern Peten Basin of Guatemala. The Cretaceous age Coban carbonate unit is divided into Coban A, B, C and D units. In the Las Casas – Huapac area the Coban B and C are productive. Engineering, geological and petrophysical evaluations were performed on wells Las Casas 1X and 2X and on Huapac 1 to determine whether there were any proven, producible reserves from those wells. Additionally, work was done to quantify potential exploration reserves in either structure. Mexpetrol provided well logs, production tests, production data, reprocessed seismic data and seismic interpretations that were used to evaluate Las Casas and Huapac potential. No proved reserves are within the Las Casas or Huapac areas, because there is no established economic production.

After Las Casas and Huapac production was reviewed by reservoir engineers and considered to be somewhat unreliable, a production analog study was performed on several wells from Rubelsanto field. Rubelsanto is the nearest producing field that has a similar geologic age and depositional setting. Production from Rubelsanto was quite prolific and probably represents the best production that could occur in the Las Casas or Huapac structures. Rubelsanto field has layered carbonate and anhydrite rocks that are similar to Las Casas and Huapac. Additionally, there is excellent production in Rubelsanto Coban C from what is interpreted to be a potential organic buildup. From the seismic interpretation provided by Mexpetrol, it appears that the Las Casas 3X well location could encounter both layered carbonate and organic carbonate build-up. It may be necessary to drill a new well to determine the Las Casas 3X potential and to get more data to better evaluate the structure. The Huapac structure appears to have layered carbonate reservoir potential based on the Huapac 1 well logs and limited 2D seismic data which was made available.

CONCLUSIONS

1. No proved (P_{90}) reserves are within the Las Casas or Huapac areas, because there is no established production from any wells.
2. Probable (P_{50}) reserves of 120 MBO exist up-dip of the Las Casas 1X and 2X wells. These reserves are defined as two eighty-acre locations, one offset away from each existing well.
3. Volumetric potential (P_{10}) reserves of 8,310 MBO exist up-dip of the Las Casas 1X and 2X wells over a 5,740 acre area. Both the Las Casas 1X and 2X wells produced small volumes of oil with high water cut, indicating these wells are in the transition zone.
4. Volumetric potential (P_{10}) reserves of 17,960 MBO exist within the Las Casas 3X exploration area of 2,560 acres. The layered Coban C potential (P_{10}) reserves are 9,270 MBO. The Coban B8 “build-up” (P_{10}) potential reserves are 8,690 MBO. This location was picked based on seismic interpretation and mapping.
5. Using Rubelsanto as an analog, potential (P_{10}) reserves of 1,095 MBO exist for the Las Casas 3X exploration well. This is in agreement with volumetric potential above.
6. Las Casas 1X has produced, via pump, 509 barrels of oil and 2,272 barrels of water from January through August 2003 from open perforations 8436-8709 (C8) and 8741-8784 (C9). Total pumping time over the elapsed seven month interval was 1080 hours (77 pumping days). It was difficult to correlate the production with logs.
7. Las Casas 2X has produced, via pump, 387 barrels of oil and 713 barrels of water over a fourteen day period in February 1996 in the Coban C8 and C9 reservoirs.
8. Huapac potential reserves are computed from petrophysical evaluations of Huapac 1X well logs. Volumetric reserves are based on the area down to 7700 feet subsea structure.
9. Huapac well logs indicate thicker pay and slightly higher porosity than measured at Las Casas. There is no production, or production test data, from Huapac.

Table 1 Potential Reserve Summary Table for Las Casas Area

Parameters	Up Dip Las Casas 1X, 2X	3X Exploration area	3X Exploration area
Coban reservoir	C series	C layered	B 8 “build-up”
Areas (acres)	5,740	2,560	2,650
Net Thickness (ft)	40	100	75
Average Phi (%)	8	8	10
Average Sw (%)	30	30	30
Potential OOIP	83.1 MMBO	92.7 MMBO	86.9 MMBO
Potential Reserves	8.31 MMBO	9.27 MMBO	8.69 MMBO
No. 160 ac locations	36	16	16

Table 2 Potential Reserve Summary Table for Huapac Area

Parameters	Huapac Exploration Area
Coban reservoir	C series
Areas (acres)	915
Net Thickness (ft)	84
Average Phi (%)	9.6
Average Sw (%)	30.5
Potential OOIP	33.1 MMBO
Potential Reserves	3.31 MMBO
No. 160 ac locations	6

GEOLOGY and GEOPHYSICS

Las Casas has been interpreted as an anticlinal high with an axis that is E-W, primarily based on structural interpretations by Getty Oil (now part of Chevron Texaco). Reprocessed seismic data were interpreted to provide tops from the Coban A, Coban Middle A, Coban B8, Coban C1, Coban C11 and Todos Santos zones in September 2003. The structural interpretation provided by Mexpetrol was tied to well logs to convert the seismic time structure to depth.

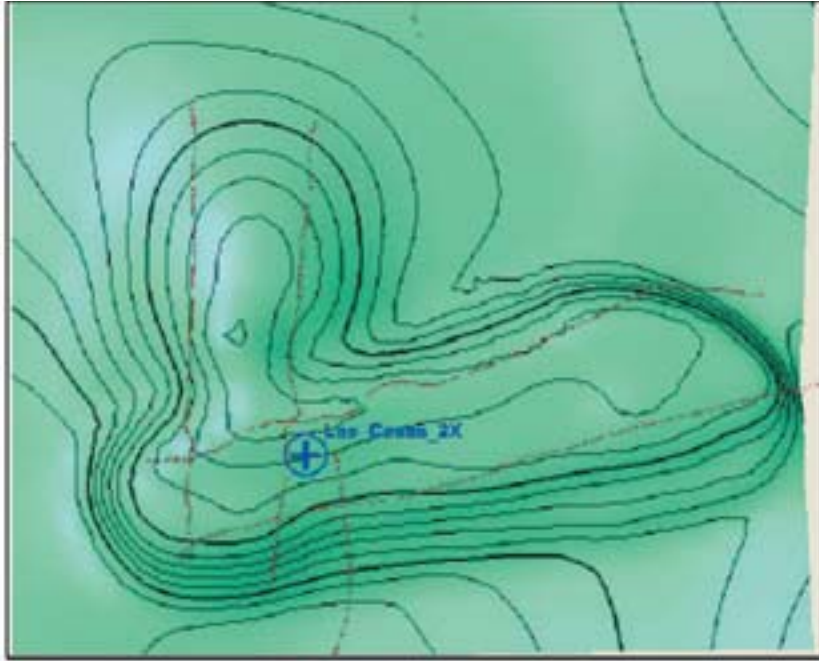


Figure 2 Time Structure Map with Shot Point Locations

A total of five seismic time lines were available to define the Las Casas structure. The structural maps provided the basis for calculating well and location elevation after the structure was converted from time to depth. A total of five seismic time lines were available to define the Las Casas structure.

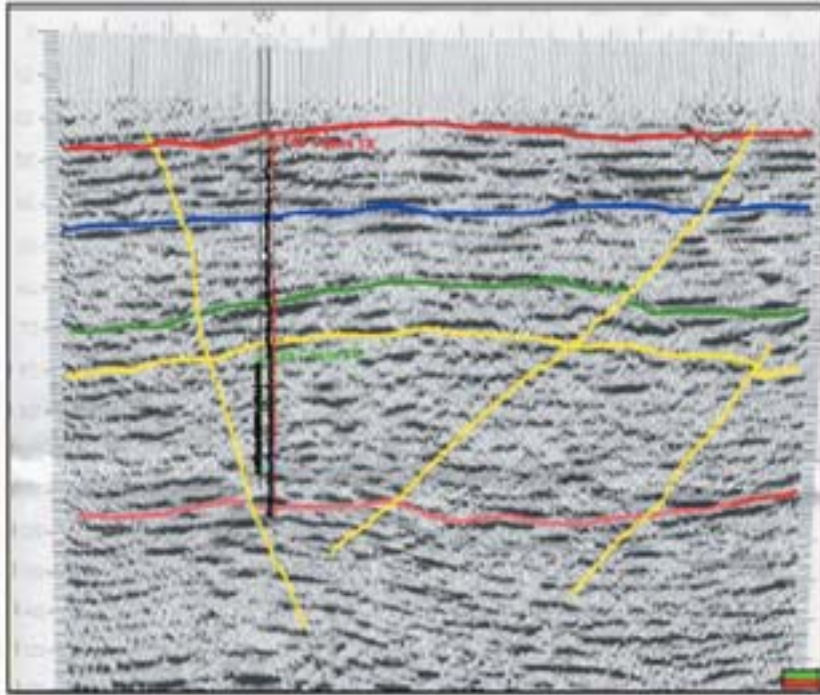


Figure 3 Seismic Horizons tied to Depth at Las Casas Wells

The seismic cross section above was compared to the Las Casas 1X and 2X well logs. Each of the important Coban C horizons was identified at the wells. The Coban B8 structure is marked above with a green line. A surface map was created at the Coban C1 horizon (pink) and an area was filled with green up to the interpreted Coban B “organic build-up”. The Las Casas 3X exploration well has the potential to find pay in layered carbonates and in the “organic build-up”. Potential (P_{10}) reserves have been calculated for both opportunities.

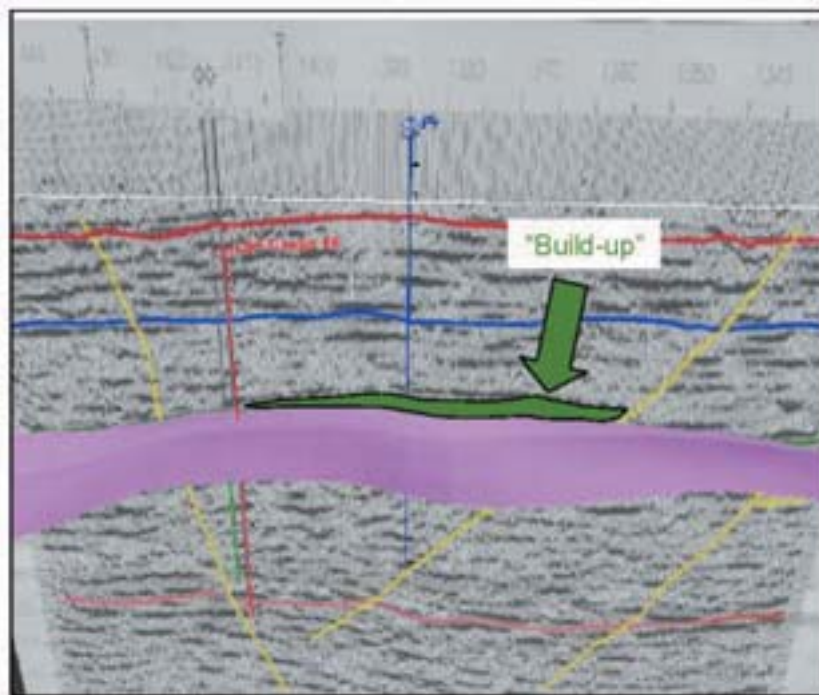


Figure 4 Proposed Las Casas 3X Well Location and Potential Organic Build-up

A summary of the petrophysical calculations is contained in the table below.

Table 3 Petrophysical Pay Summary of Las Casas and Huapac Wells

	Thickness feet	Avg. porosity	Avg. Sw %	OOIP (MBO) 80 acres
Las Casas 2X				
Possible Reservoir	60	10.3	43.0	1,822
Possible Pay	41	9.0	32.6	1,286
Probable Pay	19	8.4	29.6	582
Las Casas 1X				
Possible Reservoir	53	10.8	49.6	1,492
Possible Pay	27	7.7	40.4	641
Probable Pay	26	7.7	40.3	618
Huapac 1X				
Possible Reservoir	226	10.3	51.6	8,430
Possible Pay	162	9.7	29.6	5,722
Probable Pay	84	9.6	30.5	2,898

Pay zone thickness for Las Casas 2X was computed three ways: 1) a simple porosity cut-off more than 4%, 2) porosity more than 4% and less than 50% water saturation and 3) porosity and Sw cutoffs above with greater than 5 feet thickness of any carbonate beds. It was observed in Las Casas 2X that the more massively bedded pays had greater productive potential. Additionally, any well log measurements and evaluations are more reliable in beds of more than 5 feet thickness – below this value sonic logs were unreliable. There was a total of about 19 feet of rock in Las Casas 2X that produced oil. Higher on the structure productive thickness should increase as water saturation decreases.

EXPLORATION POTENTIAL RESERVES

Las Casas 3X Potential Reserves from Volumetric Analyses

The Las Casas structure has significant up-dip potential from the 1X and 2X wells based on reinterpreted seismic data and well log saturation calculations. The Las Casas 1X and 2X wells were interpreted to be in the water transition zone, consistent with observed water production and log saturation measurements. The structure below encompasses an area in contact with a freewater- level at 7900 feet subsea. This is about 200 feet above the lowest hydrocarbon productive interval in Las Casas 2X well. The figure is divided into two areas, which are identified as the 3X exploration and the up-dip exploration areas.



Figure 6 Exploration Areas Up Dip of Lowest Known Production in Las Casas 2X

The Las Casas 3X exploration area has approximately 2,560 acres of Coban C layered carbonate reservoir seen down dip in the Las Casas 1X and 2X wells, and 2,560 acres of potential organic build-up at the B8 horizon. The potential build-up was observed on the seismic lines BB1A and BB 79-1, which is approximately 2,300 meters west of the proposed location for the Las Casas 3X well.

Huapac 1X Potential Reserves from Volumetric Analyses

As with the Las Casas structure, the volumetric exploration potential was determined for Huapac based on petrophysics. The Huapac 1X well had a full suite of logs, which calculated 162 feet of rock with greater than 4% porosity and less than 50% water saturation. A structure map provided by Mexpetrol was used as the basis for describing the number of potential well locations.

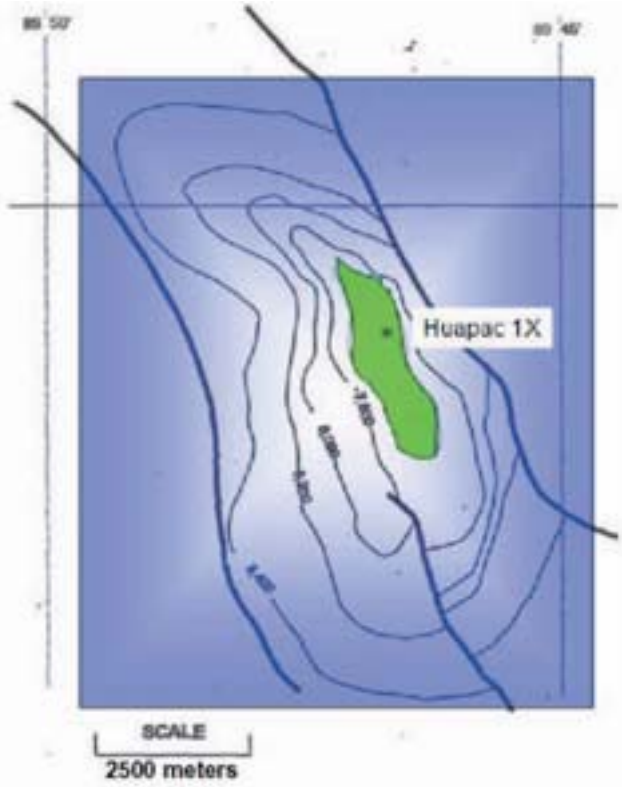


Figure 7 Huapac Exploration Areas

The green area contains 915 acres of potential exploration acreage which is 100 feet below the Huapac 1X location. More drilling will be required to define the actual potential of this structure. This map was provided for the Coban D by Mexpetrol and the development area was restricted to reflect this fact.

RESERVOIR ENGINEERING

The engineering work done to support exploration potential in Las Casas and Huapac involved analyzing and evaluating the limited production data from Las Casas wells and analyzing production data from Rubelsanto field. Because there was limited production data and it was thought to be unreliable, additional work was done using Rubelsanto as an analog field. Although Rubelsanto is about 20 kilometers from Las Casas and Huapac it has very similar geology. The same layered carbonates and anhydrites are found in both areas. Rubelsanto also appears to have production data from what are thought to be “organic build-ups” that have the potential to be drilled at the Las Casas 3X location.

Las Casas 2X Well History and Test Information

The Las Casas 2X well tested the Coban C-8 and C-9 reservoirs in September and November 1995. Both formations were very tight and would not flow. The Lower C-9 interval was acidized with 1500 gallons of HCL and swabbed mostly all water. Bottom hole pressure was reported to be 3,619 psig @ 8,800 feet. (0.411 psi/ft). Bottom hole temperature was reported to be 132 degF. Intervals tested are shown below.

Table 4 Las Casas 2X Produced Water Salinity

Interval Tested	Zone	Test Data	Water Salinity
8580-8905 ft.	C8	Nov. 1995	120,000 ppm
8954-8980 ft.	C9	Sep. 1995	77,000 ppm
9074-9104 ft.	C9	Sep. 1995	65,000 ppm

A Coleman Jet Pump was installed in February 1996. From February 6-10, 1996, the well was pumped for 80.25 hours and recovered 864 barrels of fluid, of which 328 barrels were oil (38% oil cut). From February 11-21, 1996, a total of 236 barrels of fluid was recovered, of which 59.4 barrels were oil (23% oil cut).

This test information confirms two problems: 1) the formation is very tight, indicating low flow rates would be expected at this location and 2) the well is in the transition zone of the reservoir, meaning any quantities of commercial oil would have to be updip of this location.

No gas production was reported, other than “gas was insufficient to run the pump”. This indicates further problems of a potential low solution gas oil ratio, which would hinder recovery efficiencies. Primary recovery efficiency is estimated to be closer to 10% in these reservoirs, versus 20% in Tortugas.

Production test data at Las Casas indicates the reservoir has low permeability and will not produce at commercial rates unless better porosity and permeability can be found up-dip.

Las Casas Potential Recoverable Reserves

With minimal geologic information, it was not possible to obtain actual updip area in the C-9 horizon. Therefore, for reserve estimate potential, a drainage area of 80 acres per location and a recovery efficiency of 10% was used.

Using log analysis results from the Las Casas 2X well, a simple volumetric OOIP calculation was made for an 80 acre location updip of the existing wells. Results are as follows:

$$OOIP = 7758 (\text{Area})(\text{Net Thickness})(\text{Porosity})(1 - \text{Water Saturation})/Boi$$

Where: Area = 80 Acres

Net Thickness = 19 feet

Porosity = 8.4%

Water Saturation = 29.6

Boi = 1.20 rb/stb (est)

OOIP = 581,117 STB

Using a recovery factor of 10% results in potential recoverable reserves for a 40 acre location of:

$$\text{Potential Recoverable Reserves} = 581,117\text{STB} * 0.10 = 58,111 \text{ STB}$$

Huapac Potential Recoverable Reserves

With minimal geologic information, it was not possible to obtain actual updip area in the Coban C horizon. Therefore, for reserve estimate potential, a drainage area of 80 acres per location and a recovery efficiency of 10% was used. In addition, since the entire Coban C reservoir is over 1000 gross feet, the potential net pay may not reflect reserves for a single completion.

Using log analysis results from the Huapac 1X well, a simple volumetric OOIP calculation was made for an 80-acre location updip of the existing wells. Results are as follows:

$$\text{OOIP} = 7758 (\text{Area})(\text{Net Thickness})(\text{Porosity})(1 - \text{Water Saturation})/\text{Boi}$$

Where: Area = 80 Acres

Net Thickness = 84 feet (several thin stringers)

Porosity = 9.6%

Water Saturation = 30.5%

Boi = 1.20 rb/stb (est)

OOIP = 2,898,637 STB

Using a recovery factor of 10% results in potential recoverable reserves for a 40 acre location of:

$$\text{Potential Recoverable Reserves} = 2,898,637 \text{ STB} * 0.10 = 289,836 \text{ STB}$$

RUBELSANTO FIELD REVIEW

The table below shows 24 hour test rates from three (3) wells at Rubelsanto field. The rates associated with each well were after small acid jobs of 500 to 3500 gallons of HCL. Even prior to acidizing, these wells flowed naturally at several hundred barrels of oil per day (quite unlike Las Casas). Calculated permeabilities to oil are in the 125 – 200 md range for all three wells. The higher volume wells have more net thickness.

Table 5 Selected Rubelsanto Production Tests and Nodal Analysis Results

Well	Test Date	Selected Tests of Rubelsanto wells							
		Perf Interval (ft)	Coban Zone	Oil Rate (BOPD)	GOR (scf/stb)	FTP (psig)	SIBHP (psig)	Net Thick (feet)	Oil Perm (md)
RS-1	6/10/75	5197-5323	C-8	1370	387	640	2692	75	125-175
RS-2	12/12/75	6831-6906	C-9	625	315	150	3100	15	150-200
RS-4A	7/2/76	7480-7608	C-13	2170	700	1300	3810	75	150-200

Nodal analysis and advanced production data were used to analyze the engineering data from Rubelsanto field. The primary reasons for these engineering evaluations were to calculate permeability, drainage areas and skin to determine whether the Rubelsanto wells were producing from fracture systems or grain supported matrix rock.

Production Characteristics

Based on log analysis of the Rubelsanto 2 well, net pay in the Coban C-9 formation is 18 to 32 feet, depending on the water saturation cutoff. Production history shows this zone to have produced 2,748 MBO from this interval, which is the largest cumulative production volume from any interval in any well at Rubelsanto field. Using a 20% recovery factor would suggest this well is draining anywhere from 1187 to 1971 acres. This is an unusually large drainage area, and is not typical. This well is thought to produce from an “organic build-up”.

A total of twenty-five (25) reservoirs were produced from seven wells at Rubelsanto field. The range of cumulative production per zone was 1 to 2,748 MBO. The average cumulative production per zone was 365 MBO. Assuming the same log characteristics in each zone would equate to a typical drainage area of 157 to 261 acres. Since the permeabilities are very good (125 -200 md), drainage areas of 160 acres is very reasonable.

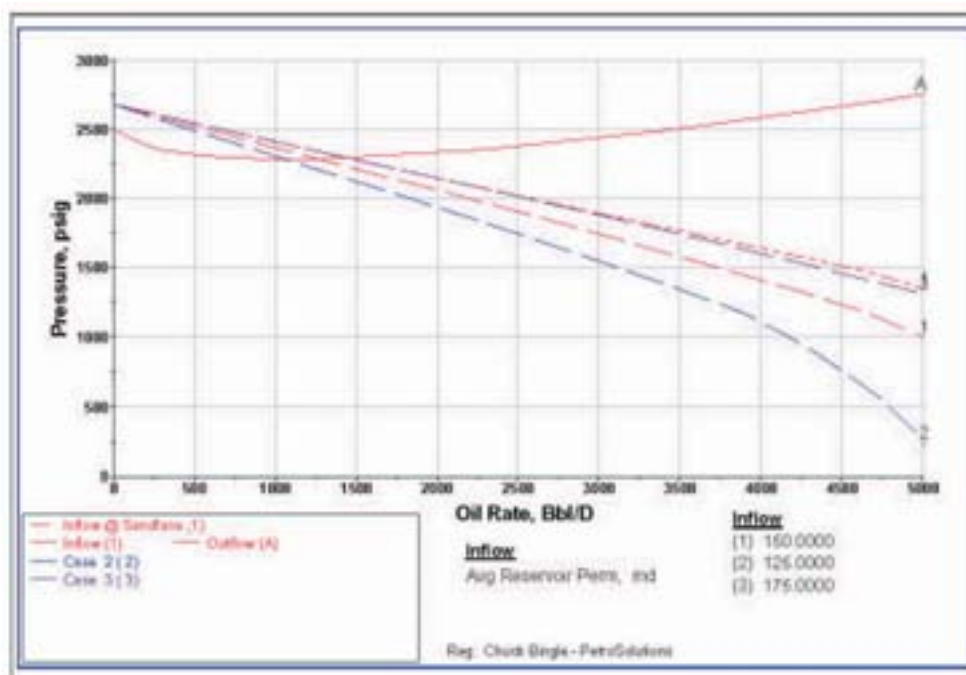


Figure 8 Rubelsanto Well 1 Nodal Analysis of Test 6/10/75

Advanced production analyses compare production rate-time plots to pressure change through time to compute permeability, the area being drained, the amount of skin damage coming into the well bore, the original oil-in-place and ultimate recoverable oil (EUR). One of the strengths of this technique is that it computes solutions that match to each of these parameters using different mathematical models. On the page that follows is a report summarizing the advanced production analyses for several analytical techniques.

The starting input data and production/pressure data are shown in Figure 9 overleaf.

The screenshot shows a software interface with the following sections:

- Well Information:** Name: RS-1 2-3 RTA Input file; Reservoir Category: Proven; Pool: Undefined Pool; Field: Rubelsantos; Fluid Type: Producing.
- Gas Properties:** G: 0.000; CO₂: 0.000; H₂S: 0.000; N₂: 0.000.
- Porosity and Saturation:** S_i: 10.000; S_w: 0.000; S_o: 70.000; S_g: 30.000.
- Initial Pressure:** Wellhead P_i: 2900.00 psi; Depth (mss): 4200.00 ft; Static (T_{st}): 90.00 ft; Sandface P_i: 2244.84 psi; Wellhead Max: 1997.00 psi; Sandface Max: [blank] psi.
- Initial Conditions:** T_{sc}: 120.00 °F.
- Wellbore Data:** h: 30.00 ft; r_w: 0.35 ft.
- Formation Compressibility:** C_f: 4.862e-06 1/psi.
- Total Compressibility:** C_t: 1.397e-05 1/psi.
- Oil Properties:** Y_{sc}: 35.00 API; P_{sc}: 466.4 psia; Oil Variables: C_o: 1.175e-05 1/psi; B_o: 1.170 cp; P_o: 1.255.

Figure 9 Input Production and Pressure Data for Rate Transient Analyses

The screenshot shows a 'Results Summary' report with the following table:

Analysis Types	Report	r _{eD}	OOIIP	Area	E.U.R.	k	s
			Mbbl	acres	Mbbl	md	
Trad::Exponential	<input checked="" type="checkbox"/>				324.15		
Fetkovich::Radial	<input checked="" type="checkbox"/>				537.84		
Blasingame::Radial	<input checked="" type="checkbox"/>	10000000	9195.79	708.6	919.58	199.688	6.94
AG Rate vs. Time::Radial	<input checked="" type="checkbox"/>	10000000	9339.22	719.6	933.92	262.822	7.01
Transient::Radial	<input checked="" type="checkbox"/>	10000000	9169.48	706.6	916.95	210.533	7.02
NPI::Radial	<input checked="" type="checkbox"/>	10000000	9237.40	711.8	923.74	224.855	7.47
Flowing Material Balance::FMB	<input checked="" type="checkbox"/>		13240.15	1020.2	1324.81		

Figure 10 Advanced Production Analyses Results with Perm, Drainage Area & EUR

The Coban C2/C3 horizons in the RS-1 well are draining about 700 acres. A linear impact on this value is the porosity and thickness. Hence, should the reader have different values than those shown in the input data (Figure 9), a simple adjustment can be made. One may note that the drainage (r_{eD}) is larger for the

transient techniques than observed from the traditional (decline curve) analysis. This may, at least in part, be reconciled by the fact that production was stopped in excess of 77 BOPD, suggesting that operations might have been conducted in a fashion to get a lower abandonment rate.

The other indicators of performance tabulated in the RTA Results Summary panel (Figure 10) are permeability in the 200 md range, with a skin of about 7. Again, using this technique of production data analysis these values suggest that better performance may have been possible.

DISCLAIMER

In making interpretations of data, our employees and consultants will give the customer the benefit of their best judgment, but since all interpretations are based on inferences from electrical, seismic or other measurements, we cannot and we do not guarantee the accuracy of the correctness of an interpretation. Subject to the consent and acceptance of liability provided in the paragraph below, we shall not be liable or responsible for any loss, cost, damages, or expenses whatsoever incurred or sustained by the customer resulting from any interpretation made by any of our employees or consultants.

CONSENT

PetroSolutions Ltd. gives consent to include our report in the AIM Admission Document and we accept responsibility for this report.

GLOSSARY OF TECHNICAL TERMS

The following abbreviations and technical terms apply throughout this document, unless the context otherwise requires.

“Anhydrite”	calcium sulphate. An evaporitic mineral left behind as a sea dries out
“2P”	proved and probable reserves
“3D seismic survey”	seismic survey that is run, acquired and processed to yield a three-dimensional picture of the subsurface
“3P”	proved, probable and possible reserves
“acre”	imperial system of measure equals to it 4,840 square yards or equivalent to 0.405 hectares
“anticline”	a fold in layered rocks originating below the surface in the form of an elongated dome
“bbls”	barrels (one barrel comprises 42 U.S. gallons)
“bopd”	barrels of oil per day
“Cambrian”	a period of geological time from about 490 to 540 million years ago
“Carboniferous”	a period of geologic time from about 290 to 355 million years ago
“Coban”	a formation given to a carbonate sequence in Guatemala. B, C and D series Coban rocks are found in the license area
“developed”	are expected to be recovered from existing wells including reserves behind pipe. Improved recovery reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor. Developed reserves may be sub-categorized as producing or non-producing
“EUR”	ultimate recoverable oil
“field”	an area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structure feature and/or stratigraphic condition
“footwall”	rock mass below a fault, vein, bed or mineralisation
“future net cash flows”	amounts that are the result of subtracting future developments and production costs and future income tax expenses from future cash inflows, such cash inflows being computed by applying year-end prices of oil and gas relating to the enterprise’s proved reserves to the year end quantities of those reserves
“GOR”	gas oil ratio in cubic feet of gas per barrel of oil
“HCL”	Hydrochloric acid. Used to increase permeability in carbonate reservoirs
“hectares”	metric system of measure equal to 10,000 square metres or equivalent to 2.5 acres

“hydrocarbon”	naturally occurring organic substances composed of carbon and hydrogen, including crude oil and gas, occurring in subsurface, recoverable as well as already extracted
“Jurassic”	a period of geologic time from about 195 to 135 million years ago
“km(s)”	Kilometres
“km²”	square kilometres
“MBO”	thousand barrels of oil
“mmbbls” or “MMbbls” or “MMBO”	million barrels
“md”	permeability expressed in milli-darcies of flow capacity
“non-producing”	reserves subcategorized as non-producing include shut-in and behind-pipe reserves. Shut-in reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe reserves are expected to be recovered from zones in existing wells, which will require additional completion work or future recompletion prior to the start of production
“oil”	crude oil and condensate
“OOIP”	original oil in place. Normally reported in stock tank barrels
“operator”	individual or company responsible for conducting oil and gas exploration, development and production activities on an oil and gas lease or concession on its own behalf and, if applicable, for other working interest owners, generally pursuant to the terms of a joint operating agreement or comparable agreement
“possible reserves (P₁₀)” or “potential reserves (P₁₀)”	possible/potential reserves are those unproved reserves which analysis of geological and engineering data suggests are less likely to be recoverable than probable reserves. In this context, when probabilistic methods are used, there should be at least a 10% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable plus possible reserves
“probable reserves (P₅₀)”	are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves
“producing well”	a well capable of, and in the process of, producing oil and/or gas
“producing”	reserves subcategorized as producing are expected to be recovered from completion intervals which are open and producing at the time of the estimate. Improved recovery reserves are considered producing only after the improved recovery project is in operation

“proved reserves (P₉₀)”	are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations. Proved reserves can be categorized as developed or undeveloped
“psi”	pounds per square inch pressure
“reserve status categories”	define the development and producing status of wells and reservoirs
“reserves”	are those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability
“reservoir”	subsurface body of rock having sufficient porosity and permeability to store and transmit fluids (such reservoir being overlain by a layer of impermeable rock that forms a seal trapping the fluids within the reservoir)
“royalty”	payment of a percentage of gross income from the production of oil and gas by the Company licensed to produce these liquids, to the Government of Guatemala
“seismic”	use of shock waves generated by controlled explosions of dynamite or other means to ascertain the nature and contour of underground geological structures
“STB”	stock tank barrels are surface oil volumes corrected from reservoir volumes to account for lost hydrocarbon as the oil is brought to a lower pressure at surface
“undeveloped reserves”	are expected to be recovered: (1) from new wells on undrilled acreage, (2) from deepening existing wells to a different reservoir, or (3) where a relatively large expenditure is required to (a) recomplete an existing well or (b) install production or transportation facilities for primary or improved recovery projects
“unproved reserves”	unproved reserves are based on geologic and/or engineering data similar to that used in estimates of proved reserves; but technical, contractual, economic, or regulatory uncertainties preclude such reserves being classified as proved. Unproved reserves may be further classified as probable reserves and possible reserves
“work-over”	process of performing major maintenance or remedial treatments on an oil or gas well, which, in many cases, implies the removal and replacement of the production tubing string after the well has been killed and a work-over rig has been placed on location

PART IV
ACCOUNTANTS' REPORTS

A. ACCOUNTANTS' REPORT ON THE COMPANY



**BDO Stoy Hayward
Chartered Accountants**

**BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL**

The Directors
Taghmen Energy Plc
2nd Floor
27 Berkeley Square
London
W1J 6EL

and

The Directors
Canaccord Capital (Europe) Limited
Brook House
27 Upper Brook Street
London
W1K 7QF

13 January 2005

Dear Sirs

TAGHMEN ENERGY PLC (the "COMPANY")

Introduction

We report on the financial information of the Company set out below. This financial information has been prepared for inclusion in the admission document dated 13 January 2005 ("the Admission Document").

The Company was incorporated as Taghmen Energy Limited on 7 July 2004. It re-registered as a public limited company and changed its name on 13 January 2005 to Taghmen Energy Plc.

Basis of preparation

The financial information set out below is based on the non-statutory consolidated accounts of the Company and its subsidiary Mexpetrol (Guatemala) Corporation ("Mexpetrol") for the period from 7 July 2004 to 31 October 2004, to which no adjustments were considered necessary. Together, the Company and Mexpetrol are referred to as the "Group".

BDO Stoy Hayward LLP, 8 Baker Street, London W1U 3LL, were auditors of the Company for the period ended 31 October 2004.

Responsibility

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

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

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

Basis of opinion

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

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at 31 October 2004 and of its loss for the period then ended.

Consent

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

FINANCIAL INFORMATION

Accounting policies

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

Basis of preparation

The financial information has been prepared in US dollars under the historical cost convention in accordance with applicable United Kingdom accounting standards.

The Company's financial information falls within the scope of the Statement of Recommended Practice (SORP) issued by the Oil Industry Accounting Committee, "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities," and the financial information set out below has been prepared in accordance with the provisions thereof.

Basis of consolidation

The consolidated financial statements incorporate the results of the Company and its subsidiary undertakings as at 31 October 2004 using the acquisition method of accounting. Under the acquisition method, the results of subsidiary undertakings are included from the date of acquisition.

Foreign currency

The Company's functional currency is the US dollar (\$).

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

Oil and gas assets

Oil and gas expenditures have been accounted for under the full cost method of accounting.

For evaluated properties, all lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, appraisal and development are capitalised as intangible fixed assets in appropriate cost pools. Costs relating to unevaluated properties are held outside the relevant cost pool, and are not amortised until such time as the related property has been fully appraised. Costs relating to evaluated properties within each pool are depleted on a unit of production method based on the commercial proven and provable reserves for that pool. The amortisation calculation takes account of the estimated future costs of development of recognised proved and probable reserves, based on current price levels. Changes in reserve quantities and cost estimates are recognised prospectively.

Proceeds from the disposal of oil and gas assets accounted for in the pool are deducted from capitalised costs with no gain or loss being recognised.

A review is performed each year for any indication that the value of oil and gas properties may be subject to impairment. Where there are such indications, an impairment test is carried out and if necessary additional depletion is charged if the capitalised costs of evaluated properties exceed the estimated value of the related commercial reserves of oil and gas within the pools. The value is based on the higher of anticipated future costs and revenues (discounted) attributable to such reserves.

Decommissioning

Provision for plug and abandonment costs is recognised in full at the commencement of drilling. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset.

Other tangible assets and depreciation

Depreciation is provided on all other tangible assets to write off the cost less estimated residual value of each asset over its expected useful economic life on a straight-line basis at the following annual rates:

- | | |
|---|-----------|
| – Field, plant and machinery | 10% – 20% |
| – Office equipment, fixtures and fittings | 20% – 33% |
| – Motor vehicles | 20% |

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more (or a right to pay less or receive more) tax, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which future reversal of the underlying timing differences can be deducted.

Deferred tax balances are not discounted.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	<i>Period ended 31 October 2004 \$</i>
Administration expenses		<u>(502,965)</u>
Operating loss		<u>(502,965)</u>
Loss on ordinary activities before interest and tax		<u>(502,965)</u>
Interest receivable		<u>22,284</u>
Loss for the period before and after taxation	3	<u><u>(480,681)</u></u>
Loss per share	4	<u><u>(0.02)</u></u>

All amounts relate to continuing activities.

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

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<i>As at 31 October 2004 \$</i>
Fixed assets		
Tangible assets	5	1,460,297
Intangible assets	6	<u>4,595,680</u>
		<u>6,055,977</u>
Current assets		
Stock	7	17,575
Debtors	8	291,756
Cash at bank and in hand		<u>16,668,533</u>
		16,977,864
Creditors: amounts falling due within one year	9	<u>(848,728)</u>
Net current assets		<u>16,129,136</u>
Total assets less current liabilities		22,185,113
Provision for liabilities and charges	10	<u>(150,000)</u>
Total assets less current liabilities		<u>22,035,113</u>
Capital and reserves		
Called up share capital	11	4,157,312
Share premium	13	18,358,482
Profit and loss account	13	<u>(480,681)</u>
Shareholders' funds – equity	12	<u>22,035,113</u>

CONSOLIDATED CASH FLOW STATEMENT

	<i>Notes</i>	<i>Period ended 31 October 2004</i>
		<i>\$</i>
Net cash outflow from operating activities	17	(373,084)
Returns on investments and servicing of finance		
Interest received		22,284
Capital expenditure		
Consideration paid in advance	14	(3,228,953)
Exploration expenses		(334,015)
Purchase of tangible fixed assets		(963,143)
Cash acquired with subsidiary	14	<u>29,650</u>
		(4,496,461)
Financing		
Issue of ordinary shares		<u>21,515,794</u>
Increase in cash	19	<u><u>16,668,533</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. Employees

The average number of employees of the Group during the period, including executive directors, was ten.

Staff costs for all employees, including executive directors, consist of:

	<i>Period ended 31 October 2004 \$</i>
Wages and salaries	<u>120,392</u>

2. Directors

Salary of \$80,000 was payable to Gregory Smith. No other director received any remuneration in the period.

3. Taxation on loss from ordinary activities

The tax assessed for the period varies from the standard rate of corporation tax in the UK applied to loss before tax. The difference is explained below:

	<i>Period ended 31 October 2004 \$</i>
Loss on ordinary activities before taxation	<u>(480,681)</u>
Loss on ordinary activities at the standard rate of corporation tax in the UK of 20%	(96,136)
Tax losses carried forward	<u>96,136</u>
Current tax charge for the period	<u>-</u>

4. Loss per share

The loss per Ordinary Share has been calculated using the weighted average number of shares in issue during the period. The weighted average number of Ordinary Shares in issue in the period was 21,380,103 and the loss, being the loss after tax, was \$480,681.

Due to the losses incurred during the period a diluted loss per share has not been calculated as this would serve to reduce the basic loss per share.

5. Tangible assets

	<i>Vehicles</i> \$	<i>Field, plant and machinery</i> \$	<i>Office equipment, fixtures and fittings</i> \$	<i>Total</i> \$
Cost				
At incorporation	–	–	–	–
On acquisition	2,945	500,070	5,597	508,612
Additions	29,194	875,462	58,487	963,143
At 31 October 2004	<u>32,139</u>	<u>1,375,532</u>	<u>64,084</u>	<u>1,471,755</u>
Depreciation				
At incorporation	–	–	–	–
Charge for period	1,346	8,339	1,773	11,458
At 31 October 2004	<u>1,346</u>	<u>8,339</u>	<u>1,773</u>	<u>11,458</u>
Net book value				
31 October 2004	<u>30,793</u>	<u>1,367,193</u>	<u>62,311</u>	<u>1,460,297</u>

6. Intangible assets

	<i>Exploration costs</i> \$
At incorporation	–
On acquisition	4,261,665
Additions	334,015
At 31 October 2004	<u>4,595,680</u>

7. Stock

	<i>As at 31 October 2004</i> \$
Raw materials and tooling	<u>17,575</u>

8. Debtors

	<i>As at 31 October 2004</i> \$
Prepayments and other debtors	<u>291,756</u>

All debtors fall due for payment within one year.

9. Creditors: amounts falling due within one year

	<i>As at 31 October 2004 \$</i>
Consideration payable	123,295
Amount due to related parties (note 21)	250,000
Accruals	245,433
	<u>718,728</u>

10. Provision for liabilities and charges

	<i>Plug and abandonment costs \$</i>
Addition and at 31 October 2004	<u>150,000</u>

11. Share capital

	<i>Authorised</i>	<i>Allotted, called up and fully paid</i>
Ordinary Shares of \$0.10 each (number)	<u>100,000,000</u>	<u>41,573,120</u>
Ordinary Shares of \$0.10 each (\$)	<u>10,000,000</u>	<u>4,157,312</u>

The Company was incorporated with authorised share capital of \$5 million divided into 50 million Ordinary Shares of \$0.10 each. On incorporation, one Ordinary Share of \$0.10 was issued at par.

On 7 July 2004, in consideration of services rendered to, and procurement of interim finance for, the Company by Mr Gregory Smith, the Company issued to Mr Smith 1,000,000 Ordinary Shares.

Pursuant to an assignment of the right to acquire the entire issued share capital of Mexpetrol dated 18 July 2004 made between 2039026 Ontario Inc, the Company and Taghmen Ventures Limited, the Company issued 9,000,000 Ordinary Shares, credited as fully paid, as consideration to Taghmen Ventures Limited and its nominee, Euro Americas Securities Limited (see also note 21 – Related party disclosure).

On 6 August 2004, 12,411,116 Ordinary Shares were issued at \$0.65 for cash to finance acquisitions and to provide working capital.

By special resolution passed on 25 October 2004, the shareholders agreed to increase the authorised share capital of the Company from \$5,000,000 to \$10,000,000 by the creation of 50,000,000 new Ordinary Shares ranking *pari passu* with the then existing Ordinary Shares.

On 25 October 2004, a further 15,162,003 Ordinary Shares were issued at \$0.65 and 4,000,000 Ordinary Shares were issued at \$1 for cash to provide working capital.

As at 31 October 2004, the Company had 29,217,466 warrants outstanding to acquire Ordinary Shares at \$0.90 and 5,000,000 warrants outstanding to acquire Ordinary Shares at \$0.65 per share. The warrants are exercisable at any time until 30 July 2006.

The Company has issued no options or other rights to purchase Ordinary Shares other than the warrants.

12. Reconciliation of movement in shareholders' funds

	\$
At incorporation	–
Issue of shares	22,515,794
Loss for the period	<u>(480,681)</u>
At 31 October 2004	<u><u>22,035,113</u></u>

13. Reserves

	<i>Share premium account</i> \$	<i>Profit and loss account</i> \$	<i>Total</i> \$
On issue of Ordinary Shares	19,115,661	–	19,115,661
Share issue expenses	(757,179)	–	(757,179)
Loss for the period	<u>–</u>	<u>(480,681)</u>	<u>(480,681)</u>
As at 31 October 2004	<u><u>18,358,482</u></u>	<u><u>(480,681)</u></u>	<u><u>17,877,801</u></u>

14. Acquisition of Mexpetrol

On 30 July 2004, the Company acquired the entire share capital of Mexpetrol for a consideration of \$4,316,012.

In calculating the goodwill arising on acquisition, the fair value of the net assets of Mexpetrol have been assessed and adjustments from book value have been made where necessary. These adjustments are summarised in the following table:

	<i>Book value</i> \$	<i>Fair value adjustments</i> \$	<i>Fair value on acquisition</i> \$
Fixed assets			
Tangible	158,612	350,000	508,612
Intangible assets	1,835,787	2,425,878	4,261,665
	<u>1,994,399</u>	<u>2,775,878</u>	<u>4,770,277</u>
Current assets			
Debtors	114,390	–	114,390
Inventory	2,537	15,000	17,537
Cash	29,650	–	29,650
	<u>2,140,976</u>	<u>2,790,878</u>	<u>4,931,854</u>
Total assets	2,140,976	2,790,878	4,931,854
Creditors	<u>(229,606)</u>	<u>(350,000)</u>	<u>(579,606)</u>
Net assets	<u><u>1,911,370</u></u>	<u><u>2,440,878</u></u>	<u><u>4,352,248</u></u>

Consideration for acquisition

	\$
– Professional fees	36,236
– Cash	3,316,012
– Issue of 10,000,000 Ordinary Shares at par	<u>1,000,000</u>
Total consideration	4,352,248
Fair value of net assets acquired (above)	<u>4,352,248</u>
Goodwill arising on acquisition	<u><u>–</u></u>

The fair value adjustment to tangible fixed assets relates to the assessed fair value of plant and equipment on acquisition.

The fair value adjustments to the intangible fixed assets acquired were determined by the directors, having regard to reports by independent reserve engineers. The fair value of intangible assets can only be determined on a provisional basis as it is dependent on further exploration work being completed.

The fair value adjustment to inventory and creditors relates to the assessed fair value of these balances on acquisition.

The results of Mexpetrol prior to its acquisition were as follows:

	<i>Year ended 30 June 2003 \$</i>	<i>Year ended 30 June 2004 \$</i>
Loss for the year	<u>(358,111)</u>	<u>(342,785)</u>

There were no recognised gains or losses for the years other than the losses for the years.

Cash flows on acquisition

The net outflow of cash arising from the acquisition was as follows:

	\$
Cash consideration as above (including professional fees)	3,352,248
Less: consideration payable as at 31 October 2004	<u>(123,295)</u>
Net outflow of cash	3,228,953
Cash acquired on the acquisition of Mexpetrol	<u>(29,650)</u>
Net cash paid	<u>3,199,303</u>

15. Contingent liabilities

Mexpetrol must repair any damage caused to the Guatemalen state or to individuals and their property, including damage resulting from environmental pollution.

On 12 August 2002, Cadex Petroleo Guatemala Inc ("Cadex") promoted a lawsuit against Mexpetrol. The claim is quantified at \$150,000.

The claim relates to a deed pursuant to which Mexpetrol sold to Petdegua Sociedad Anónima ("Petdegua") certain machinery which was part of a drilling tower for the price of Q500,000 ("Acquisition"). According to Petdegua this machinery was never delivered. As a result Petdegua issued a claim against Mexpetrol on 2 August 2002. The purpose of the claim was to obtain judicial delivery of the machinery. A final resolution is still pending and an order of chattel of the machinery has to be executed.

Petdegua also issued another claim in the Civil Court of First Instance and Execution Court of the Municipality of Ixcán in Guatemala on 18 October 2002 requiring the fulfilment of the Acquisition contract and the seizure of the machinery naming Cadex as its depository. It is however, stated in the minutes written by Judge Peace on 21 November 2002 that due to the lack of the machinery at the tower, it could not be transported and only auxiliary equipment could be seized.

On 12 August 2002, Cadex issued another lawsuit in the Third Civil Court of First Instance against Mexpetrol. The lawsuit is based on an agreement for the purchase of shares and other assets owned by Mexpetrol for the price of US\$8,000,000, executed on 31 May 1997 between Mexpetrol and Cadex ("Agreement"). The claim was modified on 22 December 1997. It is claimed that pursuant to the Agreement it was agreed between the parties that US\$300,000 would be paid when it was determined that Cadex

had the absolute rights to the Licence. Cadex had to pay the balance due when completing drilling at Las Casas 1X Well, 2X Well and Huapac before 15 November 1997. This date was modified to be within 7 days after receiving the official approval of the Government of Guatemala. Cadex claims that due to the negligence of Mexpetrol, Cadex could not fulfil its obligations resulting in the Agreement not being performed. Cadex is, therefore, demanding the return of US\$325,000 that it had paid as part consideration under the Agreement.

A legal opinion obtained from A.D. Sosa & Soto of Guatemala, the Company's Guatemalan counsel, states that a motion to declare the claim process abandoned was presented, and if Cadex does not respond to the lawsuit it will be dismissed. A.D. Sosa & Soto have also confirmed that the worst case scenario would entitle Cadex to a judgement of US\$325,000 plus legal costs and interests.

16. Capital commitments

Under the Mexpetrol exploration licence, Mexpetrol it is required to drill one new well each year. The directors plan to comply with this provision.

17. Reconciliation of operating loss to net cash outflow from operating activities

	<i>Period ended 31 October 2004 \$</i>
Operating loss	(502,965)
Increase in creditors	419,122
Increase in debtors	(300,699)
Depreciation	11,458
	<u>(373,084)</u>

18. Reconciliation of net cash flow to movement in net funds

	\$
Increase in cash in the period	<u>16,668,533</u>
Movement in net funds in the period	16,668,533
Net funds at the beginning of the period	—
Net funds at the end of the period	<u>16,668,533</u>

19. Analysis of net funds

	<i>At the start of the period \$</i>	<i>Cash flow \$</i>	<i>At the end of the period \$</i>
Cash at bank	—	<u>16,668,553</u>	<u>16,668,553</u>

The Group's financial assets comprise of US dollar denominated cash deposits held at LIBOR based floating interest rates.

20. Commitments under operating leases

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

Period

ended
31 October
2004
\$

Buildings

Operating leases which expire within one year: 70,000

21. Related party disclosure

During the period, the Company acquired the entire share capital of Mexpetrol.

Pursuant to an assignment of the right to acquire the entire issued share capital of Mexpetrol dated 18 July 2004 made between 2039026 Ontario Inc, the Company and Taghmen Ventures Limited, the Company issued 9,000,000 Ordinary Shares, credited as fully paid, as consideration to Taghmen Ventures Limited and its nominee as follows:

<i>Legal shareholder</i>	<i>Ultimate beneficial shareholder</i>	<i>No. of Ordinary Shares</i>
Taghmen Ventures Limited	Gregory Smith	5,000,000
Euro Americas Securities Limited	Gregory Smith	<u>4,000,000</u>
Total		<u><u>9,000,000</u></u>

Gregory Smith is a director of the Company.

In consideration of services rendered to, and procurement of interim finance for the Company by Mr Gregory Smith, the Company issued to Mr Smith 1,000,000 Ordinary Shares for non-cash consideration and, at the direction of Mr Smith, 5,000,000 warrants to Taghmen Ventures Limited entitling the holder to subscribe for Ordinary Shares at the exercise price of \$0.65 per share at any time until 30 July 2006.

On 20 September 2004, the Company entered into an agreement with Taghmen Ventures Limited pursuant to which the Company appointed Taghmen Ventures Limited to provide it with, on an exclusive basis for a fixed period of five years, various services including, but not limited to, consulting services, effecting new business introductions, assisting in raising finance and assisting in ongoing strategic planning ("Services"). The Company agreed to pay a monthly fee of \$25,000 for the first three months with the first payment payable on 15 September 2004 and \$12,500 thereafter. Commissions were also due calculated on the values of the Services provided such as new finance raised, new business introduced and the value of acquisitions made. The Company agreed to issue to Taghmen Ventures Limited 750,000 Ordinary Shares and 250,000 warrants to subscribe for Ordinary Shares and share options in the Company upon the terms of a share option scheme to be established by the Company. On 10 January 2005 this agreement was cancelled and in consideration for the issue of 1,850,000 shares at \$1.30 per share, credited as fully paid, to Euro Americas Securities Limited at the direction of Taghmen Ventures Limited. Taghmen Ventures Limited agreed to provide new services to the Company similar to the Services.

As at 31 October 2004, Mexpetrol owed Taghmen Ventures Limited \$350,000 in respect of cash advances to that company and \$50,000 in respect of consulting services provided.

22. Post balance sheet events

On 16 November 2004, the Company issued two convertible loan notes to Taghmen Ventures Limited, a company connected with Mr Smith, a director of the Company. Both the loan notes bear interest at 10% per annum, payable quarterly in arrears with a maturity date of 30 July 2006, save for acceleration due to certain defaults by the Company. The loan notes are convertible by Taghmen Ventures Limited into Ordinary Shares and warrants of the Company between 16 November 2004 and 30 July 2006 at the conversion rates set out below.

- (a) \$150,000 loan note (which was issued in part settlement of a debt of \$350,000 owed by the Company to Taghmen Ventures Limited) is convertible into 150,000 Ordinary Shares in the Company.
- (b) \$200,000 loan note (which was issued in part settlement of a debt of \$350,000 owed by the Company to Taghmen Ventures Limited) is convertible into 307,692 Ordinary Shares at the price of \$0.65 per share and 307,692 warrants entitling the holder to subscribe for Ordinary Shares at a price of \$0.65 per share.

On 17 November 2004, the Company issued Ordinary Shares, credited as fully paid, at US\$1 per Ordinary Share and warrants to certain directors and employees of the Company and Mexpetrol under their employment contracts in consideration for future services under the contracts. The details of these issues are set out below:

	<i>Number of shares</i>	<i>Value (\$)</i>	<i>Number of warrants exercisable (at \$0.90)</i>
Gregory Smith (Director)	1,000,000	1,000,000	250,000
Nicholas Gay (Director)	750,000	750,000	250,000
John Scott (Director)	750,000	750,000	250,000
Michael Realini (President of Mexpetrol)	250,000	250,000	–

On 17 November 2004, pursuant to the terms of an agreement with Taghmen Ventures Limited (see note 21), the Company issued 750,000 Ordinary Shares at \$1 each, credited as fully paid, to Taghmen Ventures Limited. On 10 January 2005, that agreement was cancelled and in consideration for the issue of 1,850,000 shares at \$1.30 per share, credited as fully paid, to Euro Americas Securities Limited at the direction of Taghmen Ventures Limited, Taghmen Ventures Limited agreed to provide new services to the Company similar to those previously provided.

On 17 November 2004, as part payment of commissions payable in respect of funds raised, the Company issued the following Ordinary Shares at \$1 each, credited as fully paid, and Warrants as follows:

<i>Payee</i>	<i>Number of Ordinary Shares</i>	<i>Value (\$)</i>	<i>Number of warrants exercisable (at \$0.90)</i>
Argentiore Holdings Ltd*	750,000	750,000	
James Guiang (director)*	250,000	250,000	
Middleforks Investment Ltd	–		55,000
Steven Wyatt	–		58,333
Rhodes Ventures S.A.*	–		282,792

*James Guiang, a director is the ultimate beneficiary of these shares and warrants.

On 17 November 2004, the Company completed the allotment and issue of 1,950,000 Ordinary Shares for cash at \$1 per Ordinary Share.

The Company paid \$1,387,500 of commissions and fees to Taghmen Ventures Limited in November 2004 pursuant to the terms of the agreement between the Company and Taghmen Ventures Limited, referred to in note 21.

On 10 January 2005, Geoffrey Killick (Chief Financial Officer) subscribed for 50,000 Ordinary Shares for cash consideration of \$1 per share.

On 12 January 2005, the Company issued 1,750,000 options with an exercise price of \$1.30 to directors and employees of the Group. Of these options, 250,000 were granted to John Scott, 300,000 were granted to Nicholas Gay and 100,000 were granted to Gregory Smith.

By virtue of a written resolution of the shareholders dated 12 January 2005, the shareholders resolved to:

- increase the authorised share capital of the Company from \$10,000,000 to \$15,000,000 by the creation of 50,000,000 new Ordinary Shares ranking *pari passu* with the then existing Ordinary Shares; and
- further increase the authorised share capital of the Company by the creation of £55,000 of share capital divided into 50,000,000 deferred shares with no rights attaching to such deferred shares.

Yours faithfully

BDO Stoy Hayward LLP
Chartered Accountants

B. ACCOUNTANTS REPORT ON MEXPETROL



**BDO Stoy Hayward
Chartered Accountants**

**BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL**

The Directors
Taghmen Energy Plc
2nd Floor
27 Berkeley Square
London
W1J 6EL

and

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

13 January 2005

Dear Sirs

MEXPETROL (GUATEMALA) CORPORATION (“MEXPETROL”)

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document of Taghmen Energy Plc (the “Company”) dated 13 January 2005 (“the Admission Document”).

Mexpetrol was incorporated in the Bahamas, on 12 October 1993, with registered number 1700688B.

Basis of preparation

The financial information is based on the audited financial statements of Mexpetrol for the three years ended 30 June 2004 (the “Relevant Period”) after making such adjustments as we considered necessary.

Lic, José M. Escobar were auditors of Mexpetrol in respect of the two years ended 30 June 2003 and BDO Guatemala, 12 Calle 2-04 Zona 9, Edificio Plaza del Sol, Nivel 4, Oficina 13, Ciudad de Guatemala, Apto: Postal 11-F01010 were auditors of Mexpetrol in respect of the year ended 30 June 2004. Each of the audit reports throughout the Relevant Period was unqualified.

Responsibility

Such financial statements are the responsibility of the director of Mexpetrol who approved their issue.

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

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

Basis of opinion

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

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of Mexpetrol as at the dates stated and of its losses for the years then ended.

Consent

We consent to the inclusion in the Admission Document of this report and accept responsibility for this report for the purposes of paragraphs 45(2)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

FINANCIAL INFORMATION

Accounting policies

The financial information has been prepared in US dollars (\$) under the historical cost convention in accordance with applicable United Kingdom accounting standards.

The Company's financial information falls within the scope of the Statement of Recommended Practice (SORP) issued by the Oil Industry Accounting Committee, "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities," and the financial information on Mexpetrol set out below has been prepared in accordance with the provisions thereof.

Oil and gas assets

Oil and gas expenditures have been accounted for under the full cost method of accounting.

For evaluated properties, all lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, appraisal and development are capitalised as intangible fixed assets in appropriate cost pools. Costs relating to unevaluated properties are held outside the relevant cost pool, and are not amortised until such time as the related property has been fully appraised. Costs relating to evaluated properties within each pool are depleted on a unit of production method based on the commercial proven and provable reserves for that pool. The amortisation calculation takes account of the estimated future costs of development of recognised proved and probable reserves, based on current price levels. Changes in reserve quantities and cost estimates are recognised prospectively.

Proceeds from the disposal of oil and gas assets accounted for in the pool are deducted from capitalised costs with no gain or loss being recognised.

A review is performed each year for any indication that the value of oil and gas properties may be subject to impairment. Where there are such indications, an impairment test is carried out and if necessary additional depletion is charged if the capitalised costs of evaluated properties exceed the estimated value of the related commercial reserves of oil and gas within the pools. The value is based on the higher of anticipated future costs and revenues (discounted) attributable to such reserves.

Decommissioning

Provision for plug and abandonment costs is recognised in full at the commencement of drilling. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset.

Other tangible assets and depreciation

Depreciation is provided on all other tangible assets to write off the cost less estimated residual value of each asset over its expected useful economic life on a straight-line basis at the following annual rates:

– Field, plant and machinery	10% – 20%
– Office equipment, fixtures and fittings	20% – 33%
– Motor vehicles	20%

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more (or a right to pay less or receive more) tax, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which future reversal of the underlying timing differences can be deducted.

Deferred tax assets are not discounted.

PROFIT AND LOSS ACCOUNTS

		<i>Year ended</i> <i>30 June</i> <i>2002</i>	<i>Year ended</i> <i>30 June</i> <i>2003</i>	<i>Year ended</i> <i>30 June</i> <i>2004</i>
	<i>Notes</i>	\$	\$	\$
Administration expenses		(148,777)	(358,111)	(342,785)
Operating loss		<u>(148,777)</u>	<u>(358,111)</u>	<u>(342,785)</u>
Loss on ordinary activities before interest		<u>(148,777)</u>	<u>(358,111)</u>	<u>(342,785)</u>
Loss on ordinary activities before taxation		(148,777)	(358,111)	(342,785)
Taxation on loss for ordinary activities	3	–	–	–
Loss on ordinary activities after taxation	11	<u><u>(148,777)</u></u>	<u><u>(358,111)</u></u>	<u><u>(342,785)</u></u>

All amounts relate to continuing activities.

There are no recognised gains or losses in each year, other than the loss for each year.

BALANCE SHEETS

		<i>As at</i> 30 June 2002 \$	<i>As at</i> 30 June 2003 \$	<i>As at</i> 30 June 2004 \$
	<i>Notes</i>			
Fixed assets				
Intangible assets	4	394,611	1,136,464	1,835,787
Tangible assets	5	75,346	169,775	158,612
		<u>469,957</u>	<u>1,306,239</u>	<u>1,994,399</u>
Current assets				
Stock	6	11,020	2,532	2,537
Debtors	7	52,424	105,741	114,390
Cash at bank and in hand		–	11,266	29,650
		<u>63,444</u>	<u>119,539</u>	<u>146,577</u>
Creditors: amounts falling due within one year	8	<u>(37,726)</u>	<u>(49,841)</u>	<u>(79,606)</u>
Net current assets		<u>25,718</u>	<u>69,698</u>	<u>66,971</u>
Total assets less current liabilities		495,675	1,375,937	2,061,370
Creditors: amounts falling after one year	8	(643,823)	(1,807,196)	(2,760,414)
Provisions for liabilities and charges	9	–	(75,000)	(150,000)
		<u>(148,148)</u>	<u>(506,259)</u>	<u>(849,044)</u>
Capital and reserves				
Called up share capital	10	12,630,000	12,630,000	12,630,000
Profit and loss account	11	<u>(12,778,148)</u>	<u>(13,136,259)</u>	<u>(13,479,044)</u>
Shareholders' deficit – equity		<u>(148,148)</u>	<u>(506,259)</u>	<u>(849,044)</u>

CASH FLOW STATEMENTS

		<i>Year ended</i> 30 June 2002	<i>Year ended</i> 30 June 2003	<i>Year ended</i> 30 June 2004
	<i>Notes</i>	\$	\$	\$
Net cash outflow from operating activities	14	<u>(169,312)</u>	<u>(364,828)</u>	<u>(290,511)</u>
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(79,940)	(124,216)	(20,000)
Sale of tangible fixed assets		–	3,790	–
Exploration costs		<u>(394,611)</u>	<u>(666,853)</u>	<u>(624,323)</u>
Net cash outflow from capital expenditure		(474,511)	(787,279)	(644,323)
Cash outflow before management of liquid resources and financing		(643,823)	(1,152,107)	(934,834)
Financing				
Issue of new loans		<u>643,823</u>	<u>1,163,374</u>	<u>953,218</u>
Cash inflow from financing		<u>643,823</u>	<u>1,163,374</u>	<u>953,218</u>
Increase in cash for the year	15	<u>–</u>	<u>11,266</u>	<u>18,384</u>

NOTES TO THE FINANCIAL INFORMATION

1. Employees

The average number of employees during the year, including executive directors, was:

<i>Year ended 30 June 2002 Number</i>	<i>Year ended 30 June 2003 Number</i>	<i>Year ended 30 June 2004 Number</i>
7	8	21
<u>7</u>	<u>8</u>	<u>21</u>

2. Staff costs for all employees, including executive directors, consist of:

	<i>Year ended 30 June 2002 \$</i>	<i>Year ended 30 June 2003 \$</i>	<i>Year ended 30 June 2004 \$</i>
Wages and salaries	102,205	122,555	299,018
	<u>102,205</u>	<u>122,555</u>	<u>299,018</u>

3. Taxation on loss from ordinary activities

	<i>Year ended 30 June 2002 \$</i>	<i>Year ended 30 June 2003 \$</i>	<i>Year ended 30 June 2004 \$</i>
Overseas tax payable	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Loss on ordinary activities before taxation	148,777	358,111	342,785
	<u>148,777</u>	<u>358,111</u>	<u>342,785</u>
Loss on ordinary activities at the standard rate of corporation tax in Guatemala (2004 – 31%, 2003 – 31%, 2002 – 31%)	(46,120)	(111,014)	(106,264)
Losses carried forward	46,120	111,014	106,264
	<u>46,120</u>	<u>111,014</u>	<u>106,264</u>
Current tax charge for year	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>

4. Intangible assets

	<i>Exploration costs \$</i>
Cost	
As at 1 July 2001	–
Additions	394,611
	<hr/>
As at 30 June 2002	394,611
Additions	741,853
	<hr/>
As at 30 June 2003	1,136,464
Additions	699,323
	<hr/>
As at 30 June 2004	1,835,787
	<hr/> <hr/>
Net book value	
As at 1 July 2001	–
	<hr/> <hr/>
As at 30 June 2002	394,611
	<hr/> <hr/>
As at 30 June 2003	1,136,464
	<hr/> <hr/>
As at 30 June 2004	1,835,787
	<hr/> <hr/>

5. Tangible assets

	<i>Vehicles</i> \$	<i>Field, plant and machinery</i> \$	<i>Office equipment, fixtures and fittings</i> \$	<i>Total</i> \$
Cost				
As at 1 July 2001	–	–	–	–
Additions	5,354	59,243	15,343	79,940
As at 30 June 2002	5,354	59,243	15,343	79,940
Additions	–	119,482	4,734	124,216
Disposals	–	–	(3,790)	(3,790)
As at 30 June 2003	5,354	178,725	16,287	200,366
Additions	–	20,000	–	20,000
As at 30 June 2004	<u>5,354</u>	<u>198,725</u>	<u>16,287</u>	<u>220,366</u>
Depreciation				
As at 1 July 2001	–	–	–	–
Provided for the year	201	3,519	874	4,594
As at 30 June 2002	201	3,519	874	4,594
Provided for the year	1,137	19,916	4,944	25,997
As at 30 June 2003	1,338	23,435	5,817	30,591
Provided for the year	1,071	25,220	4,872	31,163
As at 30 June 2004	<u>2,409</u>	<u>48,655</u>	<u>10,690</u>	<u>61,754</u>
Net book value				
As at 1 July 2001	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
As at 30 July 2002	<u>5,153</u>	<u>55,724</u>	<u>14,469</u>	<u>75,346</u>
As at 30 July 2003	<u>4,016</u>	<u>155,290</u>	<u>10,469</u>	<u>169,775</u>
As at 30 July 2004	<u>2,945</u>	<u>150,070</u>	<u>5,597</u>	<u>158,612</u>

6. Stocks

	<i>As at 30 June 2002 \$</i>	<i>As at 30 June 2003 \$</i>	<i>As at 30 June 2004 \$</i>
Raw materials and tooling	<u>11,020</u>	<u>2,532</u>	<u>2,537</u>

7. Debtors

	<i>As at 30 June 2002 \$</i>	<i>As at 30 June 2003 \$</i>	<i>As at 30 June 2004 \$</i>
Tax and social security	26,130	78,253	114,050
Other debtors	26,294	27,488	340
	<u>52,424</u>	<u>105,741</u>	<u>114,390</u>

All amounts fall due for payment within one year.

8. Creditors

Amounts falling due within one year

	As at 30 June 2002 \$	As at 30 June 2003 \$	As at 30 June 2004 \$
Trade creditors	–	13,388	11,988
Tax and social security creditor	15,630	10,854	1,967
Accruals and deferred income	22,096	25,599	65,651
	<u>37,726</u>	<u>49,841</u>	<u>79,606</u>

Amounts falling due after more than one year

Shareholder loans	<u>643,823</u>	<u>1,807,196</u>	<u>2,760,414</u>
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Shareholder loans are non interest bearing and secured on the assets of the company (see note 17).

9. Provision for liabilities and charges

	As at 30 June 2002 \$	As at 30 June 2003 \$	As at 30 June 2004 \$
Provision for plug and abandonment costs	<u>–</u>	<u>75,000</u>	<u>150,000</u>

10. Share capital

	As at 30 June 2002 \$	As at 30 June 2003 \$	As at 30 June 2004 \$
Authorised, allotted, called up and fully paid			
12,630,000 Ordinary Shares of \$1 each	<u>12,630,000</u>	<u>12,630,000</u>	<u>12,630,000</u>

11. Reserves

	Year ended 30 June 2002 \$	Year ended 30 June 2003 \$	Year ended 30 June 2004 \$
At start of year	(12,629,371)	(12,778,148)	(13,136,259)
Loss for the year	<u>(148,777)</u>	<u>(358,111)</u>	<u>(34,785)</u>
At the end of the year	<u>(12,778,148)</u>	<u>(13,136,259)</u>	<u>(13,479,044)</u>

12. Contingent liabilities

Mexpetrol must repair any damage caused to the state or to individuals and their property, including damage resulting from environmental pollution.

On 12 August 2002, Cadex Petroleo Guatemala Inc (“Cadex”) promoted a lawsuit against Mexpetrol. The claim is quantified at \$150,000.

The claim relates to a deed pursuant to which Mexpetrol sold to Petdegua Sociedad Anónima (“Petdegua”) certain machinery which was part of a drilling tower for the price of Q500,000 (“Acquisition”). According to Petdegua this machinery was never delivered. As a result Petdegua issued a claim against Mexpetrol on 2 August 2002. The purpose of the claim was to obtain judicial delivery of the machinery. A final resolution is still pending and an order of chattel of the machinery has to be executed.

Petdegua also issued another claim in the Civil Court of First Instance and Execution Court of the Municipality of Ixcan in Guatemala on 18 October 2002 requiring the fulfilment of the Acquisition contract and the seizure of the machinery naming Cadex as its depository. It is, however, stated in the minutes written by Judge Peace on 21 November 2002 that due to the lack of the machinery at the tower, it could not be transported and only auxiliary equipment could be seized.

On 12 August 2002, Cadex issued another lawsuit in the Third Civil Court of First Instance against Mexpetrol. The lawsuit is based on an agreement for the purchase of shares and other assets owned by Mexpetrol for the price of US\$8,000,000, executed on 31 May 1997 between Mexpetrol and Cadex (“Agreement”). The Mexpetrol claim was modified on 22 December 1997. It is claimed that pursuant to the Agreement it was agreed between the parties that US\$300,000 would be paid when it was determined that Cadex had the absolute rights to the Licence. Cadex had to pay the balance due when completing drilling at Las Casas 1X Well, 2X Well and Huapac before 15 November 1997. This date was modified to be within 7 days after receiving the official approval of the Government of Guatemala. Cadex claims that due to the negligence of Mexpetrol, Cadex could not fulfil its obligations resulting in the Agreement not being performed. Cadex is, therefore, demanding the return of US\$325,000 that it had paid as part consideration under the Agreement.

A legal opinion obtained from A.D. Sosa & Soto of Guatemala, the Company’s Guatemalan counsel, states that a motion to declare the claim process abandoned was presented, and if Cadex does not respond to the lawsuit it will be dismissed. A.D. Sosa & Soto have also confirmed that the worst case scenario would entitle Cadex to a judgement of US\$325,000 plus legal costs and interests.

13. Capital commitments

Under the Mexpetrol’s exploration licence it is required to drill one new well each year. The directors plan to comply with this provision.

14. Reconciliation of operating loss to net cash flow from operating activities

	<i>Year ended</i> <i>30 June</i> <i>2002</i> \$	<i>Year ended</i> <i>30 June</i> <i>2003</i> \$	<i>Year ended</i> <i>30 June</i> <i>2004</i> \$
Operating loss	(148,777)	(358,111)	(342,785)
Depreciation	4,594	25,997	31,163
(Increase)/decrease in stocks	(11,020)	8,488	(5)
Increase in debtors	(51,835)	(53,317)	(8,649)
Increase in creditors	37,726	12,115	29,765
Net cash flow from operating activities	<u>(169,312)</u>	<u>(364,828)</u>	<u>(290,511)</u>

15. Reconciliation of net cash flow to movement in net funds

	<i>As at</i> 30 June 2002 \$	<i>As at</i> 30 June 2003 \$	<i>As at</i> 30 June 2004 \$
Increase in cash in the year	–	11,266	18,384
Movement in net funds in the year	–	11,266	18,384
Net funds at the beginning of the year	–	–	11,266
Net funds at the end of the year	<u>–</u>	<u>11,266</u>	<u>29,650</u>

16. Analysis of net debt

	<i>At the start</i> <i>of the year</i> \$	<i>Cash flow</i> \$	<i>At the end</i> <i>of the year</i> \$
Year ended 30 June 2002			
Cash at bank	–	–	–
Other loans	–	(643,823)	(643,823)
	<u>–</u>	<u>(643,823)</u>	<u>(643,823)</u>
Year ended 30 June 2003			
Cash at bank	–	11,266	11,266
Other loans	(643,823)	(1,163,373)	(1,807,196)
	<u>(643,823)</u>	<u>(1,152,107)</u>	<u>(1,795,930)</u>
Year ended 30 June 2004			
Cash at bank	11,266	18,384	29,650
Other loans	(1,807,196)	(953,218)	(2,760,414)
	<u>(1,795,930)</u>	<u>(934,834)</u>	<u>(2,730,764)</u>

17. Related party transactions

Loans have been advanced to the Company by Mr L Linartz who was formerly a director of, and shareholder in, the Company. The amounts outstanding were \$2,760,414, \$1,807,196 and \$643,823 at 30 June 2003, 2002 and 2001, respectively. The loans were secured on the assets of the Company and were non interest bearing.

18. Post balance sheet events

On 30 July 2004, the Company acquired the entire issued share capital of Mexpetrol.

Yours faithfully

BDO Stoy Hayward LLP

Chartered Accountants

PART V

LICENCE SUMMARY

The following are brief details on the License:

Type of License:	Contract for Operations of Petroleum Exploitation (No. 6-93)
Date of contract:	15 October 1993
Term of the contract:	25 years
Contract area:	130,186.29 hectares in the Peten Basin
Parties to the contract:	The Ministry and Pentagon Petroleum, Inc.
Assignment of the License:	The License was assigned by Pentagon Petroleum, Inc to Mexpetrol on 18 November 1994 with the consent of the Ministry.
Purpose of the License:	<p>The objects of the Licence are:</p> <ul style="list-style-type: none">(i) to exploit in accordance with the approved programmes, within the area of the Licence, to obtain the maximum recuperation of reserves of hydrocarbons of the petroleum fields discovered by the wells Las Casas 1X and Huapac 1X, and from the wells that are to be discovered;(ii) to produce hydrocarbons at optimum rates of production, with appropriate diligence to ensure the most benefit to Guatemala in accordance with the law and the terms of the Licence;(iii) to comply with the obligations set out in the Licence including the provision of services and technical and financial resources for the exploration and exploitation of hydrocarbons in the contracted area.
Rights of Mexpetrol as the Licensee:	<p>The Licence grants to Mexpetrol, amongst other things, the following rights:</p> <ul style="list-style-type: none">(i) To exploit/explore within the contracted area.(ii) To transport within the national territory of Guatemala, individuals or articles related to the operations, subject to the local laws on disposition.(iii) To import articles, machinery, equipment, spare parts and accessories that are required for the petroleum operations.(iv) To separate, purify and compress the hydrocarbons that are produced and transported within each area of exploitation.(v) To process and/or liquefy natural gas, sulphur and/or other substances.(vi) To recover all recoverable costs attributable to the area of the Licence and receive a part of the hydrocarbons and other compatible substances in each area of exploitation, with the concept of total remuneration for the services provided by Mexpetrol.(vii) Subject to other provisions of the Licence, to use, sell, dispose of, commercialize and export in the most convenient manner, the hydrocarbons and other substances that are discovered in the contracted areas.

	<ul style="list-style-type: none"> (viii) To return some parts of the Licence areas after obligations thereunder have been complied with. (ix) To return any foreign capital invested, as well as the external costs of operations, utilities, loans made and interest charged to Mexpetrol subject to the terms of the Licence and in accordance with the regulations on determined rates of exchange. (x) To assign, in part or whole, the rights under the Licence provided the assignee assumes all the obligations relating to such rights.
Guaranties and fines for failure to comply:	The Licence sets out a range of maximum applicable fines that could be imposed in the case of non compliance by Mexpetrol of its obligations under the Licence including work programmes for exploration. The fines are subject to annual reviews. These amounts will be payable either in U.S. dollars or Quetzales.
Bonds:	Bonds in favour of the Ministry must be presented according to the approved work programme for each year and are established by the Ministry according to the work commitments of the programme.
Taxes:	<p>Mexpetrol is required to pay all the taxes, charges and administrative rates that are payable under the laws of Guatemala. These include:</p> <ul style="list-style-type: none"> (i) IVA (Aggregated Value Tax) and Income taxes on the normal operations of Mexpetrol. Income tax is levied at the rate of 31%. (ii) An annual charge of US\$0.50 per complete hectare of the area of the Licence that is in the phase of evaluation. (iii) An annual charge of US\$5.00 per complete hectare of the area of the Licence that is in the phase of exploitation.
Corporation fees:	Mexpetrol has to pay each year to the Mercantile Registry corporation fees for the authorization of Mexpetrol to operate in Guatemala.
Royalty:	<p>Mexpetrol has to pay to Guatemala, with priority to the recuperation of any cost, the following as royalties on the production of hydrocarbons:</p> <ul style="list-style-type: none"> (i) A royalty of twenty per cent. (20%) of the net production of crude petroleum with gravity of thirty degrees (30°) API. This percentage is increased or decreased by one per cent. (1%) for each API degree more or less up to thirty degrees (30°) API provided that the royalty payable in any event shall not be less than five per cent. (5%) of the net production of crude petroleum. (ii) If there is production of crude petroleum from any discovery not declared as commercial, Mexpetrol has to pay a special royalty of thirty five per cent. (35%) of the net production of crude petroleum. This rate of royalty applies only until the effective date of selection of the discovery after which the rate stated in (i) above will apply. (iii) Mexpetrol has to pay a royalty of five per cent. (5%) of the net production of natural commercial gas and condensates.

- (iv) Mexpetrol has to pay a royalty of five per cent. (5%) of the net production of sulphur and/or other substances.

Recoverable Costs:

Any investment for evaluation, development or expenses for operations attributable to the contracted area are recoverable costs unless specifically considered as non recoverable under the terms of the Licence and/or the Hydrocarbons Law and its General Regulations.

Mexpetrol has preferences with priority to volumes of net production of hydrocarbons that relate to recoverable costs, with the exception of the royalty that is payable on such production. Mexpetrol can dispose of, use, sell, commercialize and export any part of the net production relating to recoverable costs.

Non-recoverable costs:

The following costs are not recoverable under the Licence:

- (i) Those incurred either before the grant, or after the termination, of the Licence.
- (ii) The acquisition, purchase or leasing of materials, goods, equipment and services rendered outside Guatemala when they can be satisfactorily produced or acquired or rendered within Guatemala.
- (iii) Professional fees, earnings, salaries and wages and other labour benefits paid to foreigners for functions that could have been satisfactorily performed by native Guatemalans.
- (iv) Payments effected without any receipts or book keeping in accordance with the law.
- (v) All financial costs and any liens which Mexpetrol has incurred in the financing of the operations under the Licence, as well as interest and any other payments relating to the financing of the operations under the Licence.
- (vi) Dividends, royalties and any other type of participation.
- (vii) Administration and management of the main office of Mexpetrol.
- (viii) Royalties, fines, income tax and other payments made to Guatemala.
- (ix) Indemnification for damages and/or prejudices caused to and/or any third parties by Mexpetrol, its agents and sub-contractors associated with the operation relating to the Licence.
- (x) Investment and costs incurred for superfluous or excessive ease or that which is not reasonably necessary for the petroleum operations relating to the Licence.
- (xi) Transportation from the point of measurement or, when applicable, joint measurement.
- (xii) Those assumed or incurred by Mexpetrol in the commercialization of the hydrocarbons outside Guatemala.
- (xiii) Commission or expenditure concerning payments made by Mexpetrol and its contractors and sub-contractors for petroleum services.
- (xiv) Losses of goods and/or hydrocarbons, for whatever reason, with the exception of sabotage, that are paid for or reinstated

by Mexpetrol as a consequence of not having the appropriate insurance cover.

- (xv) Donations, except for those made with the approval of the Government of Guatemala.
- (xvi) Personnel costs of Mexpetrol, including but not limited to, income tax, revenue stamp tax, domestic services of vigilance, expenses of market, rates, contributions to municipalities, electric energy, tuition and expenses of schools for children, rental of family vehicles, payment of enrolment and membership fees for clubs, bars, language classes, deposits for rental of homes and travel expenses.
- (xvii) Insurance premiums for officials and the remainder of the workers when the beneficiary is Mexpetrol.

State participation in the production: Guatemala has the right to participate in the production of hydrocarbons after the deduction of the volume of production relating to royalties and recoverable costs ("shared hydrocarbons").

Guatemala's right of participation in shared hydrocarbons is in accordance with the following scale for crude petroleum and condensates:

- (i) Forty per cent. (40%) of net production per day up to and including fifteen thousand (15,000) bbl of production per day.
- (ii) Forty five per cent. (45%) of net production per day exceeding fifteen thousand (15,000) bbl of production per day but up to and including twenty five thousand (25,000) bbl of production per day.
- (iii) Fifty per cent. (50%) of net production per day exceeding twenty five thousand (25,000) bbl of production per day but up to and including thirty five thousand (35,000) bbl of production per day.
- (iv) Fifty five per cent. (55%) of net production per day exceeding thirty five thousand (35,000) bbl of production per day but up to and including forty five thousand (45,000) bbl of production per day.
- (v) Sixty per cent. (60%) of net production per day exceeding forty five thousand (45,000) bbl of production per day but up to and including fifty five thousand (55,000) bbl of production per day.
- (vi) Sixty five per cent. (65%) of net production per day exceeding fifty five thousand (55,000) bbl of production per day but up to and including sixty five thousand (65,000) bbl of production per day.
- (vii) Seventy per cent. (70%) of net production per day exceeding sixty five thousand (65,000) bbl of production per day but up to and including seventy five thousand (75,000) bbl of production per day.
- (viii) Seventy five per cent. (75%) of net production per day exceeding seventy five thousand (75,000) bbl of production per day.

Guatemala's right of participation in shared production of natural commercial gas and/or other substances is thirty five per cent. (35%).

Guatemala may choose to receive in cash any royalties and/or state participation in the shared hydrocarbons in which case Mexpetrol will have to arrange, sell, use commercialize and export the said share of Guatemala in the hydrocarbons.

Training of Guatemalan personnel:

Mexpetrol is obliged to contribute the following amounts toward the training of Guatemalan personnel in accordance with the laws of Guatemala:

- (i) During the period of evaluation US\$25,000 for each year of the Licence.
- (ii) From the date of the establishment of the first commercial field, instead of the contribution payable in (i) above, in accordance with the following scale:
 - (a) US\$37,000 per calendar year when the net production of crude petroleum from the area of the Licence in the previous calendar year is less than one hundred and fifty thousand (150,000) bbls.
 - (b) US\$75,000 per calendar year when the net production of crude petroleum from the area of the Licence in the previous calendar year is one hundred and fifty thousand (150,000) bbls or more but less than three hundred thousand (300,000) bbls.
 - (c) US\$125,000,000 per calendar year when the net production of crude petroleum from the area of the Licence in the previous calendar year is three hundred thousand (300,000) bbls or more but less than five hundred thousand (500,000) bbls.
 - (d) US\$180,000 per calendar year when the net production of crude petroleum from the area of the Licence in the previous calendar year is five hundred thousand (500,000) bbls or more but less than seven hundred and fifty thousand (750,000) bbls.
 - (e) US\$240,000 per calendar year when the net production of crude petroleum from the area of the Licence in the previous calendar year is seven hundred and fifty thousand (750,000) bbls or more but less than one million (1,000,000) bbls.
 - (f) US\$480,000 per calendar year when the net production of crude petroleum from the area of the Licence in the previous calendar year is three million (3,000,000) bbls or more.

Termination:

In addition to the grounds specified in the Laws of Hydrocarbons, its General Regulations and any applicable laws of Guatemala, the Licence will terminate on certain automatic and non-automatic grounds specified in the Licence.

The Licence states that automatic grounds for termination are:

- (i) The contractor's (Mexpetrol or its predecessors) failure to achieve any commercial discovery before the sixth year of

Licence term has lapsed, with the exception of agreement under clause 6.4 of the Licence.

- (ii) The term of the Licence expires.

The Licence states that non-automatic grounds for termination are:

- (i) The contractor (Mexpetrol) or its parent company (Taghmen) becomes financially or technically incapable during development of operations.
- (ii) A court issues a bankruptcy order on the contractor or its parent company, or if they go into receivership in or out of Guatemala.
- (iii) A contractor or assignees assign the Licence, in whole or part, without complying with the relevant laws of Guatemala and the terms of the Licence.
- (iv) The contractor submits false or intentionally incomplete information, and when contractor repeatedly and manifestly obstructs the Ministry's efforts.
- (v) The contractor repeatedly and seriously breaches obligations under the Licence. A serious breach of an obligations is deemed to have occurred when the failure results in considerable damage to the State of Guatemala, whether financial, environmental or otherwise in the opinion the Ministry.
- (vi) A contractor repeatedly defaults in paying royalties or the government's share of production of hydrocarbons and other substances.
- (vii) A contractor disposes of assets whose costs it has partially or fully recovered under the Licence without authorization from the Ministry.
- (viii) A contractor fails to renew the compliance bond issued to the State of Guatemala under the terms of the Licence.
- (ix) When commercial production of all operating areas under the Licence has ended.
- (x) When development and/or commercial production operations cease for a period of more than 90 consecutive days except due to duly substantiated case of force majeure or act of God.

Other key terms:

- (i) Mexpetrol, if required by the Ministry, is obliged to sell to Guatemala at the market price determined from time to time by the Law of General Regulation of Guatemala.
- (ii) Guatemala will be the proprietor of any hydrocarbons discovered, as well as the information, data, reports and samples resulting from the original petroleum operations in execution of the Licence.
- (iii) Any machinery, equipment, installations and other movable or fixed property acquired by Mexpetrol relating to the area of the Licence will, upon termination of the Licence for whatever reason, become the property of Guatemala.

- (iv) When costs of goods have been partially or wholly recovered as a recoverable cost, Mexpetrol will be prohibited from transferring, mortgaging or exporting the said goods except with the prior written consent of Guatemala.
- (v) Guatemala will have a preferential right to acquire any goods relating to the operations of the Licence for the value indicated in the accounting books that Mexpetrol wishes to sell.
- (vi) For the purposes of exchanges under the Licence, national money will have the official value of the exchange rate established by Guatemala.
- (vii) Mexpetrol may remit to any country outside Guatemala the amounts equivalent to the unexported volumes of hydrocarbons, which relate to recoverable costs and/or its entitlement to the shared hydrocarbons.
- (viii) Mexpetrol has to invest in Guatemala the foreign currency that corresponds to the State of Guatemala's entitlement of the produced hydrocarbons.
- (ix) During the development of the operations of evaluation and exploitation under the Licence Mexpetrol is obliged to fulfil all measures for security in accordance with the norms of the international petroleum industry that are necessary to protect individuals and goods.
- (x) During the development of the operations of evaluation and exploitation under the Licence Mexpetrol is obliged to prevent contamination in compliance with the applicable laws of Guatemala, and when contamination cannot be avoided to eliminate the contamination as technically feasible and compensate the State of Guatemala and any third parties affected.
- (xi) Mexpetrol is obliged to maintain in good condition the highways or roadways of the areas of petroleum operations of the Licence.
- (xii) Mexpetrol is obliged to provide medical assistance to the workers that is necessary and reasonable.
- (xiii) Mexpetrol is obliged to indemnify, in accordance with the laws of Guatemala, Guatemala, the proprietors of the land covered by the Licence and any individual to whom there is damage or prejudice caused by or arising out of the operations and works under the Licence whether caused by Mexpetrol, its contractors, its sub-contracts or those rendering services to it.

Exemption:

Mexpetrol is exempt from import duties on all the equipment and goods to be utilized in the operations of Mexpetrol in the area covered by the Licence.

The government of Guatemala also sets the oil price, based on prevailing market prices, for the purposes of the various tax calculations.

PART VI

ADDITIONAL INFORMATION

1. Responsibility

- 1.1 The Directors, whose names and addresses appear on page 3 of this document, 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.

2. The Company

- 2.1 The Company was incorporated and registered in England and Wales as a private limited liability company on 7 July 2004 under the Act with registered number 05173588. The liability of the members of the Company is limited.
- 2.2 The Company was re-registered as a public limited company on 13 January 2005.
- 2.3 The principal legislation under which the Company operates is the Act and any regulations made thereunder.
- 2.4 The registered office of the Company in the United Kingdom is currently at Fourth Floor, Imperial House, 15-19 Kingsway, London WC2B 6UN.
- 2.5 The principal place of business of the Company in the United Kingdom is currently at 2nd Floor, 27 Berkeley Square, London W1J 6EL.
- 2.6 The principal activity of the Company is that of the holding company of the Group. The Company presently carries on its material business operations through its wholly owned subsidiary Mexpetrol.
- 2.7 Mexpetrol was incorporated in the Bahamas, on 12 October 1993 with registered number 1700688B under laws of the Commonwealth of the Bahamas pursuant to the International Business Companies Act 1989 (no 2 of 1990) as a private company.
- 2.8 The registered office of Mexpetrol is at Falcon Trust Company Limited, Oakbridge House, West Hill Street, Nassau, Bahamas.
- 2.9 Mexpetrol's authorised share capital on incorporation was 5,000 shares with a par value of US\$1 per share. On 15 October 1993, the authorised share capital was increased to 12,630,000 shares with a par value of US\$1 per share. The Company is the sole shareholder of Mexpetrol holding 12,630,000 shares.

3. Share Capital

- 3.1 On the date of this document and immediately following Admission, the authorised and issued share capital of the Company was and will be as follows:

Share Capital	Authorised		Issued (assuming no exercise of any Warrants or Options or conversion of Loan Notes)		Issued (assuming full exercise of all Warrants, Options and conversion of Loan Notes)	
	Amount	Number	Amount	Number	Amount	Number
Ordinary	US\$15,000,000	150,000,000	US\$4,992,312	49,923,120	US\$8,666,097	86,660,971
Deferred	£55,000	50,000,000	£52,550.43	47,773,120	£52,550.43	47,773,120

- 3.2 The Company was incorporated as a private limited company with an authorised share capital of US\$5,000,000 divided into 50,000,000 Ordinary Shares with one subscriber share in issue.
- 3.3 Pursuant to an assignment of the right to acquire the entire issued share capital of Mexpetrol dated 18 July 2004 made between 2039026 Ontario Inc, the Company and TVL, the Company issued 9,000,000 Ordinary Shares, credited as fully paid, as consideration to TVL and its nominee as follows:

Legal Shareholder	Ultimate Beneficial Shareholder	No. of Ordinary Shares
TVL	Gregory Smith	5,000,000
Euro Americas Securities Limited	Gregory Smith	4,000,000
Total		9,000,000

Further details of the assignment are set out in paragraph 11.19 of this Part VI of this document.

- 3.4 In consideration of services rendered to, and procurement of interim finance for the Company by Gregory Smith, the Company issued to Gregory Smith 1,000,000 Ordinary Shares and, at the direction of Gregory Smith, 5,000,000 Warrants to TVL entitling the holder to subscribe for Ordinary Shares at the exercise price of US\$0.65 per share at anytime until 30 July 2006.
- 3.5 On 6 August 2004, the Company completed a private placement and placed 12,411,116 units comprising of one Ordinary Share and one Warrant at a price of US\$0.65 per unit raising an aggregate of US\$8,067,225.40 gross. The Company also granted 248,222 Warrants to Williams de Broë plc in lieu of commissions.
- 3.6 By a special resolution passed on 25 October 2004, the Company increased its share capital from US\$5,000,000 to US\$10,000,000 by creating 50,000,000 new Ordinary Shares ranking *pari passu* in all respects with the then existing Ordinary Shares.
- 3.7 On 25 October 2004, the Company completed a private placement and placed 15,162,003 units comprising of one Ordinary Share and one Warrant at a price of US\$0.65 per unit raising an aggregate of US\$9,855,301.90 gross.
- 3.8 On 25 October 2004, the Company completed a private placement and placed a further 4,000,000 Ordinary Shares at a price of US\$1.00 per Ordinary Share raising an aggregate of US\$4,000,000 gross.
- 3.9 On 17 November 2004, pursuant to the terms of the employment agreements details of which are set out in paragraph 9 of Part VI of this document, the Company issued the following Ordinary Shares and Warrants:

<i>Legal Shareholder</i>	<i>Ultimate Beneficial Shareholder</i>	<i>No. of Ordinary Shares</i>	<i>No. of Warrants</i>
Gregory Smith	Gregory Smith	1,000,000	250,000
Nicholas Gay	Nicholas Gay	750,000	250,000
John Scott	John Scott	750,000	250,000
Michael Realini	Michael Realini	250,000	–
Total		2,750,000	750,000

- 3.10 On 17 November 2004, pursuant to the terms of the TVL Agreement, details of which are set out in paragraph 11.1 of Part VI of this document, the Company issued the following Ordinary Shares and Warrants to TVL:

<i>Legal Shareholder</i>	<i>Ultimate Beneficial Shareholder</i>	<i>No. of Ordinary Shares</i>	<i>No. of Warrants</i>
TVL	Gregory Smith	750,000	250,000
Total		750,000	250,000

- 3.11 On 17 November 2004, pursuant to the terms of the TVL Agreement, details of which are set out in paragraph 11.1 of Part VI of this document, as part payment of commissions and at the direction of TVL, the Company issued the following Ordinary Shares and Warrants to:

<i>Legal Shareholder</i>	<i>No. of Ordinary Shares</i>	<i>No. of Warrants</i>
Argentiére Holdings Ltd*	750,000	–
James Guiang*	250,000	–
Middlefork Investments Ltd	–	55,000
Steven Wyatt	–	58,333
Rhodes Ventures S.A.*	–	282,792
Total	1,000,000	396,125

*James Guiang, a director is the ultimate beneficiary of these shares and warrants.

- 3.12 On 17 November 2004, the Company completed a private placement and placed a further 1,950,000 Ordinary Shares at a price of US\$1.00 per Ordinary Shares raising an aggregate of US\$1,950,000 gross.
- 3.13 On 10 January 2005, the Company completed a private placement and placed a further 50,000 Ordinary Shares at a price of US\$1.00 per Ordinary Share raising an aggregate of US\$50,000 gross.
- 3.14 On 10 January 2005, the Company issued 1,850,000 Ordinary Shares at a price of US\$1.30 per Ordinary Share, credited as fully paid, as consideration to TVL for providing services to the Company following the termination of the TVL Agreement the details of which are set out in paragraph 11.1 of Part VI of this document.
- 3.15 By a special resolution passed on 12 January 2005, the Company resolved that:
- 3.15.1 the authorised capital of the Company was increased from US\$10,000,000 to US\$15,000,000 by the creation of 50,000,000 new Ordinary Shares each ranking *pari passu* in all respects with the existing Ordinary Shares of the Company, all such Ordinary Shares having the respective rights set out in the Articles;
- 3.15.2 the authorised capital of the Company was further increased by the creation of £55,000 of share capital divided into 50,000,000 Deferred Shares with no rights attaching to such Deferred Shares including no

rights to receive notices, vote at general meetings, participate in dividends and return of capital on the liquidation of the Company as set out in the Articles;

- 3.15.3 the directors were empowered to capitalise and apply the sum of £52,550.43 being part of the amount standing to the credit of the share premium account in the books of the Company in making payment in full at par for 47,773,120 Deferred Shares to be allotted and distributed as fully paid shares among the persons who are registered as holders of Ordinary Shares of the Company at the closing of the books of the Company on 10 December 2004 at the rate of 1 (one) Deferred Share for each 1 (one) Ordinary Share held by each such holder;
- 3.15.4 the Company was re-registered as a public company under the Act by the name of Taghmen Energy Plc;
- 3.15.5 the Directors were authorised pursuant to section 80 of the Act to allot relevant securities of the Company up to an aggregate nominal amount of the authorised but unissued share capital of the Company from time to time, such authority expiring the earlier of 15 months from the date of the passing of this resolution, or the date of the next annual general meeting of the Company;
- 3.15.6 the Directors were empowered pursuant to section 95 of the Act to allot equity securities in the Company for cash as if section 89 of the Act did not apply, such power being limited to the allotment of equity securities up to the maximum nominal amount of the authorised but unissued share capital of the Company, such power expiring 5 years from the date of the resolution.
- 3.16 It is the Directors intention to renew both the Section 80 and Section 95 authorities at the next annual general meeting of the Company.
- 3.17 The Deferred Shares shall not:
- 3.17.1 confer on the holders thereof any right to participate in the profits or income of the Company;
- 3.17.2 confer on the holders thereof the right to capital on a winding up or a reduction of capital involving a return of capital; or
- 3.17.3 entitle the holders thereof to receive notice of and to attend or to vote at any general meeting of the Company; and
- 3.17.4 be admitted to trading on any recognised investment exchange.
- 3.18 The issued Ordinary Shares are all credited as fully paid and rank *pari passu* in all respects.
- 3.19 Except as disclosed in this document:
- 3.19.1 there has been no change in the share capital of the Company and no capital of the Company has been allotted for cash or for a consideration other than cash;
- 3.19.2 except for rights under section 89 of the Act, no person has any preferential subscription rights for any shares of the Company which are issued;
- 3.19.3 no share capital of the Company is currently under option or has been agreed, conditionally or unconditionally, to be put under option;
- 3.19.4 since incorporation no commissions (other than those detailed in paragraphs 10 and 11.18 of Part VI of this document), discounts, brokerages or other special terms have been granted by the Company, or are now proposed in connection with the issue or sale of any share or loan capital of the Company;
- 3.19.5 the Company does not have in issue any securities not representing share capital and save for the Warrants there are no outstanding convertible securities issued by the Company; and
- 3.19.6 there is no present intention to issue any of the authorised but unissued share capital of the Company.

4. Warrants

- 4.1 On the date of this document, the following Warrants are issued and outstanding:

<i>Instruments</i>	<i>Number of Warrants</i>	<i>Exercise Price</i>	<i>Expiry Date</i>
Warrants	5,000,000	US\$0.65	30 July 2006
Warrants	29,217,466	US\$0.90	30 July 2006
Total Warrants	34,217,466		

- 4.2 The Warrants have been issued, *inter alia*, on the following terms:

- 4.2.1 Each Warrant entitles the holder to purchase one Ordinary Share at a price of either US\$0.65 or US\$0.90 per share on or before 30 July 2006, after which time the Warrants will be void and of no value.
- 4.2.2 Each Warrant is governed by the provisions of warrant instruments representing the Warrants which have been adopted by the Company. The rights conferred by the Warrants are transferable in whole or in part subject to and in accordance with the transfer provisions set out in the Articles.
- 4.2.3 In order to exercise the right conveyed by the Warrants, holders of Warrants must complete and lodge a form notice of exercise as prescribed by the warrant instrument at the registered office of the Company together with payment to the Company equal to the price per share applicable to the warrant instrument multiplied by the number of Warrants being exercised.
- 4.2.4 The certificates representing the Warrants contain provisions designed to protect the holders of the Warrants against dilution upon the happening of certain events. If any stock dividend or distribution of Ordinary Shares or securities convertible into Ordinary Shares, any subdivision, consolidation, change or reclassification of the Ordinary Shares, amalgamation or merger of the Company with another corporation or the transfer of all or substantially all of the Company's assets occurs, a proportionate adjustment or change will be made in the number and kind of securities on the exercise of the Warrants and, if applicable, the exercise price per Ordinary Share. If the Company makes any offer or invitation or if the holders of Ordinary Shares receive an offer or invitation (whether by rights issue or otherwise) on or before 30 July 2006, the Company shall procure that the holders of Warrants receive a like offer or invitation. Holders of Warrants will be advised of any such event by written notice.
- 4.2.5 The holders of Warrants have no voting right, pre-emptive right or other right attaching to Ordinary Shares.
- 4.2.6 No fraction of an Ordinary Share will be issued on exercise of the Warrants.
- 4.2.7 In aggregate 34,217,466 Ordinary Shares would have to be issued if all the issued and outstanding Warrants were exercised by their holders by 30 July 2006.

5. The Taghmen Unapproved Share Option Plan

5.1 Background

On 12 January 2005, the Directors approved and adopted the Share Option Plan. The purpose of the Share Option Plan is to enable the Company to motivate and appropriately reward the Directors and senior employees and encourages employee share ownership in the Company. All options granted pursuant to the Share Option Plan shall be evidenced by written agreement between the Company and each participant.

5.2 Participation

Any employee or director of the Group and any consultant to the Group is eligible to participate in the Share Option Plan.

5.3 Amount of Share Options and Personal Limits

5.3.1 At any time, the aggregate number of Ordinary Shares which have been issued under options granted under the Share Option Plan and any options granted under any other employer share scheme which the Company may establish in the year and the preceding 9 years and the number of Ordinary Shares issuable under such outstanding options or awards may not exceed that number of Ordinary Shares which is equal to 10 per cent. of the Company's issued Ordinary Share capital at that time.

5.3.2 Of the 10 per cent. of the Company's issued Ordinary Share Capital referred to in 5.3.1 above, at any time, the aggregate number of Ordinary Shares which have been issued under options granted under the any other discretionary share option or incentive plan which the Company may establish in the year and the preceding 9 years and the number of Ordinary Shares issuable under such outstanding options or awards may not exceed that number of Ordinary Shares which is equal to 5 per cent. of the Company's issued Ordinary Share capital at that time.

5.4 Exercise Price

The exercise price will not be less than the market price of an Ordinary Share at the date of grant.

5.5 Option Period

Options shall become exercisable:

5.5.1 One third of the Ordinary Shares comprised in the Option, on the grant of an Option;

5.5.2 One third of the Ordinary Shares comprised in the Option, on the first anniversary of the date of grant; and

5.5.3 The final one third of the Ordinary Shares comprised in the Option, on the second anniversary of the date of grant.

5.6 *Leavers*

Early exercise of an option will be permitted by:

5.6.1 the optionholders personal representatives in the event of the optionholders death, within a period of 12 months from the date of the optionholders death;

5.6.2 the optionholder if he ceases his connection with the Group as a result of injury, ill-health, or disability, within a period of 6 months from the date the optionholder ceases his connection with the Group; and

5.6.3 subject to the Company's prior consent, the optionholder if he ceases his connection with the Group in all other circumstances within a period specified by the Company and in any event within 3 months from the date the optionholder ceases his connection with the Group.

5.7 *Variation of Capital*

In the event of a rights or capitalisation issue or any sub-division, consolidation, reduction or other variation of the Company's share capital, the exercise price of an option and the number of option shares may be adjusted in such manner as the Directors determine fair and reasonable.

5.8 *Assignability and Transferability*

All options are non-transferable and non-assignable.

5.9 *Amendments*

The Share Option Plan may be amend by the Board, although amendments to the material detriment of an optionholder would require his prior written consent.

5.10 On 12 January 2005, the Board granted a total of 1,755,000 Options with an exercise price of US\$1.30 per Ordinary Share. Of these 1,755,000 Options the following Options were granted to the Directors:

<i>Date of Grant</i>	<i>Optionholder</i>	<i>Number of Ordinary Shares subject to Option</i>	<i>Exercise Price (US\$)</i>
12 January 2005	John Scott	250,000	1:30
12 January 2005	Nicholas Gay	300,000	1:30
12 January 2005	Gregory Smith	100,000	1:30

6. Summary of Memorandum and Articles of Association

6.1 The Memorandum of Association of the Company provides that the Company's principal object is to carry on business as a general commercial company. The main objects of the Company are set out in full in clause 4 of its Memorandum of Association. The liability of Shareholders is limited.

6.2 The Articles of Association of the Company adopted on 12 January 2005 contain, *inter alia*, provisions as summarised below.

6.3 *Voting Rights*

6.3.1 Subject to disenfranchisement as provided in 6.7 below and subject to any special terms as to voting on which any shares may be issued (no such shares currently being an issue) on a show of hands every member present in person (or, being a corporation, present by a duly authorised representative) shall have one vote and on a poll every member present in person or by proxy shall have one vote for every Ordinary Share of which he is the holder.

6.3.2 Unless the Directors otherwise decide, a member of the Company shall not be entitled, in respect of any Ordinary Share held by him, to vote, either personally or by proxy, at any general meeting of the Company unless all calls and other amounts payable by him in respect of that Ordinary Share have been paid.

6.3.3 The Deferred Shares do not carry any voting rights other than at a meeting of that class.

6.4 *Transfer of Shares*

- 6.4.1 The Ordinary Shares are in registered form and are capable of being held in uncertificated form.
- 6.4.2 A member may transfer all or any of his uncertificated shares by means of a relevant system, as defined in the Uncertificated Securities Regulations, which includes CREST. The Directors may refuse to register any transfer of an uncertificated share where permitted by the Uncertificated Securities Regulations 1995. If the Directors refuse to register a transfer of an uncertificated share they shall, within two months of the date on which the transfer instruction relating to such a transfer was received by the Company, send to the transferee notice of refusal.
- 6.4.3 All transfers of certificated shares must be effected by a transfer in writing in any usual form or any other form approved by the Directors. The instrument of transfer shall be executed by or on behalf of the transferor and, in the case of a partly paid share, by or on behalf of the transferee. The Directors may refuse to register any transfer of a partly paid share held in certificated form and may also refuse to register any transfer of a certificated share unless the instrument of transfer is:
- (a) duly stamped (if so required), is lodged with the Company's registrars or at such other place as the Directors may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
 - (b) in respect of only one class of shares; and
 - (c) in favour of not more than four transferees.

6.5 *Dividends*

- 6.5.1 The Company may by ordinary resolution declare a dividend in accordance with the respective rights of the members, provided that no dividend shall be payable in excess of the amount recommended by the Directors. The Directors may pay such interim dividends as appear to them to be justified. No dividend or other moneys payable in respect of an Ordinary Share shall earn interest as against the Company.
- 6.5.2 There are no fixed dates on which entitlement to dividends arises.
- 6.5.3 All dividends unclaimed for a period of twelve years after becoming due for payment shall be forfeited and shall revert to the Company.
- 6.5.4 The Deferred Shares do not have rights to receive dividends.

6.6 *Disclosure of interests in Ordinary Shares*

- 6.6.1 If any member or other person appearing to be interested in Ordinary Shares is in default in supplying within 14 days after the date of service of a notice requiring such member or other person to supply to the Company in writing all or any such information as is referred to in section 212 of the Act, the Directors may, for such period as the default shall continue, impose sanctions upon the relevant Ordinary Shares.
- 6.6.2 The sanctions available to the Directors are the suspension of voting or other rights conferred by membership in relation to general meetings of the Company in respect of the relevant Ordinary Shares and, additionally, in the case of a shareholding representing at least 0.25 per cent. by nominal value of any class of shares of the Company then in issue, the withholding of payment of any dividends on, and the restriction of transfers of, the relevant Ordinary Shares.

6.7 *Distribution of assets on liquidation*

- 6.7.1 On winding-up any surplus assets will be divided amongst the holders of the Ordinary Shares according to the respective numbers of Ordinary Shares held by them and in accordance with the provisions of the Act, subject to the rights of any shares which may be issued with special rights or privileges (no such shares presently being in issue, and the Deferred Shares have no rights). The Articles provide that the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by the Act, divide amongst the members in specie the whole or any part of the assets of the Company in such manner as he may determine.

6.8 *Changes in share capital*

- 6.8.1 Without prejudice to any rights attached to any existing Ordinary Shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine, or in the absence of such determination as the Directors may determine. Subject to the Act, the Company may issue shares which are, or at the option of the Company or the holder are liable, to be redeemed.

- 6.8.2 The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, subdivide its shares or any of them into shares of smaller amount or cancel or reduce the nominal value of any shares which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amounts so cancelled or the amount of the reduction.
- 6.8.3 Subject to the Act, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account, and may also, subject to the Act, purchase its own shares.

6.9 *Variation of Rights*

- 6.9.1 Whenever the capital of the Company is divided into different classes of shares, the rights attached to any class may (unless otherwise provided by the terms of issue of that class) be varied or abrogated either with the consent in writing of the holders of three-fourths of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of such shareholders.

6.10 *Director's interests*

- 6.10.1 A Director who is in any way, directly or indirectly, interested in a transaction or arrangement with the Company shall, at a meeting of the Directors, declare in accordance with section 317 of the Act the nature of his interest.
- 6.10.2 Provided that he has declared his interest in accordance with paragraph 6.10.1, a Director may be a party to or otherwise interested in any transaction or arrangement with the Company or in which the Company is otherwise interested and may be a director or other officer or otherwise interested in any body corporate promoted by the Company or in which the Company is otherwise interested. No director so interested shall be accountable to the Company, by reason of his being a Director, for any benefit which he derives from such office or interest or any such transaction or arrangement.
- 6.10.3 Any Director may act by himself or his firm in a professional capacity for the Company (otherwise than as an auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.
- 6.10.4 A Director shall not vote at a meeting of the Directors in respect of a matter in which he has any material interest otherwise than by virtue of his interest in shares, debentures or other securities of, or otherwise in or through, the Company unless his interest arises only because the case falls within one or more of the following paragraphs:
- (a) the giving to him of any guarantee, security or indemnity in respect of money lent or an obligation incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;
 - (b) the giving to a third party of any guarantee, security or indemnity in respect of any obligation of the Company or any of its subsidiary undertakings for which he has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (c) the subscription by him for shares, debentures or other securities of the Company or any of its subsidiary undertakings or by virtue of his participation in the underwriting or sub-underwriting of an offer of such shares, debentures or other securities for subscription, purchase or exchange;
 - (d) any proposal concerning any other company in which he is interested, directly or indirectly, whether as an officer or shareholder or otherwise, provided that the shares in which he is interested do not represent one per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of the relevant company;
 - (e) any proposal relating to an arrangement in whole or in part for the benefit of the employees of the Company which does not award to him as such any privilege or advantage not awarded to the employees to whom such arrangement relates; and
 - (f) any proposal concerning the purchase or maintenance of insurance against any liability which would otherwise attach to all or any of the Directors.
- 6.10.5 Where proposals are under consideration concerning the appointment of two or more Directors to offices or employments with the Company or any company in which the Company is interested the proposals may be divided and considered in relation to each Director separately and (if not otherwise precluded from voting) each of the Directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

6.10.6 The Company may by ordinary resolution suspend or relax these provisions to any extent or ratify any transaction not duly authorised by reason of a contravention of these provisions.

6.11 *Remuneration of Directors*

6.11.1 The ordinary remuneration of the Directors shall be such amount as the Directors shall from time to time determine to be divided among them in such proportion and manner as the Directors may determine. The Directors shall also be paid by the Company all travelling, hotel and other expenses as they may incur in attending meetings of the Directors or general meetings or otherwise in connection with the discharge of their duties.

6.11.2 Any Director who, by request of the Directors, performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration as the Directors may determine.

6.11.3 The emoluments and benefits of any Executive Director for his services as such shall be determined by the Directors and may be of any description, including membership of any pension or life assurance scheme for employees or their dependants, apart from membership of any such scheme, the payment of a pension or other benefits to him or his dependants on or after retirement or death.

6.12 *Retirement of Director*

6.12.1 A Director shall be capable of being appointed or reappointed a Director despite having attained the age of 70 or any other age and shall not be required to retire by reason of his having attained any particular age and section 293 of the Act (relating to the appointment and retirement as Directors of persons who are aged 70 or over) shall not apply.

6.13 *Borrowing Powers*

6.13.1 The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital.

6.13.2 The Directors shall restrict the borrowings of the Company and by the exercise of the Company's voting and other rights or powers of control over its subsidiary undertakings secure that they restrict their borrowings so that the aggregate amount at any time outstanding in respect of money borrowed by the Company (excluding intra-Company borrowings) shall not without the previous sanction of an ordinary resolution of the Company exceed a sum equal to the greater of two times the adjusted share capital and reserves.

7. **Directors' and other interests**

7.1 The interests of the Directors and the persons connected (within the meaning of Section 346 of the Act) with them (all of which are beneficial save where otherwise stated) in the issued share capital of the Company as at 12 January 2005 (being the latest practicable date prior to the publication of this document):

7.1.1 which have been notified by each Director to the Company pursuant to section 324 of the Act; and/or

7.1.2 which are required to be shown in the register maintained under section 325 of the Act; and/or

7.1.3 which are interests of a connected person (within the meaning of section 346 of the Act) of a Director which would, if the connected person were a director, be required to be disclosed under paragraphs 7.1.1 and 7.1.2 above and the existence of which is known to or could with reasonable diligence be ascertained by that Director;

are expected to be immediately following Admission, together with the percentages which such interest represent of Ordinary Shares in issue, as follows:

	<i>Number of Ordinary Shares</i>	<i>Percentage of of issued ordinary share capital</i>	<i>Number of Warrants</i>	<i>Number of Options</i>	<i>Number of Ordinary Shares following Admission*</i>	<i>Percentage of the issued ordinary share capital following Admission*</i>
Gregory Smith ¹	13,600,001	27.24%	5,500,000	100,000	19,865,386	23.04%
Nicholas Gay	750,000	1.50%	250,000	300,000	1,000,000	1.50%
John Scott	750,000	1.50%	250,000	250,000	1,000,000	1.44%
James Guiang ²	1,000,000	2.0%	396,125	–	1,396,125	1.16%
Joseph Strubel ³	7,153,848	14.33%	6,153,848	–	13,307,696	15.36%

* Assuming all of the Warrants and Options in issue have been exercised, and all of the Loan Notes have been converted.

- ¹ Of the 13,600,001 Ordinary Shares and 5,500,000 Warrants in which Mr Smith is interested, 7,600,000 Ordinary Shares are registered in the name of TVL, 5,250,000 Warrants have been issued to TVL and TVL holds Loan Notes convertible into 765,385 Ordinary Shares.
- ² Of the 1,000,000 Ordinary Shares and 396,125 Warrants in which Mr Guiang is interested, 750,000 Ordinary Shares are registered in the name of Argentiere Holdings Ltd, 282,792 Warrants have been issued to Rhodes Ventures S.A., 55,000 Warrants have been issued to Middlefork Investments Limited and 58,333 Warrants have been issued to Steven Wyatt.
- ³ The Ordinary Shares and Warrants are held by Millennium Global High Yield Fund Limited of which Joseph Strubel is the portfolio manager.

7.2 Save as set out in this document, none of the Directors (nor any person connected with them within the meaning of section 346 of the Act) has or will immediately following Admission have any interest, whether beneficial or non-beneficial in the share capital of the Company.

7.3 Save as may have been disclosed in this document, no options over Ordinary Shares have been granted.

7.4 As at 12 January 2005 (being the last practicable date period to the publication of this document), insofar as it is known to the Directors, the following persons will immediately following Admission be interested in 3 per cent. or more of the Company's issued share capital:

	<i>Number of Ordinary Shares</i>	<i>Percentage of of issued ordinary share capital</i>	<i>Number of Ordinary Shares following Admission*</i>	<i>Percentage of the issued ordinary share capital following Admission*</i>
Gregory Smith ¹	13,600,001	27.24%	19,865,386	23.04%
Millennium Global High Yield Fund Limited ²	7,153,848	14.33%	13,307,696	15.36%
Chasm Lake Management Services LLC	5,615,385	11.25%	10,230,770	11.81%
RAB Energy Fund Ltd	4,480,770	8.98%	8,711,540	10.05%
RAB Special Situations LP	3,713,077	7.44%	7,176,154	8.28%
Moore Capital Management	2,538,462	5.08%	4,076,924	4.70%
Meridian Natural Resources High Yield Fund	2,423,078	4.85%	4,346,156	5.02%
Fidelity Investment Services Limited	2,279,573	4.57%	4,559,146	5.26%
Metage Funds Limited	1,897,470	3.80%	3,128,240	3.61%

* Assuming all of the Warrants and Options in issue have been exercised, and all of the Loan Notes have been converted.

¹ Of the 13,600,001 Ordinary Shares and 5,500,000 Warrants in which Mr Smith is interested, 7,600,000 Ordinary Shares are registered in the name of TVL, 5,250,000 Warrants have been issued to TVL and TVL holds Loan Notes convertible into 765,385 Ordinary Shares.

² The Ordinary Shares and Warrants are held by Millennium Global High Yield Fund Limited of which Joseph Strubel is the portfolio manager.

7.5 Save as set out in paragraph 7.4, the Directors are not aware of any person who will immediately following Admission, be interested (within the meaning of the Act) directly or indirectly in 3 per cent. or more of the issued share capital of the Company or of any persons who directly or indirectly, jointly or severally, will exercise or could exercise control over the Company.

7.6 Save as disclosed in paragraphs 10 and 11, no Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by any member of the Company during the current or immediately preceding financial year and which remains in any respect outstanding or unperformed.

7.7 Save as disclosed in paragraph 11, there are no loans or guarantees granted or provided by the Company to or for the benefit of any of the Directors which are now outstanding.

7.8 There is no arrangement under which any of the Directors has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

7.9 None of the Directors or persons connected with them within the meaning of section 346 of the Act has a related financial product (as defined in the AIM Rules) referenced to the Company.

8. Additional Information on the Directors

- 8.1 The Directors hold and have previously held during the 5 years immediately preceding the date of this document, the following directorships or have been partners in the following partnerships (in addition to their directorships in the Group).

<i>Name</i>	<i>Current Directorships</i>	<i>Past Directorships/Partnerships</i>
Gregory Charles Smith	None	None
Nicholas Hugo Gay	None	Oast Enterprise Limited Bitech Petroleum Corporation Bitech Medyn Limited Ascot Petroleum Consulting Services Limited Petrokazakhstan Marketing Limited Bitech Cyprus Limited
James De Vaux Brillantes Guiang	None	O-Systems Limited
John McNeil Scott	Commonwealth Gobustan Company Furama Energy Biopotential	Bitech Silver CJSC
Joseph George Strubel	None	Denholm Hall Russia Arbitrage Fund Limited

- 8.2 John Scott was adjudged bankrupt in the Alberta Provincial Court, Canada in 1986 for sums totalling no more than US\$100,000. Mr Scott was unconditionally discharged in 1987.

- 8.3 Save as disclosed above, no Director has:

8.3.1 any unspent convictions in relation to indictable offences;

8.3.2 had any bankruptcy order made against him or entered into any voluntary arrangements;

8.3.3 been a director or shadow director of any company which has been placed in receivership, compulsory liquidation, creditor's voluntary liquidation or administration or which has entered into any company voluntary arrangements or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within 12 months preceding such event;

8.3.4 been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months preceding such event;

8.3.5 owned or been a partner in a partnership which owned any asset which while he owned that asset, or while he was a partner or within 12 months after his ceasing to be a partner in the partnership which owned that asset, entered into receivership;

8.3.6 been publicly criticized by any statutory or regulatory authority (including recognized professional bodies);

8.3.7 ever been disqualified by a court from acting as a director, or acting in the management or conduct of the affairs of, a company; or

8.3.8 been a director of a company or a partner in any partnership in the 5 years immediately preceding the date of this document or is currently a director of a company or a partner in any partnership.

9. Directors' Service Agreements

- 9.1 Mr Smith entered into a service agreement with the Company on 7 July 2004. The service agreement is for a fixed period of 24 months and is terminable by Mr Smith on the giving of not less than 6 months' and by the Company on the giving of not less than twelve months' notice such notice expiring at the end of the 24th month. Mr Smith's basic annual salary is now £225,000 per annum. The service agreement provides for a holiday entitlement of 25 days (plus public holidays). Mr Smith is also entitled to the following benefits: (i) performance related bonus at the discretion of the remuneration committee; (ii) payment of medical insurance premiums; (iii) term life cover and death-in-service benefit; (iv) permanent health insurance cover; (v) pension contributions of an amount equal to 10% of his basic salary to any approved personal pension scheme; (vi) relocation and repatriation costs; and (vii) rights to 750,000 Ordinary Shares and 250,000 Warrants, which were issued on 17 November 2004. Mr Smith is eligible for participation in the Share Option Plan.

- 9.2 Mr Gay entered into a service agreement with the Company on 7 September 2004, effective 1 November 2004. The service agreement is for a fixed period of 24 months and is terminable by Mr Gay on the giving of not less

than six months' and by the Company on the giving of not less than twelve months' notice such notice expiring at the end of the 24th month. Mr Gay's basic annual salary is £240,000 per annum. The service agreement provides for a holiday entitlement of 25 days (plus public holidays). Mr Gay is also entitled to the following benefits: (i) performance related bonus at the discretion of the remuneration committee; (ii) payment of medical insurance premiums; (iii) term life cover and death-in-service benefit; (iv) permanent health insurance cover; (v) pension contributions of an amount equal to 10% of his basic salary to any approved personal pension scheme; (vi) relocation and repatriation costs; and (vii) rights to 750,000 Ordinary Shares and 250,000 Warrants, which were issued on 17 November 2004. Mr Gay is eligible for participation in the Share Option Plan.

- 9.3 Mr Scott entered into a service agreement with the Company on 15 October 2004. The service agreement is for a fixed period of 24 months and is terminable by Mr Scott on the giving of not less than six months' and by the Company on the giving of twelve months' notice such notice expiring at the end of the 24th month. Mr Scott's basic annual salary is \$240,000 per annum. The service agreement provides for a holiday entitlement of 25 days (plus public holidays). Mr Scott is also entitled to the following benefits: (i) performance related bonus at the discretion of the remuneration committee; (ii) payment of medical insurance premiums; (iii) term life cover and death-in-service benefit; (iv) permanent health insurance cover; (v) pension contributions of an amount equal to 10% of his basic salary to any approved personal pension scheme; (vi) relocation and repatriation costs; and (vii) rights to 750,000 Ordinary Shares and 250,000 Warrants, which were issued on 17 November 2004. Mr Scott is eligible for participation in the Share Option Plan.
- 9.4 Mr Strubel entered into a non-executive letter of appointment with the Company on 12 January 2005. His remuneration is £20,000 per annum. The initial period of the appointment is for 12 months, and the appointment is terminable by either party on the giving of six months' written notice. He is entitled to repayment of expenses on the basis prescribed in the letter of appointment.
- 9.5 Mr Guiang entered into a non-executive letter of appointment with the Company on 12 January 2005. His remuneration is £20,000 per annum. The initial period of the appointment is for 12 months, and the appointment is terminable by either party on the giving of six months' written notice. He is entitled to repayment of expenses on the basis prescribed in the letter of appointment.
- 9.6 Save as disclosed in this paragraph 9, there are no service agreements, existing or proposed, between any Director and the Company.
- 9.7 The aggregate remuneration and benefits in kind paid by the Group to the Directors in respect of the period ended 31 December 2004 was £171,984. It is estimated that under the current arrangements in force at the date of this document the aggregate remuneration and benefits in kind to be paid to the Directors for the financial year ended 31 December 2005 will be approximately £753,950 excluding discretionary bonuses.

10. Related Party Transactions

- 10.1 In addition to those transactions set out in paragraph 11 below, in connection with the funds raised pursuant to the private placements referred to in paragraphs 3.5, 3.7, 3.8 and 3.12 above, the Company has paid the following commissions and fees:
- 10.1.1 US\$1,387,500 to TVL, a company ultimately owned by Mr. Gregory Smith (fees of US\$1,534,933.10 were payable of which US\$147,433.10 were waived) pursuant to the terms of the TVL Agreement referred to in paragraph 11.1 of this document;
- 10.1.2 US\$349,541.59 to Rhodes Ventures S.A, a company with which Mr James Guiang is connected;
- 10.1.3 750,000 Ordinary Shares and 250,000 Warrants were issued to TVL pursuant to the terms of the TVL Agreement referred to in paragraph 11.1 of this document;
- 10.1.4 250,000 Ordinary Shares were issued, credited as fully paid to James Guiang;
- 10.1.5 at the direction of Mr James Guiang, 750,000 Ordinary Shares were issued to Argentiere Holdings Ltd;
- 10.1.6 at the direction of Mr James Guiang, 282,792 Warrants were issued to Rhodes Ventures S.A.;
- 10.1.7 at the direction of Mr James Guiang, 58,333 Warrants were issued to Steven Wyatt; and
- 10.1.8 at the direction of Mr James Guiang, 50,000 Warrants were issued to Middlefork Investments Limited.

11. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company or Mexpetrol in the two years prior to the date hereof and are, or may be, material:

- 11.1 A letter of agreement dated 20 September 2004 made between TVL and the Company pursuant to which the Company appointed TVL to provide it with, on an exclusive basis for a fixed period of 5 years, various services including, but not limited, to the following: (a) consultancy services relating to obtaining complementary product vertical integration, sponsorship, partnerships, technical support and new business for the Company; (b) effect new business introductions to the Company; (c) assist in raising debt finance or equity finance; and (d) assist in on going strategic planning. In consideration of TVL agreeing to provide these services, the Company has agreed to pay the following fees and commission (exclusive of VAT): (a) A monthly fee of US\$25,000 for the first three months with the first payment due on 15 September 2004 and US\$12,500 thereafter; (b) A commission of a maximum of 14% on the first US\$8,100,000 raised by the Company with the assistance of TVL and 7% thereafter less any commission payable to any third parties provided always that the minimum commission payable to TVL shall be 6% on the first US\$8,100,000 raised and 3% thereafter; (c) A commission of a maximum of 7% of net revenue per annum on new business introduced by TVL less any commission payable to any third parties provided always that the minimum commission payable to TVL shall be 3%; (d) A commission of a maximum of 7% of any assets, companies or business introduced by TVL with a view to acquisition, disposal, amalgamation or otherwise, less any commission payable to any third parties provided always that the minimum commission payable to TVL shall be 3%; (e) A consultancy fee of a maximum of 7% of the value added to the Company during 12 months following implementation of agreements from introductions of commercial, technical or financial partners, sponsors or suppliers made by TVL to the Company; and (f) The issue and grant of rights to TVL in 750,000 Ordinary Shares and 250,000 warrants to subscribe for Ordinary Shares and share options in the Company upon the terms of a share option scheme to be established by the Company. This agreement was terminated by an agreement dated 10 January 2005. In consideration for providing services to the Company following termination of the TVL Agreement, the Company has issued, credited as fully paid, 1,850,000 Ordinary Shares at US\$1.30 to Euro Americas Securities Limited at the direction of TVL on 10 January 2005.
- 11.2 Placing letters issued to investors in connection with the private placing referred to in paragraph 3.5, 3.7, 3.8 and 3.12 of Part VI of this document.
- 11.3 A deed poll dated 16 November 2004 constituting US\$150,000 10% fixed rate convertible loan notes. Under this deed the Company issued US\$150,000 of Loan Notes at par in settlement of part of the debt of US\$350,000 owed to TVL. The principle terms of the Loan Notes constituted by this deed are as follows: (a) The Company has to redeem the Loan Notes on maturity on 30 July 2006; (b) Until the Loan Notes are redeemed, the Company will pay interest on the outstanding amount at a rate of 10% per annum on the third, sixth, ninth and twelfth month after 16 November 2004 and each subsequent anniversary of these dates; (c) If interest is not paid on a timely basis the Company will pay interest at a default rate of 13% per annum; (d) The Loan Note holder may convert the whole, but not part, of the Loan Notes in issue into Ordinary Shares at the price of US\$1.00 per share; and (e) The Loan Note holder may only convert the Loan Notes into Ordinary Shares between 16 November 2004 and 30 July 2006. The Company has no right to convert the Loan Notes.
- 11.4 A deed poll dated 16 November 2004 constituting US\$200,000 10% fixed rate convertible loan notes. Under this deed the Company issued US\$200,000 of Loan Notes at par in settlement of the remainder of the debt of US\$350,000 owed to TVL. The principle terms of the Loan Notes constituted by this deed are as follows: (a) The Company has to redeem the Loan Notes on maturity on 30 July 2006; (b) Until the Loan Notes are redeemed, the Company will pay interest on the outstanding amount at a rate of 10% per annum on the third, sixth, ninth and twelfth month after 16 November 2004 and each subsequent anniversary of these dates; (c) If interest is not paid on a timely basis the Company will pay interest at a default rate of 13% per annum; (d) The Loan Note holder may convert the whole, but not part, of the Loan Notes in issue into 307,692 Ordinary Shares at the price of US\$0.65 per share and 307,692 Warrants entitling the holder to subscribe for Ordinary Shares at the price of US\$0.65 per share; and (e) The Loan Note holder may only convert the Loan Notes into Ordinary Shares between 16 November 2004 and 30 July 2006. The Company has no right to convert the Loan Notes.
- 11.5 An agreement dated 15 February 2002 made between Mexpetrol and Victor Manuel Garrido Barillas pursuant to which Mexpetrol leases the site upon which the Las Casas IX Well is located. Mexpetrol is obligated to pay £4,000 as a monthly rental. The agreement covers an area of 40,000 sq m of land located in the Municipio de Fray Bartolomé de Las Casas, Alta Verapaz, Guatemala.
- 11.6 An agreement dated 1 March 2002 made between Mexpetrol and Raul Elias pursuant to which Mexpetrol leases the site upon which the Las Casas 2X Well is located. Mexpetrol is obligated to pay US\$570 as a monthly rental. The agreement covers an area of 40,000 sq m of land located in the Municipio de Fray Bartolomé de Las Casas, Alta Verapaz, Guatemala.
- 11.7 An agreement dated 24 September 2004 made between Mexpetrol and Vilmar Rene Lorenzana Ruano, pursuant to which Mexpetrol leases the site upon which the Las Casas 3X well will be located. Mexpetrol is obligated to pay £4,500 as a monthly rental. The agreement covers an area of 40,000 sq m of land located in the Municipio de Fray Bartolomé de Las Casas, Alta Verapaz, Guatemala.

- 11.8 An agreement dated 27 September 2004 between Mexpetrol and Residencias Zona Catorce, S.A. relating to the lease of 390 sq m of office space located at Avenida de las Americas 18-81 Zona 14, Office 11 North, 11th Floor, Columbus Centre Building, Guatemala City 01014, Guatemala. The agreement is for a three year term with annual lease payments of US\$3,800 in the first year, US\$4,000 in the second year and US\$4,200 in the final year.
- 11.9 Pursuant to an agreement dated 15 November 2004 made between Mexpetrol and Corporacion Grande, S.A., Mexpetrol has agreed to rent Apartment No 604C located at 15 Calle 21-43 zona 10, Condominium Joyas de Florencia, Guatemala City 01010. Mexpetrol has agreed to occupy such space for a period of 12 months, for a monthly rental of US\$825 plus aggregated value tax and maintenance.
- 11.10 Pursuant to an agreement dated 9 November 2004 made between Mexpetrol and Jobeluce, S.A.. Mexpetrol has agreed to rent Apartment No B502, located at 15 Calle 21-43 zona 10, Condominium Joyas de Florencia, Guatemala City, Guatemala. Mexpetrol has agreed to occupy such space for a period of 12 months for a monthly rental of US\$900 plus aggregated value tax.
- 11.11 Mexpetrol has provided a bond No. C-7 222702 issued by Afianzadora General A.S., in the amount of Q100,000, originally for the period of 22 April 2002 to 21 April 2003, subsequently and currently extended until 21 April 2005 in favour of Tax Administration Superintendence to guarantee any payment of duties as a result of Mexpetrol importing equipment to Guatemala pursuant to the Licence.
- 11.12 Mexpetrol has provided a bond No. C-7 2111820 issued by Afianzadora General A.S. in the amount of US\$50,000, issued originally for the period of 30 September 2002 to 31 December 2003, subsequently and currently extended until 31 December 2005 in favour of the Ministry to guarantee any damages or liabilities resulting from the oil operations of Mexpetrol under the Licence.
- 11.13 Mexpetrol has provided a bond No. C-2 211819 issued by Afianzadora General A.S. in the amount of US\$300,000 issued in favour of the Ministry guaranteeing the work commitments for Las Casas structure as well as the reconditioning of the Las Casas 1-X Well. According to Mexpetrol, these works have been performed.
- 11.14 Mexpetrol has provided a bond No. C-2 211818 issued by Afianzadora General A.S. in the amount of US\$250,000 in favour of the Ministry guaranteeing the work commitments for the evaluation of the Huapac structure as well as the conditioning of the Huapac 1-X Well.
- 11.15 An agreement between the Company and Dilmun Investments Limited in respect of a six month lease of premises located at second floor 27 Berkeley Square, London W1J 6EL, United Kingdom. The agreement was dated 14 October 2004. The annual rent payable is £79,500 plus VAT.
- 11.16 Pursuant to a letter of engagement dated 19 July 2004 issued by Williams de Broe ("WdB"), the Company appointed WdB to act on its behalf in relation to: (a) a pre-IPO placing to raise US\$10,000,000; (b) Admission together with a further placing to raise US\$30,000,000; and (c) the provision of Nominated Adviser and Broker services from Admission. In consideration for their services the Company agreed to pay to WdB the following: (a) in respect of the pre-IPO: (i) a commission of 5% of the gross amount of the equity funds raised such amount payable from the proceeds of the placing; and (ii) a warrant to subscribe for a number of new Ordinary Shares equivalent to 2% of the gross amount of the equity funds raised under the pre-IPO placing at an exercise price equivalent to the pre-IPO placing price; (b) in respect of Admission and further placing: (i) a corporate finance fee of £150,000, payable on completion of the placing from the proceed of the placing; and (ii) a commission of 4% of the gross amount of the equity funds raised by WdB; and (c) a monthly retainer of £15,000 commencing from 1 September 2004. After the pre-IPO placing pursuant to which the Company raised US\$8,067,225.40, this engagement was terminated by the Company on 3 November 2004. The Company paid the sum of £75,000 to WdB in full and final settlement in addition to any sums that were then due to WdB under the arrangement.
- 11.17 A Placing Agreement dated 30 July 2004 entered into between the Company, WdB and Gregory Smith pursuant to which WdB, as agent for the Company, agreed to use its reasonable endeavours to assist the Company in raising US\$6,000,000 by placing up to 9,230,769 placing units. Each unit consisted of one new Ordinary Share and one warrant entitling the holder to subscribe for one new Ordinary Share at the price of US\$0.90 on or before 30 July 2006. In consideration for their services the Company gave warranties and indemnities to WdB and agreed to pay or provide to WdB: (a) a commission of 5% of the gross amount of the equity funds raised such amount payable from the proceeds of the placing; and (b) a warrant to subscribe for a number of new Ordinary Shares equivalent to 2% of the gross amount of the equity funds raised under the pre-IPO placing at an exercise price of US\$0.65 per share. Pursuant to this agreement, the Company raised US\$8,067,225.40 gross by placing 12,411,116 placing units.
- 11.18 A deed dated 29 July 2004 issued by the Company pursuant to which the Company agreed a form of a ratchet with the placees who invested in the Company in connection with the placing agreement referred to in paragraph 11.14 above. The letter sets out a ratchet mechanism by which the Company has to issue more

shares to the placees without further consideration in the event that an offer is made for its entire issued share capital at a price which is less than US\$1.30 per share prior to Admission or the Company has not obtained Admission by 15 January 2005 at a minimum price of US\$1.30 per share. The ratchet mechanism assumes that placees have received their shares at a discount of at least 50% of the price at which the Ordinary Shares will be admitted to trading on AIM or any other exchange. Pursuant to a conditional deed of termination dated 13 January 2005, the placees agreed that, conditional on and with effect from Admission, that the ratchet would terminate.

- 11.19 An assignment of the right to acquire the entire issued share capital of Mexpetrol dated 18 July 2004 made between 2039026 Ontario Inc, the Company and TVL. In consideration of this assignment the Company issued 5,000,000 Ordinary Shares, credited as fully paid, to TVL. The assignment acknowledges that in substitution of TVL's agreement not to enforce a debt of US\$300,000 owed by Mexpetrol, 2039026 Ontario Inc, agreed to the assignment.
- 11.20 The share purchase agreement dated 18 July 2004 made between the Company, Lawrence Linnartz (acting as trustee for himself, Edward Greer and certain creditors of Mexpetrol) and Mexpetrol which was subsequently amended on 23 and 30 July 2004. Pursuant to this agreement (as amended) the Company acquired the entire issued share capital of Mexpetrol together with all the interest in the Licence held by it in consideration for: (a) the payment of the sum of US\$3,300,000 to the vendors; and (b) an agreement to convey/pay, after the exploration and productions costs from the relevant concessions have been recouped as follows: (i) to Lawrence Linnartz 5 per cent. of any production from well 3X in the Las Casas Field after it has been drilled and 2.5 per cent. of the production from two well in the Tortugas concession which will increase to 3.75 per cent once these two wells have been drilled; (ii) to Edward Greer 2.5 per cent. of the production from two well in the Tortugas concession which will increase to 3.75 per cent once these two wells have been drilled; and (iii) to Michael Realini 5 per cent. of the production from two wells in the Tortugas concession which will increase to 7.5 per cent once these two wells have been drilled.
- 11.21 The Licence, the details of which are set out in Part V of this document.
- 11.22 The Company has entered into an inter-Group loan agreement ("Loan Agreement") with Mexpetrol dated 24 November 2004. Pursuant to the terms of the Loan Agreement, the Company has agreed to make available to Mexpetrol a US\$25 million loan (the "Facility") effective from 1 August 2004. The Loan is available until 31 July 2009 and may be repaid or prepaid and redrawn at any time until such date. Amounts advanced under the Loan Agreement attract a rate of interest of LIBOR plus 3 per cent. Interest is payable in arrears with the first payment date being the later of 31 July 2005 or at the end of the first month in which production is obtained from any oil licence held by Mexpetrol. The Company may terminate the Facility on the occurrence of a number of defined events of default stated in the Loan Agreement. As of the date of this document the outstanding balance advanced by the Company to Mexpetrol stands at US\$1,472,996.51.
- 11.23 A nominated adviser agreement was entered into between the Company, the Directors and Canaccord on 13 January 2005. The obligations of Canaccord under the agreement are conditional, *inter alia*, upon Admission taking place by 8.00 am on 31 March 2005 or such later date (being no later than 8.00 am on 30 April 2005) as the Company and Canaccord may agree. Subject to Admission taking place, Canaccord has agreed to act as the Company's Nominated Adviser and Broker for a period of 12 months from Admission and thereafter unless terminated by a least 3 months notice by Canaccord or the Company. Under its Agreement, Canaccord will receive a corporate finance fee of £150,000 and an annual nominated adviser fee of £50,000. The agreement contains warranties and indemnities given by the Company in favour of Canaccord.
- 11.24 Agreements variously dated 12 and 13 January 2005 between the Company (1) Canaccord (2) and each of Gregory Smith, TVL, Euro Americas Securities Limited, John Scott, Nicholas Gay, James Guiang, Argentiere Holdings Ltd, Rhodes Ventures S.A., Michael Realini and Arcadia Life Limited, under which each person has agreed that for the period of 12 months from the date of Admission, he or it will not dispose of any Ordinary Shares or Options or Warrants or other interests in securities of the Company, save in certain limited circumstances.
- 11.25 *Warrants*
- The Warrants have been constituted under a Warrant Instrument adopted by the Company on 30 July 2004. Each Warrant entitles the holder to subscribe for one Ordinary Share during the period until 30 June 2006. The Warrants are exercisable at US\$0.65 and US\$0.90 per Ordinary Share. Further details of the Warrants are set out in paragraph 4 above.

12. Litigation

Save as disclosed in paragraphs 12.1 and 12.2 below, there are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Directors are aware) against, or being brought by, the Company or any member of the Group which have had or may have a significant effect on the Group's financial position.

- 12.1 Cadex Petroleo Guatemala Inc (“Cadex”) promoted a lawsuit against Mexpetrol. The claim is quantified at US\$150,000. There has been no final determination of the claim by the Courts of Guatemala. The claim relates to a deed pursuant to which Mexpetrol sold to Petdegua Sociedad Anónima (“Petdegua”) certain machinery which was part of a drilling tower for the price of Q500,000 (“Acquisition”). According to Petdegua this machinery was never delivered. As a result Petdegua issued a claim against Mexpetrol on 2 August 2002. The purpose of the claim was to obtain judicial delivery of the machinery. A final resolution is still pending and an order of chattel of the machinery has to be executed.
- 12.2 Petdegua also issued another claim in the Civil Court of First Instance and Execution Court of the Municipality of Ixcán in Guatemala on 18 October 2002 requiring the fulfilment of the Acquisition contract and the seizure of the machinery naming Cadex as its depository. It is, however, stated in the minutes written by Judge Peace on 21 November 2002 that due to the lack of the machinery at the tower, it could not be transported and only auxiliary equipment could be seized.
- 12.3 On 12 August 2002, Cadex issued another lawsuit in the Third Civil Court of First Instance against Mexpetrol. The lawsuit is based on an agreement for the purchase of shares and other assets owned by Mexpetrol for the price of US\$8,000,000, executed on 31 May 1997 between Mexpetrol and Cadex (“Agreement”). The claim was modified on 22 December 1997. It is claimed that pursuant to the Agreement it was agreed between the parties that US\$300,000 would be paid when it was determined that Cadex had the absolute rights to the Licence. Cadex had to pay the balance due when completing drilling at Las Casas 1X Well, 2X Well and Huapac before 15 November 1997. This date was modified to be within 7 days after receiving the official approval of the Government of Guatemala. Cadex claims that due to the negligence of Mexpetrol, Cadex could not fulfil its obligations resulting in the Agreement not being performed. Cadex is, therefore, demanding the return of US\$325,000 that it had paid as part consideration under the Agreement.

A legal opinion obtained from A.D. Sosa & Soto of Guatemala, the Company’s Guatemalan counsel, states that a motion to declare the claim process abandoned was presented, and if it is declared favourable, it would terminate the process. A.D. Sosa & Soto have also confirmed that the worst case scenario would entitle Cadex a judgement of US\$325,000 plus legal costs and interests.

13. Working Capital

The Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Group will be sufficient for the Group’s present requirements, that is for at least the twelve months following Admission.

14. United Kingdom Taxation

14.1 General

14.1.1 The following statements are intended to be a general guide to current U.K. tax law and to the current practice of the U.K. Inland Revenue. They apply only to Shareholders who are resident or ordinarily resident in the U.K. for U.K. tax purposes, who hold the Shares as investments and who are the beneficial owners of the Shares. The statements may not apply to certain classes of Shareholders such as dealers in securities or to trustees of certain trusts. Special rules apply to determine the U.K. tax position of individual Shareholders who are not domiciled in the U.K. for tax purposes (and such rules are not discussed in this document).

14.1.2 Prospective subscribers for Shares who are in any doubt as to their tax position regarding the acquisition, ownership and disposal of the Shares or who are subject to tax in a jurisdiction other than the U.K. should consult their own tax adviser.

14.2 Dividends

14.2.1 Individuals

- (a) An individual Shareholder who is resident in the U.K. for tax purposes and who receives a dividend from the Company will be liable to U.K. tax on the dividend. Such an individual Shareholder’s liability to U.K. income tax is calculated on the aggregate of the net dividend and the deemed tax credit of $\frac{1}{9}$ th of the net dividend paid by the U.K. company (together known as the “gross dividend”). This $\frac{1}{9}$ th tax credit is creditable by the U.K. individual against their U.K. tax liability.
- (b) A U.K. resident Shareholder who is liable to income tax at the lower or basic rate only will not be subject to further U.K. taxation on the dividend as the deemed tax credit will extinguish any liability to tax. To the extent that the taxpayer’s income exceeds the basic rate limit a U.K. resident individual Shareholder liable to income tax at the higher rate will be subject to income tax on the gross dividend at 32.5 per cent. but will be able to set the tax credit of 10 per cent (of the gross

dividend) off against part of this liability. The effect of that set off of the tax credit is that such a shareholder will have to account for additional tax equal 25 per cent of the net dividend received.

- (c) U.K. resident Shareholders who are not in a tax paying position (i.e. because their income is less than their statutory annual income exemption threshold) are not able to claim a repayment of the deemed 10 per cent tax credit under U.K. tax law.

14.2.2 *Companies*

A corporate Shareholder resident in the U.K. for tax purposes will not normally be subject to corporation tax on any dividend received from the Company.

14.3 *Pension Funds*

U.K. pension funds are not generally liable to U.K. tax on dividend income. Additionally, U.K. pension funds cannot recover the 10 per cent tax credit attaching to the U.K. dividend.

14.4 *Capital Gains*

A disposal of Shares by a Shareholder who is either resident or ordinarily resident in the U.K. for tax purposes, or is not U.K. resident but carries on a trade, profession or vocation in the U.K. through a branch or agency and has used, held or acquired Shares for the purposes of such trade, profession or vocation or such branch or agency, may, depending on the Shareholder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of the taxation of capital gains. A Shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident in the U.K. for tax purposes, but who becomes resident or ordinarily resident in the U.K. again within a period of less than five tax years and who disposes of Shares during that period may also be chargeable on his return to the U.K. on any capital gain realised (subject to any available exemption or relief). Special rules apply to determine the U.K. tax liability of individual Shareholders who are not domiciled in the U.K. who dispose of Shares in the Company. Shareholders who are not domiciled in the U.K. are advised to consult their professional advisers.

14.5 *Stamp duty and stamp duty reserve tax ("SDRT")*

14.5.1 The following comments below apply to all Shareholders, whether or not resident or ordinarily resident in the United Kingdom for tax purposes:

- (a) A transfer of Shares will be liable to stamp duty at the rate of 0.5 per cent, of the amount or value of the consideration given, rounded up if necessary to the nearest multiple of £5.
- (b) An unconditional agreement to transfer Shares will be subject to SDRT at 0.5 per cent of the amount or value of the agreed consideration rounded up or down, if necessary, to the nearest £0.01.
- (c) If an agreement is completed by a stock transfer form or similar instrument of transfer which is duly stamped then the SDRT charge is cancelled.
- (d) If within six years of the date of the agreement becoming unconditional, an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any SDRT which has been paid is repayable, provided that a claim for payment is lodged within the time limit;
- (e) The liability to pay stamp duty usually falls to the purchaser, if SDRT is accounted for in CREST the "accountable person" will be responsible for accounting for the SDRT due;
- (f) No stamp duty or SDRT will arise on a transfer of Shares into CREST, unless such transfer is made for a consideration in money or money's worth, in which case a liability to stamp duty or SDRT will arise, usually at the rate set out above; and
- (g) A transfer of Shares effected on a paperless basis within CREST will be subject to SDRT at the rate of 0.5 per cent. of the value of the consideration.

14.5.2 The above statements are intended as a general guide to the current position. Special rules apply to certain categories of person, including intermediaries and persons connected with depository arrangements and clearance services. Certain categories of documents and people are not liable to stamp duty or SDRT, and others may be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.

14.5.3 Any persons in any doubt as to their tax position or potentially subject to tax in any other jurisdiction should consult their professional advisers.

15. General

15.1 Save as disclosed in this document no person (other than professional advisers named in this document and trade suppliers) has:

15.1.1 received, directly or indirectly, from the Group within the 12 months preceding the Company's application for Admission; or

15.1.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Group on or after Admission,

any of the following:

(a) fees totalling £10,000 or more;

(b) securities in the Company where these have a value of £10,000 or more calculated by reference to the expected opening price; or

(c) any other benefit with the value of £10,000 or more as at the date of Admission.

Each of the Directors is, or may be deemed to be, a promoter of the Company.

15.2 The total costs and expenses in connection with or incidental to Admission which are payable by the Company, including registration and Exchange fees are estimated to amount to £579,641 (excluding VAT).

15.3 Canaccord has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name in the form and context in which it appears.

15.4 Canaccord, which is a member of the Exchange and regulated by the FSA, has been appointed as nominated adviser and broker to the Company.

15.5 PetroSolutions, the independent petroleum engineer, has given and has not withdrawn its written consent to the inclusion of its:

15.5.1 name in the form and context in which it appears, and

15.5.2 reports in this document and it accepts responsibility for them and has stated that it has not become aware, since the date of any report, of any matter affecting the validity of that report at that date.

15.6 BDO Stoy Hayward LLP has given and has not withdrawn its written consent to the inclusion in this document of its accountants' report on the Group set out in Part IV and its accountants' report on Mexpetrol set out in Part IV and the references thereto and to its name, in the form and context in which they are included.

15.7 The financial information contained in this document does not constitute full statutory accounts as referred to in section 240 of the Act. The Company has not yet had to prepare statutory financial statements.

15.8 Save as disclosed in this document there has been no significant change in the financial or trading position of the Group since 31 October 2004, the date to which the accountants' reports in Part III was drawn up.

15.9 Save as disclosed in Part I, the Directors are unaware of any exceptional factors which have influenced the Group's activities.

15.10 The accounting reference date of the Company is 31 December.

15.11 Save as disclosed in Part I, there are no patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the Group's business.

15.12 Other than the proposed application for Admission, the Ordinary Shares have not been admitted to dealing on any recognised investment exchange nor has any application for such admission been made and there is not intended to be made any other arrangements for dealings in the Ordinary Shares on any such exchange. It is not intended to admit to dealing the Deferred Shares or any of the Warrants on any recognised investment exchange nor has any application for such admission been made and there is not intended to be made any other arrangements for dealings in the Deferred Shares or any of the Warrants on any such exchange.

15.13 Save as disclosed in this document, there are no investments in progress which are significant.

16. Publication of Admission Document

Copies of this document will be available free of charge to the public at the offices of Canaccord, 1st Floor, Brook House, 27 Upper Brook Street, London W1K 7QF from the date of this document for one month after Admission.

17. Documents available for inspection

Copies of the following documents may be inspected at the offices of Grundberg Mocatta Rakison LLP, Imperial House, 15-19 Kingsway, London WC2B 6UN during the usual business hours on any weekday (weekends and public holidays excepted) for the period of 14 days following the date of this document:

- 17.1 the Memorandum and Articles of Association of the Company;
- 17.2 the audited accounts of the Mexpetrol for the periods ended 30 June 2003 and 30 June 2004;
- 17.3 the Directors' service agreements referred to in paragraph 9 above;
- 17.4 the Share Option Plan;
- 17.5 the material contracts referred to in paragraph 11 above;
- 17.6 the written consents referred to in paragraph 15 above; and
- 17.7 this document.

13 January 2005



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