

**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 ("FSMA") who specialises in advising on the acquisition of shares and other securities before taking any action. The whole of the text of this document should be read. Investment in the Company is speculative and involves a high degree of risk.**

**If you have sold or transferred your Ordinary Shares in the Company you should send this document along with the Form of Proxy at once to the purchaser or transferee or the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.**

**THIS DOCUMENT CONSTITUTES AN ADMISSION DOCUMENT IN ACCORDANCE WITH THE AIM RULES FOR COMPANIES. THIS DOCUMENT IS NOT AN APPROVED PROSPECTUS FOR THE PURPOSES OF SECTIONS 85 AND 87 OF FSMA. THIS DOCUMENT HAS BEEN APPROVED AS A FINANCIAL PROMOTION IN THE UNITED KINGDOM FOR THE PURPOSES OF SECTION 21 OF FSMA.**

The Company, the Directors and the Proposed Directors, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Company, the Directors and the Proposed 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 contains no omission likely to affect the import of such information.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority ("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 for Companies are less demanding than the rules of the Official List. It is emphasised that no application is being made for admission of the securities to the Official List. Further, neither the London Stock Exchange nor the UKLA has examined or approved the contents of this document.

Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two of the AIM Rules for Nominated Advisers.

Application has been made for the Enlarged Issued Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Enlarged Issued Share Capital will commence on AIM on 19 August 2011. No application will be made for the Placing Warrants to be admitted to trading on any stock exchange.

# Silvermere Energy plc

*(Incorporated in England and Wales under the Companies Act 1985 with registered number 05131386)  
(ISIN GB00B606VT57)*

## Proposed acquisition of the Mustang Asset Placing of 6,079,120 Ordinary Shares at 25 pence per Ordinary Share and 6,079,120 Placing Warrants to subscribe for Ordinary Shares Notice of General Meeting and Admission to trading on AIM

Joint Broker

Nominated Adviser and Joint Broker

Joint Broker



OLD PARK LANE CAPITAL PLC<sup>+</sup>

Merchant Securities

**Old Park Lane  
Capital plc**

**Merchant Securities  
Limited**

**Rivington Street Corporate  
Finance Limited**

Merchant Securities Limited ("Merchant Securities"), Old Park Lane Capital plc ("OPL") and Rivington Street Corporate Finance Limited ("RSCF"), each of which is authorised and regulated by the Financial Services Authority of the United Kingdom, are acting as nominated adviser and joint broker (in the case of Merchant Securities) and as joint brokers (in the case of OPL and RSCF) to Silvermere Energy plc in connection with the arrangements set out in this document and are not acting for anyone else and will not be responsible to anyone other than Silvermere Energy plc for providing the protections afforded to customers of Merchant Securities, OPL or RSCF or for providing advice in relation to the contents of this document and the admission of the entire issued and to be issued share capital of the Company to trading on AIM. In particular, Merchant Securities, as nominated adviser to the Company, owes certain responsibilities to the London Stock Exchange which are not owed to the Company or the Directors or the Proposed Directors or to any other person in respect of his or her decision to acquire Ordinary Shares or Placing Warrants in reliance on any part of this document. Merchant Securities, OPL and RSCF accept no liability for the accuracy of any information or opinions contained in, or for the omission of any material information from, this document, for which the Company and its Directors and Proposed Directors are solely responsible.

This document contains forward looking statements. These statements relate to the Company's future prospects, developments and business strategy. Forward looking statements are identified by their use of terms and phrases, including without limitation, statements containing the words "believe", "anticipated", "expected", "could", "envisage", "estimate", "may" or the negative of those, variations or similar expressions including references to assumptions. Such forward looking statements involve unknown risk, uncertainties and other factors which may cause the actual results, financial condition, performance or achievement of the Company, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors" set out in Part II of this document. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on such forward looking statements. These forward looking statements speak only as at the date of this document. The Company disclaims any obligations to update any such forward looking statements in this document to reflect events or developments.

This document does not constitute an offer to sell, or a solicitation to buy, Ordinary Shares or Placing Warrants in any jurisdiction in which such offer or solicitation is unlawful. In particular, this document is not for distribution in or into the United States of America, Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan. This document should not be copied or distributed by recipients and, in particular, should not be distributed by any means, including electronic transmission, to persons with addresses in Australia, Canada, Japan, the Republic of Ireland, the Republic of South Africa or the United States of America, its possessions or territories or to any citizens thereof, or to any corporation, partnership or other entity created or organised under the laws thereof. None of the Ordinary Shares or Placing Warrants have been or will be registered under the United States Securities Act of 1933 as amended nor under the securities legislation of any state of the United States or any province or territory of Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan or in any country, territory or possession where to do so may contravene local securities laws or regulations. Accordingly, the Ordinary Shares and Placing Warrants may not, subject to certain exceptions, be offered or sold directly or indirectly in or into the United States of America, Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan or to any national, citizen or resident of the United States of America, Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan. The distribution of this document in certain jurisdictions may be restricted by law. No action has been taken by the Company, by the holders of the Ordinary Shares or by Merchant Securities that would permit a public offer of Ordinary Shares or Placing Warrants or possession or distribution of this document where action for that purpose is required. Persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

**The whole of this document should be read. Your attention is drawn, in particular, to Part I "Letter from the Chairman of Silvermere Energy plc", Part II "Risk Factors" and Part III "Competent Person's Report" for a more complete discussion of the factors that could affect the Company's future performance and the industry in which it will operate.**

A notice convening a General Meeting of Silvermere Energy plc to be held at the offices of Memery Crystal LLP, 44 Southampton Buildings, London WC2A 1AP at 10.30 a.m. on 18 August 2011 is set out at the end of this document. The Form of Proxy for use in connection with the General Meeting is enclosed with this document and should be returned as soon as possible and, in any event, so as to be received at the offices of the Company's registrars, Share Registrars, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL as soon as possible but in any event not later than 10.30 a.m. on 16 August 2011, being 48 hours before the time appointed for the holding of the General Meeting excluding weekends and bank holidays. The completion and depositing of a Form of Proxy will not preclude a Shareholder from attending and voting in person at the General Meeting.

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## Directors, Proposed Directors, Secretary and Advisers

<b>Directors</b>	Bruce George Alexander Evers ( <i>Executive Chairman, Non-Executive Director from Admission</i> ) John Roddison FCA ( <i>Finance Director, resigning immediately after Admission</i> ) Reinhold Adriaan Maria Heus ( <i>Non-Executive Director, resigning immediately after Admission</i> )
<b>Proposed Directors</b>	Frank Hoyt Moxon ( <i>Proposed Non-Executive Chairman</i> ) Andy John Gowdy Morrison ( <i>Proposed Chief Executive</i> ) Stewart James Dalby ( <i>Proposed Non-Executive Director</i> )  <i>all of whose address for business is at the Company's registered office</i>
<b>Registered Office</b>	42 Brook Street London W1K 5DB
<b>Company Secretary</b>	Cargil Management Services Limited 27/28 Eastcastle Street London W1W 8DH
<b>Nominated Adviser and Joint Broker</b>	Merchant Securities Limited 51-55 Gresham Street London EC2V 7HQ
<b>Joint Broker</b>	Old Park Lane Capital Plc 49 Berkeley Square London W1J 5AZ
<b>Joint Broker</b>	Rivington Street Corporate Finance Limited Fourth Floor 39 Athol Street Douglas Isle of Man IM1 1JA
<b>UK Solicitors to the Company</b>	Memery Crystal LLP 44 Southampton Buildings London WC2A 1AP
<b>US Solicitors to the Company</b>	Haynes & Boone, LLP 1 Houston Center 1221 McKinney Suite 2100 Houston, Texas 77010
<b>Solicitors to the Nominated Adviser and Joint Brokers</b>	SNR Denton UK LLP One Fleet Place London EC4M 7WS
<b>Competent Person</b>	RPS Energy Limited 3rd Floor 20 Abchurch Lane London EC4N 7BB

## **Directors, Proposed Directors, Secretary and Advisers** (continued)

<b>Reporting Accountants</b>	BDO LLP 55 Baker Street London W1U 7EU	(Member firm of the Institute of Chartered Accountants in England and Wales)
<b>Auditors</b>	Jeffreys Henry LLP Finsgate 5-7 Cranwood Street London EC1V 9EE	(Member firm of the Institute of Chartered Accountants in England and Wales)
<b>Registrars</b>	Share Registrars Limited Suite E, First Floor 9 Lion and Lamb Yard Farnham Surrey GU9 7LL	
<b>Public Relations Adviser</b>	Bishopsgate Communications Limited 3 London Wall Buildings London Wall London EC2M 5SY	

## Definitions

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

<b>“Acquisition”</b>	the proposed acquisition by the Company of the Mustang Asset from Core pursuant to the Option Agreement
<b>“Admission”</b>	the admission of the Enlarged Issued Share Capital to trading on AIM becoming effective in accordance with the AIM Rules
<b>“AIM”</b>	the AIM market of the London Stock Exchange
<b>“AIM Rules”</b>	the AIM Rules for companies published by the London Stock Exchange, as amended from time to time
<b>“Articles” or “Articles of Association”</b>	the articles of association of the Company
<b>“Audit Committee”</b>	the audit committee of the Board
<b>“Block 818-L”</b>	the Mustang Island Block 818-L field, located in the Kleberg County Waters, Texas, in the Gulf of Mexico, within which is the Mustang Licence Area
<b>“Core”</b>	Core Oil & Gas, Inc., a Delaware corporation having an address at 3422 Old Capitol Trail, Suite 700, Wilmington, Delaware 19808, USA
<b>“Core Vendors”</b>	Tony Mason and Kevin Collins
<b>“Code”</b>	The City Code on Takeovers and Mergers
<b>“Companies Act”</b>	the Companies Act 2006 (as amended)
<b>“Company” or “Silvermere”</b>	Silvermere Energy plc and its subsidiary undertakings from time to time
<b>“Competent Person’s Report” or “CPR”</b>	the technical report prepared by RPS, contained in Part III of this document
<b>“Completion”</b>	completion of the Acquisition
<b>“Consideration Shares”</b>	the Ordinary Shares to be subscribed for by the Core Vendors pursuant to the Option Agreement
<b>“CREST”</b>	the computer-based system established under the CREST Regulations which enables title to units of relevant securities (as defined in the CREST Regulations) to be evidenced and transferred without a written instrument and in respect of which Euroclear UK & Ireland Limited is the operator (as defined in the CREST Regulations)
<b>“CREST Regulations”</b>	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
<b>“Directors” or “the Board”</b>	the existing directors of the Company as set out on page 3 of this document

## Definitions (continued)

<b>“Disclosure and Transparency Rules”</b>	the Disclosure and Transparency Rules published by the Financial Services Authority from time-to-time
<b>“Dominion”</b>	Dominion Production Company, LLC, the designated operator of the Mustang Licence Area under the JOA
<b>“Enlarged Issued Share Capital”</b>	the 16,980,750 Ordinary Shares expected to be in issue at Admission
<b>“Existing Ordinary Shares”</b>	the 7,532,223 Ordinary Shares in issue as at the date of this document
<b>“Existing Shareholders”</b>	the holders of Existing Ordinary Shares
<b>“Form of Proxy”</b>	the form of proxy accompanying this document for use in connection with the GM
<b>“FSMA”</b>	the Financial Services and Markets Act 2000
<b>“GM” or “General Meeting”</b>	the General Meeting of the Company convened for 10.30 a.m. on 18 August 2011, notice of which is set out at the end of this document
<b>“Group”</b>	the Company and the US Subsidiary
<b>“Historical Financial Information”</b>	the audited financial statements of the Company for the three years ended 31 May 2010 and the seven month period ended 31 December 2010
<b>“I-1 Well”</b>	a well on the Mustang Licence Area which has been re-entered and sidetracked with the intention of completing in the I group of target reservoir sands
<b>“Irrevocable Undertakings”</b>	the agreement by each of the Directors and certain Shareholders to vote in favour of the Resolutions, as summarised in paragraph 23 of Part IV of this document
<b>“JOA”</b>	the joint operating agreement dated December 2010 between (1) MI Exploration, LLC, (2) Gulf Standard Offshore, LLC, (3) Core and (4) Dominion, as summarised in paragraph 12.17 of Part IV
<b>“Joint Brokers”</b>	Merchant Securities, OPL and RSCF
<b>“Loan Notes 2011 Tranche A”</b>	£375,000 comprising tranche A of the loan notes issued on 1 July 2011 which convert automatically on admission to AIM at a price of 22.5p per Ordinary Share
<b>“Loan Notes 2011 Tranche B”</b>	£375,000 comprising tranche B of the loan notes issued on 1 July 2011 which convert at any time from Admission up to 30 June 2013 at a price of 35p per ordinary share if not redeemed
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“Mustang Asset”</b>	the 33.33 per cent. working interest and 20.83 per cent. net entitlement interest in the Mustang Licence Area

## Definitions (continued)

<b>“Mustang Licence Area”</b>	the area within the southern half of the north west quarter and northern half of the south west quarter of the Block 818-L field as defined in State of Texas Oil and Gas Lease numbers 108873 and 108874, as shown in Figure 2.2 of the CPR on page 41 of Part III
<b>“Merchant Securities”</b>	Merchant Securities Limited
<b>“New Board”</b>	the Proposed Directors and Bruce Evers
<b>“Notice”</b>	the notice convening the GM, which is set out at the end of this document
<b>“Official List”</b>	the official list of the UKLA
<b>“OPL”</b>	Old Park Lane Capital Plc
<b>“Option Agreement”</b>	the conditional agreement dated 29 April 2011, (as amended by deeds of variation on 9 June 2011 and 30 June 2011), between Core and the Company, further details of which are set out in paragraph 12.16 of Part IV of this document
<b>“Optionholders”</b>	holder(s) of Share Options
<b>“Options” or “Share Options”</b>	options to subscribe for Ordinary Shares under the Share Option Scheme or pursuant to option agreements as set out in paragraph 13 of Part IV of this document
<b>“Ordinary Shares”</b>	ordinary shares of 0.1p each in the capital of the Company
<b>“Placees”</b>	the subscribers for Placing Shares and the Placing Warrants
<b>“Placing”</b>	the conditional placing of the Placing Shares and the Placing Warrants pursuant to the Placing Agreement
<b>“Placing Agreement”</b>	the conditional agreement dated 2 August 2011 between the Company, the Directors, the Proposed Directors and the Joint Brokers as described in paragraph 12.2 of Part IV of this document
<b>“Placing Price”</b>	25p per Placing Share and Placing Warrant
<b>“Placing Shares”</b>	the 6,079,120 new Ordinary Shares to be issued by the Company pursuant to the Placing
<b>“Placing Warrants”</b>	the 6,079,120 warrants to subscribe for Ordinary Shares at 30p to be issued by the Company pursuant to the Placing, which can be exercised at any time up to 16 August 2013
<b>“Proposals”</b>	the Acquisition, the Placing and Admission
<b>“Proposed Directors”</b>	Frank Moxon, Andrew Morrison and Stewart Dalby
<b>“QCA Code”</b>	the QCA’s Corporate Governance Guidelines for Smaller Quoted Companies

## Definitions (continued)

<b>“Remuneration Committee”</b>	the remuneration committee of the Board
<b>“Resolutions”</b>	the resolutions set out in the Notice
<b>“RPS”</b>	RPS Energy Limited, the Competent Person
<b>“RSCF”</b>	Rivington Street Corporate Finance Limited
<b>“Seadrift”</b>	Seadrift Management LLC of 945 Heights Boulevard, Houston, Texas 77008-6911, USA
<b>“Share Option Scheme”</b>	the share option scheme operated by the Company under which options may be granted to directors of the Company, a summary of which is set out in paragraph 13 of Part IV of this document
<b>“Share Registrars”</b>	Share Registrars Limited, the registrars to the Company
<b>“Shareholders”</b>	holder(s) of Ordinary Shares
<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland
<b>“UKLA”</b>	the Financial Services Authority acting in its capacity as the United Kingdom Listing Authority, the competent authority for the purposes Part VI of FSMA
<b>“uncertificated” or “in uncertificated form”</b>	an Ordinary Share recorded on the Company’s register as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
<b>“US” or “United States”</b>	the United States of America
<b>“US Subsidiary”</b>	Silvermere Energy, LLC, a limited liability company incorporated in Delaware, US
<b>“2010 Warrants”</b>	the 3,239,697 warrants to subscribe for 3,239,697 Ordinary Shares at par at any time up to 23 March 2015
<b>“2011 Warrants”</b>	the 2,857,143 warrants to subscribe for 2,857,143 Ordinary Shares at 45p at any time up to 26 May 2012 (proposed to be amended to 30p and 26 May 2013, respectively)
<b>“2015 CLNs”</b>	the £81,647 nominal convertible loan notes 2015 the terms of which are described in paragraph 12.24 of Part IV of this document
<b>“2012 Warrants”</b>	the 86,872,723 warrants to subscribe for an aggregate of 14,500 Ordinary Shares at £60 at any time up to 23 March 2012
<b>“Wellmaster”</b>	Wellmaster Exploration and Production Company, LLC of 2658 W. Winston, Rotubury, Michigan 49452, US
<b>“\$”</b>	US dollars, the lawful currency of the United States
<b>“£”</b>	UK pounds, the lawful currency of the United Kingdom

*Note: The exchange rate used for transferring \$ to £ is \$1.6 = £1, being the closing rate on 29 July 2011*



## Glossary of technical terms

<b>“AAPG”</b>	American Association of Petroleum Geologists
<b>“API”</b>	American Petroleum Institute
<b>“B”</b>	billion
<b>“barg”</b>	gauge pressure in bar
<b>“bbl”</b>	barrels
<b>“b(o/w)pd”</b>	barrels of oil/water per day
<b>“BHFP”</b>	bottomhole flowing pressure
<b>“boe”</b>	barrels of oil equivalent (converted at 1 boe $\cong$ 5,800 scf)
<b>“bbl/d”</b>	barrels of oil per day
<b>“Bo(g)i”</b>	initial formation volume factor for oil (or gas)
<b>“B(s)cf”</b>	billion standard cubic feet equivalent hydrocarbon
<b>“Bscfe”</b>	billion standard cubic feet equivalent hydrocarbon
<b>“CGR”</b>	condensate: gas ratio
<b>“CVD”</b>	constant volume depletion (a laboratory experiment)
<b>“DST”</b>	drill stem test
<b>“Entitlement Volumes”</b>	the volumes of oil and/or gas which a Contractor receives under the terms of a PSA
<b>“EUR”</b>	expected ultimate recovery
<b>“ft”</b>	feet
<b>“FVF”</b>	formation volume factor
<b>“GIIP”</b>	gas initially in place
<b>“GPoS”</b>	geological probability of success
<b>“GRV”</b>	gross rock volume
<b>“GWC”</b>	gas-water contact
<b>“IRR”</b>	internal rate of return
<b>“k<sub>e</sub>”</b>	(effective) permeability
<b>“kg”</b>	kilogram
<b>“km”</b>	kilometre
<b>“m”</b>	metres
<b>“mm”</b>	millimetre
<b>“M”</b>	thousand
<b>“MD”</b>	measured depth
<b>“mD”</b>	(permeability in) millidarcies
<b>“MM”</b>	million
<b>“Mbbbl”</b>	thousand barrels

## Glossary of technical terms (continued)

<b>“MMbbl”</b>	million barrels
<b>“MMscf/d”</b>	millions of standard cubic feet per day
<b>“MMscfe”</b>	millions of standard cubic feet equivalent hydrocarbon
<b>“MMstb”</b>	million stock tank barrels
<b>“MOD”</b>	money of the day (calculated allowing for the effect of inflation)
<b>“N:G”</b>	net to gross ratio
<b>“NPV”</b>	net present value
<b>“OWC”</b>	oil-water contact
<b>“<math>p_{(b/r)}</math>”</b>	(bubble point or reservoir) pressure
<b>“ppm”</b>	parts per million
<b>“psi(a/g)”</b>	pounds per square inch (absolute/gauge)
<b>“PVT”</b>	pressure, volume & temperature
<b>“RF”</b>	recovery factor
<b>“<math>R_w</math>”</b>	water resistivity
<b>“S”</b>	skin, a measure of damage derived from well test analysis
<b>“sq km”</b>	square kilometres
<b>“scf”</b>	standard cubic feet
<b>“SPE”</b>	Society of Petroleum Engineers
<b>“SPEE”</b>	Society of Petroleum Evaluation Engineers
<b>“<math>S_w</math>”</b>	water saturation
<b>“TD”</b>	total depth
<b>“<math>T_r</math>”</b>	reservoir temperature
<b>“TVD”</b>	true vertical depth
<b>“TVDSS”</b>	true vertical depth (sub-sea)
<b>“WHFP”</b>	wellhead flowing pressure
<b>“WI”</b>	working interest
<b>“WPC”</b>	World Petroleum Council

## Expected timetable of events

Publication and despatch of this document	2 August 2011
Latest time and date for receipt of completed Forms of Proxy to be valid at the General Meeting	10.30 a.m. on 16 August 2011
General Meeting	10.30 a.m. on 18 August 2011
Exercise of Option Agreement	18 August 2011
Admission effective and dealings in the Enlarged Issued Share Capital commence on AIM	19 August 2011
Completion of the Acquisition	19 August 2011
CREST accounts expected to be credited with the Placing Shares, Consideration Shares and the Ordinary Shares to be issued following the exercise of the 2010 Warrants	19 August 2011
Share certificates in respect of the new Ordinary Shares expected to be despatched by	26 August 2011

*Note: If the above dates change, the revised times and dates will be notified to Shareholders by means of an announcement through a Regulatory Information Service*

## Share capital statistics

Placing Price	25 pence
Number of Existing Ordinary Shares	7,532,223
Number of Placing Shares to be issued*	6,079,120
Number of Placing Warrants to be issued*	6,079,120
Number of Consideration Shares to be issued	676,000
Number of Ordinary Shares being issued pursuant to the conversion of the Loan Notes 2011 Tranche A	1,666,666
Number of 2010 Warrants to be exercised on Admission	1,026,741
Number of Ordinary Shares in issue on Admission	16,980,750
Placing Shares as a percentage of the Enlarged Issued Share Capital	35.80 per cent.
Amount being raised under the Placing (before expenses)*	£1.52 million
Amount being raised under the Placing (after expenses)	£1 million
Market capitalisation at the Placing Price at Admission	£4.25 million

*Note: Further details of the share capital structure can be found on page 19 of Part I*

*\* Which includes the capitalisation of certain payments owing to the Directors and Proposed Directors*

## PART I

### Letter from the Chairman of Silvermere Energy plc

# Silvermere Energy plc

*(Incorporated in England and Wales with registered number 05131386)*

#### *Directors*

Bruce George Alexander Evers (*Executive Chairman*)  
John Roddison (*Finance Director*)  
Reinhold Adriaan Maria Heus (*Non-Executive Director*)

#### *Registered Office*

42 Brook Street  
London W1K 5DB

2 August 2011

*To Shareholders and, for information purposes only, to the holders of 2010 Warrants, 2011 Warrants and Options over Existing Ordinary Shares*

Dear Shareholder,

### **Proposed Acquisition of the Mustang Asset, Placing of 6,079,120 Ordinary Shares at 25 pence per share and 6,079,120 Placing Warrants to subscribe for Ordinary Shares, Notice of General Meeting and Admission to trading on AIM**

#### **Introduction and history**

The Company announced today that it has conditionally raised £1.52 million pursuant to the Placing and that it proposes, conditional on Shareholder approval, to exercise its option to acquire the Mustang Asset and at the same time seek admission of the Enlarged Issued Share Capital to trading on AIM. The purpose of the Placing is to provide working capital for the Group and to pay the costs associated with the Acquisition and Admission.

The Company is currently an investing company (as defined by the AIM Rules). Trading in the Company's Ordinary Shares was suspended on 26 January 2011 pursuant to Rule 15 of the AIM Rules as it had been an investing company for 12 months. The Acquisition requires the approval of Shareholders since, *inter alia*, it will result in a fundamental change in the business of the Company and will constitute a reverse take-over under the AIM Rules. As a consequence, the Directors are seeking Shareholders' approval for the Acquisition at the General Meeting. Irrevocable Undertakings to vote in favour of the Resolutions have been obtained from certain Existing Shareholders in respect of their shareholdings amounting to, in aggregate, 1,375,544 Ordinary Shares representing 18.26 per cent. of the Company's Existing Issued Share Capital.

The purpose of this document is to give you further information on the Proposals, to explain why the Board considers them to be in the best interests of the Company and its Shareholders as a whole, and to seek your approval of the Resolutions at the GM.

#### **Background**

The Company was incorporated in 2004 and admitted to trading on AIM in March 2006 under the name "The Core Business plc". In June 2009, the Company announced that its then business, being the creation, development and distribution of beauty brand products, had been negatively affected by the economic downturn.

In January 2010, the Company's principal trading subsidiary was placed into creditors' voluntary liquidation and was subsequently liquidated. In March 2010 the Company effected a company voluntary

arrangement and changed its business strategy to become an investing company seeking suitable acquisition opportunities in the natural resources sector. Reinhold Heus, John Roddison and I joined the Board in late 2010.

During the course of 2010, Silvermere initiated discussions with Core Oil & Gas, Inc (“Core”), which had agreed terms to acquire the Mustang Asset. Since November 2010, the Company has made a series of loans to Core, which now total £2.595 million, which Core has used principally to finance its share of the costs for the re-entering and subsequent testing of the I-1 Well (which lies within the Mustang Licence Area) and to pay the consideration due from Core for the Mustang Asset.

Silvermere has funded these loans and its own working capital requirements (including the payment of professional fees associated with the Proposals) through a series of share and loan note issues which have in aggregate raised £3.35 million for the Company.

On 29 April 2011, the Company entered into the Option Agreement with Core, superseding a previous option between the parties. Assuming that Shareholder approval is given for the Acquisition, the Company intends to exercise its option under the Option Agreement and complete the Acquisition at the same time as Admission.

## **The Mustang Asset**

### **Background – the offshore oil and gas industry in the United States**

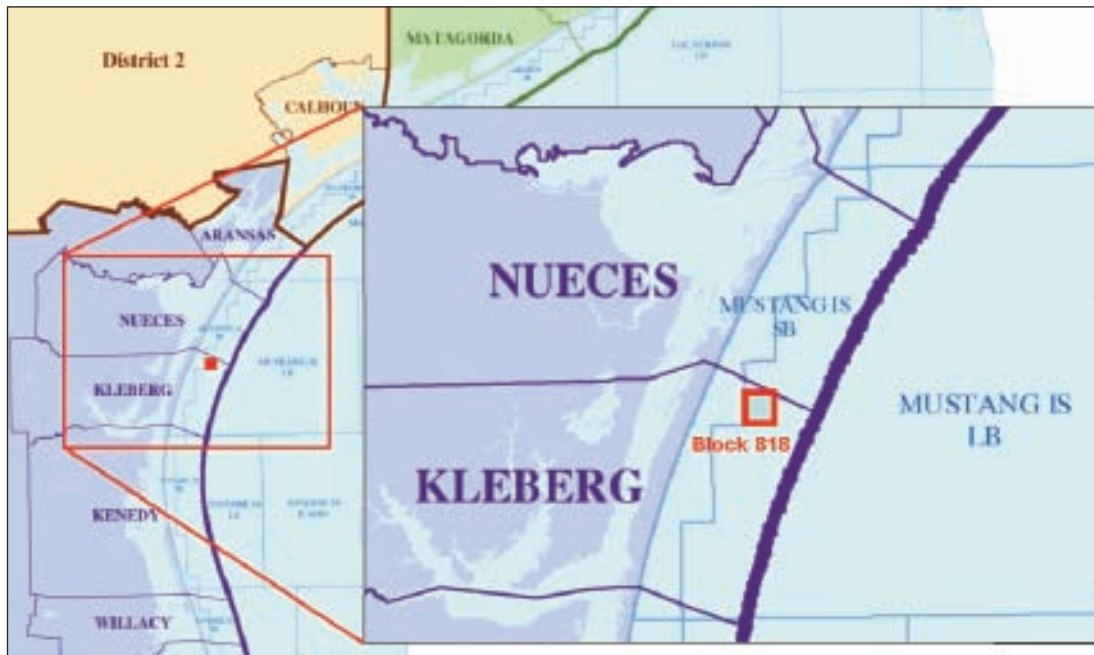
Offshore crude oil and natural gas production is an important component of US oil and gas supply and is expected to remain as such through to 2035. In 2009, offshore production of crude oil accounted for 1.79 million barrels per day or 33 per cent. of the 5.36 million barrels per day of total US production, while offshore production of natural gas accounted for 2.70 trillion cubic feet or 13 per cent. of the 20.96 trillion cubic feet of US production.

The Gulf of Mexico area, both onshore and offshore, is said to be one of the most important regions for energy resources and infrastructure, with over 40 per cent. of total US petroleum refining capacity and almost 30 per cent. of total US natural gas processing plant capacity. (*Source: Annual Energy Outlook 2011 (with Projections to 2035) published by the US Energy Information Administration*)

### **The Mustang Asset**

The Mustang Asset comprises a 33.3 per cent. working interest and a 20.83 per cent. net entitlement interest (after deductions of overriding royalties) in the Mustang Licence Area.

The Mustang Island 818-L field, located in Kleberg County waters of the Gulf of Mexico (see Figure 2.1), is a field re-habilitation project targeting bypassed or only partially produced gas-condensate. The Mustang Island 818-L field was drilled and produced by Samedan Oil Corp in the 1980s, based on 2D seismic mapping. At abandonment some 25 wells had been drilled targeting several stacked clastic reservoir sands grouped as the ‘A’, ‘B’, ‘G’ and ‘I’ sands. During the period from January 1980 to February 1995, the field had produced a total of 138.9 Bcf of gas. This includes production from the D1 and D2 wells which are outside of the seismic area and therefore not taken into consideration for this evaluation. Total historic production from the wells within the seismic coverage is 125.6 Bcf. (Source: RPS, page 40 of the CPR in Part III)



**Figure 1 – Mustang Island Block 818 location map**  
 (Source: RPS, page 40 of the CPR in Part III)

The ‘I’ sands, which lie at depths in excess of 11,000 feet, are the primary targets for the initial phases of development of wells within the Mustang Asset. Historic production by Samedan Oil Corporation on the Mustang Licence Area recovered gas from various sands, but as stated in the Competent Person’s Report (pages 51-54) volumes of recoverable gas and associated oil remain in these formations.

Based on the structures mapped, each of three fault blocks has a structural high, which is likely to be where remaining gas will accumulate. In each fault block, none of these structural highs has been drilled by any of the existing well stock, further supporting the idea of remaining attic gas being present. For this reason, three new wells are recommended in the outline field development plan to test and subsequently produce the remaining gas volumes.

Drilling and tie-in costs have been estimated by Core based on its recent activity. Estimates of US\$5 million to US\$8 million include the costs of connecting the wells into the existing infrastructure which is itself connected to the Six Pigs processing facility onshore on Padre Island, Texas. The infrastructure (mini platform, flow-lines, main 20 inch export line to Six Pigs and the Six Pigs processing facility itself) is believed to be in good order.

Texas Land office leases 108873 & 108874 corresponding to the Mustang Asset cover only a quarter of Block 818-L, the Southern half of the North-West quarter and the Northern half of the South-West quarter respectively. Both leases were registered to Magellan E&P Holdings Inc. (“Magellan”) with the Texas General Land Office. The subsequent offshore operating agreement between Magellan, Seadrift and Gulf Standard Energy LLC agreed a 33.3 per cent. split between the three parties. The Magellan and Gulf Standard working interests were subsequently acquired by Dominion Production Company LLC who also became the operator of the Mustang Licence Area. Core completed the purchase of Seadrift’s entire working interest on 1 July 2011.

### **2011 Operations on the Mustang Asset**

The purchase of and Core’s share of the costs of operations on the Mustang Asset have been financed during 2011 by a series of loans made to Core by the Company which are secured on the Mustang Asset. Cancellation of the debt due from Core to the Company is a significant element of the consideration for the proposed Acquisition.

Early in 2011 the Hercules Offshore 205 jack-up rig was contracted to re-enter the I-1 Well on the Mustang Licence Area which was considered to be the most likely of the historic well sites to provide



optimum re-entry conditions. The I-1 Well re-entry and side-tracking operation was completed in March 2011 leaving it ready to complete in sand horizons I-1 to I-6. Production and flow testing was carried out during June 2011. The well re-entry programme was led by Dominion as the operator.

The results of the flow test are still being analysed but early indications are considered by the Directors and Proposed Directors as being consistent with the Company's internal projections upon which this document is based. Under test, the I-1 Well flowed at up to 2MMscf/d gas with associated but unstable liquids flow. This is expected to increase as the I-1 Well is cleaned up and stabilised. Although it is hoped that production will start earlier, the Company's internal projections assumes a production rate of 4MMscf/d gas and 160 bbls/d oil from early 2012 which is consistent with the expected increase after an initial production period of 45-60 days. In the event that production rates are less than these projections, additional zones can be perforated and produced which may therefore, enable the modelled production rates to be achieved.

Gas and oil produced from the I-1 Well is proposed to be connected to pipeline infrastructure and tied-in via a subsea tree, constructed for the purpose and then transported to the Six Pigs gas facility.

The re-entry of the I-1 Well is separate and additional to the three new wells recommended in the outline field development plan. However, the production performance will provide information that may be used to upgrade resources estimates and refine the field development plan.

Under the terms of the JOA, Dominion is designated as the operator of the Mustang Asset. Dominion Production Company, LLC, is a US-based domestic limited liability company registered on 5 December 2008 in the state of Florida, with offices based in Corpus Christi, Texas. The company's active officers include W Andrew Krusen and David Burns.

Under the terms of the Acquisition, Core will retain a 16.65 per cent. working interest in the I-1 Well only. The Company will carry Core's share of the tie-in costs, but beyond that, Core will be responsible for its share of any operating expenses or additional capital required.

The effect of the Company's lower working interest in I-1 Well from this well only is to reduce the estimated cash flow from this well. It does not, however, have any effect on estimated reserves or on the corresponding valuation as these are based on subsequent wells.

## Summary of Reserves and Valuation

### Reserves

Reserves have been evaluated in the Mustang Licence Area by RPS Energy, an independent technical consulting firm. The gross, working interest and net entitlement reserves are given in Table A below.

**Table A: Summary of Reserves for Mustang Island**

Reserves Basis	Gross Field Reserves <sup>1</sup>		Working Interest Reserves <sup>2</sup>		Net Entitlement Reserves <sup>3</sup>	
	Liquids <sup>4</sup> (MMbbl)	Gas (Bscf)	Liquids (MMbbl)	Gas (Bscf)	Liquids (MMbbl)	Gas (Bscf)
1P	0.132	21.92	0.044	7.31	0.027	4.57
2P	1.204	48.14	0.401	16.05	0.251	10.03
3P	9.113	91.13	3.035	30.38	1.899	18.99

(Source: RPS, Table A of the CPR on page 33 of Part III)

1. Gross, 100% Basis
2. Silvermere WI, 33.333334% Basis
3. Silvermere Net Entitlement, 20.83% after over-riding royalties to Texas State, Seadrift, Wellmaster and the Core Vendors
4. Liquids refer to the condensate that condenses out of the gas

## Valuation

The net present value (discounted at 10 per cent.) of the reserves have been estimated by the CPR to be (as at 1 July 2011):

**Table B: NPV10 to Silvermere of the Mustang Island Reserves**

	Silvermere's Net Entitlement Reserves (Bscfe)	Silvermere's Net Entitlement NPV <sub>10</sub> (US\$ millions)	IRR
1P	4.73	4.49	23%
2P	11.53	24.87	79%
3P	30.38	94.36	395%

(Source, RPS, Table B of the CPR on page 33 in Part III)

For further information, prospective investors are recommended to read the Competent Person's Report set out in Part III.

## Terms of the Proposed Acquisition

Details of the Acquisition are set out in the Option Agreement, a summary of which can be found at paragraph 12.16 of Part IV of this document.

The Option Agreement provides for the following:

- Cancellation of the debt due from Core to Silvermere (which amounts to £2.595 million);
- Payment of certain of Core's legal fees amounting to £20,000;
- Payment to the Core Vendors of an over-riding royalty of 4 per cent. of the annual revenues attributable to 100 per cent. of the Mustang Asset;
- Retention by Core of a 16.65 per cent. working interest in the I-1 Well only, with the Company carrying Core's share of the tie-in costs; and
- The issue at Admission of the Consideration Shares to the Core Vendors (this will be effected by a payment by the Company to the Core Vendors of £169,000, which the Core Vendors will use to subscribe for the Consideration Shares).

Thus the total effective consideration payable by Silvermere at Admission is £2.8 million. The amount of on-going royalties payable will depend on production and revenue from the Mustang Asset.

Immediately following completion of the Acquisition the parties which will hold a working interest in the Mustang Asset and the I-1 Well, respectively, will be as follows:

	Mustang Asset Working Interest	I-1 Well Working Interest
Dominion	66.7%	66.7%
Silvermere	33.3%	16.65%
Core	–	16.65%
	100%	100%

Silvermere's net entitlement (as shown in Table A of the CPR on page 33 in Part III) is 20.83 per cent. after over-riding royalties as follows:

- A royalty of 22.5 per cent. of total revenues generated from Mustang Island production is payable to the State of Texas, on the assumption that production starts by 29 May 2012. If Mustang Island production starts after 29 May 2012 this rate will increase to 25 per cent. Silvermere is obliged to pay a third of this total royalty obligation.
- An overriding royalty of 0.75 per cent. of total revenues generated from Mustang Island production, payable by Silvermere to Wellmaster Exploration & Production Co., LLC, once Core's share of field revenue, gross of royalty, exceeds \$100,000.



- An overriding royalty of 0.25 per cent. of total revenues generated from Mustang Island production, payable by Silvermere to Seadrift Management, LLC.
- An overriding royalty of 4 per cent. of total revenues generated from Mustang Island production, payable by Silvermere to the Core Vendors (as referred to above).

The Competent Person's Report shows proven and probable reserves attributable to Silvermere's net entitlement interest which RPS has valued at \$29.36 million (approximately £18.35 million) and, accordingly, the Directors and Proposed Directors believe that the terms of the Acquisition are attractive.

On the day of the GM, and subject to the passing of the Resolutions, the Company will serve notice on Core exercising its rights under the Option Agreement and directing that the Mustang Asset be transferred to the US Subsidiary, which has been incorporated for that purpose. Completion is expected to take place the following day.

## **Strategy**

Under the guidance of the New Board, the Company intends to pursue a strategy of acquiring a portfolio of US oil and gas licence interests onshore and in shallow offshore waters, characterised by relatively low risk and low cost with the potential for near term production. The Acquisition will provide a good base from which to develop this strategy.

Whilst there can be no categorical assurance given at this time, the Directors and Proposed Directors are optimistic that the I-1 Well will begin production before the end of 2011.

## **Directors and Proposed Directors**

Details of the Directors and Proposed Directors of the Company are set out below. On Admission, it is proposed that John Roddison and Reinhold Heus resign as directors, that I become a Non-Executive Director and that the following be appointed to the board: Frank Moxon as Non-Executive Chairman, Andy Morrison as Chief Executive, and Stewart Dalby as a Non-Executive Director.

### ***Directors***

**Bruce Evers** (Executive Chairman), aged 51, has 27 years' experience of working in the City including roles at Panmure Gordon, Schrodgers, Yamaichi, Investec and Evolution. He has extensive experience of the oil and gas sector as an analyst, specialist salesman and corporate broker. He has advised and raised money for numerous oil and gas companies with operations in many different areas of the world.

**John Roddison** (Finance Director), aged 56, is a chartered accountant and is senior partner of Brown McLeod, a Sheffield based accounting firm. He will resign immediately following Admission.

**Reinhold Heus** (Non-Executive Director), aged 54, started his career with Royal Dutch Shell later working for Daiwa Securities, ANZ Investment Bank and latterly Faircourt Capital Company Ltd. He will resign immediately following Admission.

### ***Proposed Directors***

**Frank Moxon** (Proposed Non-Executive Chairman), aged 44, is an experienced corporate financier specialising in natural resources. Now practising through his own firm, Hoyt Moxon, he was previously head of corporate finance and head of natural resources at Williams de Broë at the time it was acquired by Evolution Securities. He holds a number of non-executive directorships including Cove Energy Plc (AIM quoted), Whetstone Minerals Ltd (TSX-V quoted) and Imperial Minerals Plc (Plus quoted) and is a fellow of the Energy Institute and a member of the Petroleum Exploration Society of Great Britain.

**Andy Morrison** (Proposed Chief Executive), aged 50, has spent his entire career in the oil and gas industry. From 1982 until 1999, he worked for Shell in a variety of commercial roles in the UK, Asia and South America. He then worked for BG and subsequently for BOC in new business development and strategic roles. From 2007 until 2010 he was CEO of Xtract Energy plc which is quoted on AIM and which manages a portfolio of projects in oil and gas exploration and production.

**Stewart Dalby** (Proposed Non-Executive Director), aged 66, is the founding editor and publisher of Oilbarrel.com, a leading website and conference business for small cap and mid-tier oil and gas companies that he successfully sold to Rivington Street Holdings in 2008. He has over 40 years' experience as a journalist and commentator on the global oil and gas industry during which he has acquired a broad range of industry contacts at both board and technical levels. He has previously worked as a stockbroker and investment analyst.

At this stage in the Company's development, the Directors and the Proposed Directors do not believe it necessary or cost effective to employ a finance director. The Company has appointed Welbeck Associates, a firm of chartered accountants, to provide accounting services and Andy Morrison's duties as Chief Executive will include oversight of the Company's financial affairs.

The Company intends to appoint a suitable firm or individual to provide technical expertise and advice to the New Board, who will also be responsible for reviewing and approving the content of any resource or drilling update provided by the Company in regulatory announcements made to the London Stock Exchange.

The Directors and the Proposed Directors will monitor the effectiveness of these arrangements and at the appropriate time will consider bringing some or all of these functions in house.

### **Use of Placing proceeds**

The proceeds of the Placing, together with the Company's existing cash resources, will be used as follows:

- approximately \$960,000 (£600,000) will be used to pay the Company's share of the cost of the tie-back from the I-1 Well to nearby pipeline infrastructure;
- approximately £548,780 will be used for the Company's general working capital requirements; and
- approximately £526,000 will be used to pay the costs (including VAT) of Admission.

### **Current trading**

The Company has been an investing company since January 2010. It published its results for the seven months ended 31 December 2010 in June 2011.

Since 31 December 2010 the Company's activities have principally comprised the raising of funds to lend to Core and to cover its overheads. The Company intends to release its interim results to 30 June 2011 in September 2011.

## Capital structure

The Company's capital structure can be summarised as follows:

	Number	Note
Total Ordinary Shares in issue at the date of this document	7,532,223	
Loan Notes 2011 Tranche A	1,666,666	<i>Value £375,000, converting at 22.5p per Ordinary Share at Admission (paragraph 12.9 of Part IV)</i>
2010 Warrants, committed to be exercised at Admission	1,026,741	<i>Subject to lock-in/orderly market agreements (paragraph 12.25 of Part IV)</i>
Consideration Shares	676,000	<i>Subject to lock-in agreements (paragraph 12.4 of Part IV)</i>
Placing Shares	6,079,120	
<b>Enlarged Issued Share Capital</b>	<b>16,980,750</b>	
2010 Warrants, not committed to be exercised at Admission	2,212,956	<i>Subject to lock-in/orderly market agreements (paragraph 12.25 of Part IV)</i>
2011 Warrants	2,857,143	<i>Exercisable at 30p each up to May 2013</i>
Loan Notes 2011 Tranche B	1,071,429	<i>Convertible at 35p to July 2013 (paragraph 12.9 of Part IV)</i>
2015 CLNs	408,223	<i>Convertible at 20p per share to 2015 (paragraph 12.24 of Part IV) subject to orderly market agreements</i>
Placing Warrants	6,079,120	<i>Exercisable at 30p each up to August 2013</i>
Directors' share options/warrants	800,000	<i>Exercisable at Placing Price</i>
<b>Fully diluted share capital</b>	<b>24,330,500</b>	

*For the purpose of this table, we have assumed maximum possible exercise of warrants and convertible loan notes*

There are, in addition, warrants to (in effect) subscribe for a further 14,500 Ordinary Shares at an exercise price of £60 and 42,247 Deferred Shares, which are deemed to be valueless.

## Dealing restrictions

On Admission, the Directors and the Proposed Directors will be interested in an aggregate of 1,337,988 Ordinary Shares, representing 7.88 per cent. of the Enlarged Issued Share Capital, 347,920 Placing Warrants and 100,000 other warrants. In addition, on Admission t1ps Investment Management (IOM) Limited and its associated parties will be interested in 2,768,676 Ordinary Shares, representing 16.30 per cent. of the Enlarged Issued Share Capital, and 1,483,200 Placing Warrants. Details of these interests are set out in paragraph 8.1 of Part IV of this document.

In accordance with Rule 7 of the AIM Rules, the Directors, Proposed Directors and t1ps Investment Management (IOM) Limited on behalf of themselves, their families and other persons deemed to be connected with them, have undertaken to Merchant Securities and the Company not to dispose of such interests (subject to certain limited exceptions) for 12 months after Admission. The Directors and Proposed Directors have also undertaken that for a further period of 12 months they will only deal or otherwise dispose of any such interests in the first instance through one or more of the Joint Brokers (or the Company's then broker at the relevant time), subject to being offered terms as to price and rates of commission at least as favourable as those generally offered by other brokers at that time. However, notwithstanding these restrictions, the Directors and the Proposed Directors may transfer their Ordinary Shares in accordance with the provisions of Rule 7 of the AIM Rules.

In addition, certain other parties holding 676,000 Ordinary Shares or conversion rights into 800,000 Ordinary Shares have undertaken, pursuant to lock-in agreements with the Joint Brokers and the Company not to dispose of any interest in the Ordinary Shares held at Admission for a period of

12 months following Admission without the consent of, *inter alia*, Merchant Securities save in certain limited circumstances. Other parties holding conversion rights into 2,258,118 Ordinary Shares have each undertaken that for a period of 12 months they will only deal or otherwise dispose of any such interests in the first instance through Merchant Securities, or through OPL or RSCF (or in the event that neither of them are at that time brokers to the Company, the Company's broker at the relevant time), subject to being offered terms as to price and rates of commission at least as favourable as those generally offered by other brokers at that time.

Further details of these arrangements are set out in paragraphs 12.3 to 12.5 of Part IV of this document.

### Historical financial information of Silvermere

During the seven month period ended 31 December 2010 the Company incurred a loss before tax of £152,826 and generated no revenue. As at 31 December 2010, the Company had net assets of £440,552.

Your attention is drawn to the Company's audited report and accounts for the years ended 31 May 2010, 2009 and 2008 and the audited report and accounts for the seven month period ended to 31 December 2010 (together the "Accounts"). The Accounts are available to download in pdf format from the Company's website [www.silvermere-energy.com](http://www.silvermere-energy.com). The financial information on the Company is included in the Company's financial statements and the notes to them.

Shareholders may request a hard copy of the Accounts from the offices of Memery Crystal LLP, 44 Southampton Buildings, London WC2A 1AP or alternatively by telephone on +44 (0)20 7242 5905.

### Details of the Placing

Under the terms of the Placing Agreement, the Joint Brokers have agreed, as agents for the Company, to use their reasonable endeavours to procure placees for the Placing Shares at the Placing Price and for the Placing Warrants to raise £1.52 million for the benefit of the Company. The Placing is conditional, *inter alia*, upon completion of the Acquisition, Admission and the Placing Agreement becoming unconditional and not being terminated in accordance with its terms. The Placing Shares, when issued and fully paid, will rank *pari passu* with the Existing Ordinary Shares. The Placing Shares will be conditionally allotted and issued prior to Admission credited as fully paid subject only to Admission, which is expected to occur on 19 August 2011. Further details of the Placing Agreement are set out in paragraph 12.2 of Part IV of this document. The Placing Warrants will not be admitted to trading on any market but will be freely transferable.

As part of the Placing, certain Directors and Proposed Directors have agreed to capitalise certain payments owed to them amounting to £73,980, in aggregate, by subscribing for 295,920 Placing Shares at the Placing Price and Placing Warrants. In addition, Frank Moxon has agreed to subscribe for a further 52,000 Ordinary Shares and Placing Warrants in the Placing. The total number of Ordinary Shares and Placing Warrants subscribed for and the subsequent holdings of the Directors and Proposed Directors concerned as a percentage of the Enlarged Issued Share Capital are as follows:

	No. of Placing Shares subscribed for	No. of Placing Warrants subscribed for	Shareholding following Admission	Percentage holding of enlarged issued share capital	Warrants held post Admission
Bruce Evers	96,000	96,000	96,000	0.57	96,000
John Roddison	40,000	40,000	1,030,068	6.07	40,000
Frank Moxon*	144,000	144,000	144,000	0.85	144,000
Andy Morrison**	67,920	67,920	67,920	0.40	67,920
	347,920	347,920	1,337,988	7.88	347,920

\* held in the name of Hoyt Moxon Limited, a company wholly owned by Frank Moxon

\*\* 52,000 Ordinary Shares will be held in Andy Morrison's SIPP.

In addition, t1ps Investment Management (IOM) Limited and its associated parties and XCAP Securities plc, substantial shareholders of the Company, have each agreed to subscribe for 1,483,200

and 700,000 Placing Shares and Placing Warrants, respectively. Following Admission, t1ps Investment Management (IOM) Limited and its associated parties and XCAP Securities plc will be beneficially interested in 2,768,676 and 1,956,480 Ordinary Shares, respectively, equivalent to 16.30 per cent. and 11.52 per cent. of the Enlarged Issued Share Capital, and 1,483,200 and 700,000 Placing Warrants respectively.

In accordance with Rule 13 of the AIM Rules, the independent Director, being Reinhold Heus, having consulted with Merchant Securities, the Company's nominated adviser, considers that the participation in the Placing by the Directors, Proposed Directors and certain substantial shareholders is fair and reasonable insofar as the Company's shareholders are concerned.

## **Share Option Scheme**

The Directors and the Proposed Directors believe it is important that Directors, employees and consultants of the Company are appropriately and properly incentivised. To this end, the Company has established the Share Option Scheme, under which eligible persons have been and will be invited to participate at the discretion of the Directors and the Proposed Directors.

Further details of the Share Option Scheme are set out in paragraph 13 of Part IV of this document. The basis of any allocation and any condition attaching to these options will be determined by the Remuneration Committee.

Conditional on Admission, the Company has agreed to grant share options over 700,000 Ordinary Shares, and warrants to subscribe for 100,000 Ordinary Shares, to certain of the Directors and the Proposed Directors, details of which are summarised in paragraph 13 of Part IV of this document.

## **Taxation**

Details of certain taxation implications which may be relevant to holding or dealing in Ordinary Shares are set out in paragraph 20 of Part IV of this document. If you are in any doubt of your tax position you should consult your own tax adviser.

## **CREST**

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument in accordance with the CREST Regulations.

The Ordinary Shares are eligible for CREST settlement. Accordingly, settlement of transactions in the Ordinary Shares may take place within the CREST system if a Shareholder so wishes. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so.

## **Corporate governance**

The Directors and Proposed Directors recognise the importance of sound corporate governance and with that aim, the Company has adopted policies and procedures which reflect the principles of the QCA Code as are appropriate to the Company's size. The Company does not currently comply fully with the QCA Code due to its early stage nature but it is intended that the Company will comply in future as circumstances permit.

Following Admission, the Directors and the Proposed Directors will meet monthly to review key operational issues and the strategic development of the Company. The financial performance of the Company will be reported and monitored. All matters of a significant nature will continue to be discussed in the forum of a board meeting. The Directors and the Proposed Directors will be responsible for internal controls to minimise the risk of financial or operational loss or material misstatement. The controls established will be designed to meet the particular needs of the Company having regard to the nature of its business.

The Company has established an Audit Committee and a Remuneration Committee with formally delegated duties and responsibilities. It is intended that following Admission, the Audit Committee will



comprise of Frank Moxon as chairman and Stewart Dalby, while the Remuneration Committee will comprise of Stewart Dalby as chairman, Bruce Evers and Frank Moxon. A Nomination Committee will also be established with Frank Moxon as chairman and Andy Morrison and Bruce Evers as members.

The Audit Committee determines the terms of engagement of the Company's auditors and will determine, in consultation with the auditors, the scope of the audit. The Audit Committee receives and reviews reports from management and the Company's auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. The Audit Committee has unrestricted access to the Company's auditors. Post Admission the Audit Committee will also be responsible for monitoring the Company's risks and implementing anti-bribery and other systems.

The Remuneration Committee reviews the scale and structure of the executive Directors' and senior employees' remuneration and the terms of their service or employment contracts, including share option schemes and other bonus arrangements. The remuneration and terms and conditions of the Non-Executive Directors are set by the entire board.

Following Admission, the Company will adopt a policy on bribery to comply with the requirements of the UK Bribery Act 2010.

The Company will ensure, in accordance with Rule 21 of the AIM Rules, that the New Board and applicable employees do not deal in any Ordinary Shares during a close period (as defined in the AIM Rules). In addition, the Company has adopted a code on dealings in the Company's securities.

The members of the New Board believe that they have sufficient experience in accounting systems and controls which will provide a reasonable basis for them to make proper judgements as to the financial position and prospects of the Company.

## **Dividend policy**

The Directors and the Proposed Directors do not envisage the payment of a dividend for the foreseeable future.

## **General Meeting**

You will find set out at the end of this document a notice convening the GM to be held at the offices of Memery Crystal LLP, 44 Southampton Buildings London WC2A 1AP on 18 August 2011 at 10.30 a.m. where resolutions will be put to:

- (1) approve the Acquisition, for the purposes of Rule 14 of the AIM Rules; and
- (2) authorise the Directors to issue Ordinary Shares and disapply pre-emption rights in respect of the Proposals.

## **Action to be taken in respect of the General Meeting**

Shareholders will find enclosed with this document the Form of Proxy for use at the General Meeting. The Form of Proxy should be completed and returned in accordance with the instructions printed thereon so as to arrive at the Company's registrars, Share Registrars at Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL as soon as possible and in any event not later than 10.30 a.m. on 16 August 2011. **If you hold Existing Ordinary Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to the Registrar (CREST participant ID 7RA36), so that it is received by no later than 10.30 a.m. on 16 August 2011. The completion and return of a CREST Proxy Instruction will not preclude you from attending and voting in person at the General Meeting or any adjournment thereof, if you so wish and are so entitled.** The completion and return of the Form of Proxy or a CREST Proxy Instruction will not preclude you from attending the General Meeting and voting in person if you wish to do so.

If the Form of Proxy is not returned or the CREST Proxy Instruction submitted by 10.30 a.m. on 16 August 2011, your vote will not count.

## **Other information**

Your attention is drawn to Parts II to V of this document which provides additional information on the matters detailed above.

## **Recommendation**

**The Directors, having been so advised by Merchant Securities, believe the terms of the Proposals are fair and reasonable and in the best interests of the Company and its Shareholders as a whole. In providing advice to the Board, Merchant Securities has taken into account the Directors' commercial assessments.**

**If Shareholders do not vote to approve the Proposals at the General Meeting, neither the Acquisition nor the Placing will complete and Admission will not take place. In that event, the Company will not have completed an acquisition in line with its investing policy and will lose its trading facility on AIM, in which case Shareholders will hold shares in respect of which there is no public market.**

**Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Resolutions, as they have undertaken to do in respect of their aggregate holdings of 90,068 Ordinary Shares representing approximately 1.2 per cent. of the Existing Ordinary Shares, by signing and returning the Form of Proxy to the Company's Registrars.**

## **Admission and dealings**

Application will be made to the London Stock Exchange for the Enlarged Issued Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Enlarged Issued Share Capital will commence on 19 August 2011.

Yours faithfully

**Bruce Evers**  
*Executive Chairman*

## PART II

### Risk Factors

**Potential investors and Existing Shareholders should carefully consider the risks described below before making a decision to invest in the Company or vote in favour of the Proposals. This Part II contains what the Directors and Proposed Directors believe to be the principal risk factors associated with an investment in the Company. It should be noted that this list is not exhaustive and that other risk factors will apply to an investment in the Company. If any of the following risks actually occur, the Company's business, financial condition and/or results or future operations could be materially adversely affected. In such circumstances, the trading price of the Ordinary Shares could decline and an investor might lose all or part of his investment.**

#### **1. RISKS RELATING TO THE PROPOSED PLACING AND ACQUISITION**

##### **1.1 Conditionality of the Acquisitions**

Completion of the Acquisition is subject to the satisfaction (or waiver, where applicable) of a number of conditions, including *inter alia*:

- (i) the passing of the Resolutions; and
- (ii) Admission.

There is no guarantee that these (or other) conditions will be satisfied (or waived, if applicable), in which case the Acquisition and the Placing will not complete.

##### **1.2 Successful drilling of the Mustang Island Asset**

The successful drilling of the reserves from the Mustang Island Asset is critical to the success of the Company. The failure of the Company to successfully realise these reserves would have a material adverse effect of the Company's financial condition and results of operations.

##### **1.3 The Placing**

Completion of the Placing is subject to certain conditions set out in the Placing Agreement being satisfied, including Admission and completion of the Acquisition. Accordingly, if the right to acquire the Mustang Asset pursuant to the Option Agreement is not concurrently exercised by the Company, the Placing will not complete.

##### **1.4 Completeness of due diligence: impact and title risks**

The Company has carried out commercial, technical, legal and financial due diligence in respect of the Mustang Asset. Although certain enquiries and documentation requested pursuant to these exercises are outstanding and could remain so at the time when the Directors may consider completion of the Acquisition to be commercially justified, the Directors are not aware of any adverse claims on title to the Mustang Asset.

Certain documentation within the chain of title for the Mustang Asset is missing and as a result, title to the Mustang Asset is not capable of conclusive determination. The gaps in title are historic and these circumstances are not unusual in the US for older assets such as the Mustang Asset. Pursuant to the terms of the documents exercising the Company's right to acquire the Mustang Asset, including the Option Agreement, the Company has obtained representations and warranties from Core with respect to their title to the Mustang Asset. Upon the Company's exercise of their right of option, Core will execute a Special Warranty Deed to the Company, thereby promising to defend the Company's title in certain circumstances. The Company believes that it has carried out sufficient investigations to confirm that Core has satisfactory title to its interests in the Mustang Asset. However, due to the lack of absolute determination of title, there is no assurance that, following completion of the Acquisition, all potential risks and liabilities associated with title to the Mustang Asset have been uncovered or quantified.



The Company will need to raise additional capital in the future to fund the Company's obligations in respect of the development of the Mustang Asset and in order to meet its commitments under the field development plan, to be agreed with the Texas Railroad Commission. If additional financing is not available, or available only on terms that are not acceptable to the Company, it will not be able to fund the development of the Mustang Asset and, in the event that it cannot meet its commitments under the field development plan, the Company could default and lose its interest in the Mustang Asset and the JOA. Additionally, the Company will be unlikely to be able to fund the expansion of its business, attract qualified personnel, take advantage of business opportunities or respond to competitive pressures. Any of these events could harm the Company's business.

In addition, if the Company raises funds by issuing additional shares or debt or other securities convertible into Ordinary Shares, its Shareholders will experience dilution, which may be significant, to their ownership interest in the Company. If the Company raises funds by issuing shares of a different class or by issuing debt, the holders of such different classes of shares or debt securities may have rights senior to the rights of Shareholders.

## **2. RISKS RELATING TO THE COMPANY'S BUSINESS AND STRUCTURE**

### **2.1 The Company's objectives may not be fulfilled**

The value of an investment in the Company is dependent upon the Company achieving the aims set out in this document. There can be no guarantee that the Company will achieve the level of success that the Directors and the Proposed Directors expect.

### **2.2 Industry Partner Risk**

The Company's future development strategy may rely on its ability to obtain or retain industry partners. There is no guarantee that the Company will be able to identify or agree suitable funding arrangements with such industry partners or that they will be able to implement the necessary arrangements.

### **2.3 Joint Venture Party and Contractor Risks**

The Company, following Completion, will not be the operator of the Mustang Asset and will therefore be exposed to various risks related to its co-venturers, joint venture parties and contractors that may adversely affect its current and proposed activities and current and proposed interests, including:

- (a) financial default, non-compliance with obligations or default by a participant in any joint venture or farm-in/farm-out arrangement to which it is, or may become, a party;
- (b) insolvency or other managerial default by any of the contractors used by the Company or any joint venture or farm-out/farm-in party in the proposed exploration activities; and
- (c) insolvency or other managerial default by any of the other service providers used by the Company or any joint venture or farm-out or farm-in party for any activity.

Should any of the parties mentioned in (a), (b) or (c) above fail to meet, or cause an inability to meet, the financial obligations under any arrangement or agreement to which it is a party, this could result in the Company being forced to secure additional financing in order to fulfil the continuing obligations of any development plan in place at that time.

The Company's dependence on its co-venturers and other working interest owners and the Company's limited ability to influence operations, the levels of financial commitment third parties choose to dedicate to such projects and the associated costs of such third parties could have a material adverse effect on the Company's financial position and performance.

### **2.4 Corporate and regulatory formalities**

The jurisdictions in which the Company may currently or in future obtain interests or conduct operations and the steps involved in the Company acquiring its current interests involve or may involve the need to comply with numerous procedures and formalities. In some cases, failure to follow such formalities or obtain relevant evidence may call into question the validity of the entity or the actions taken.

## **2.5 Competition**

A number of other oil and gas companies operate, and are allowed to bid for, licences in the US where the Company intends to operate in the future, thereby providing competition to the Company. Larger companies, in particular, may have access to greater resources than the Company which may give them a competitive advantage.

## **2.6 Dependence on key personnel**

The Company's success depends to a significant extent on the continued services of its core senior management team. If one or more of these individuals were unable or unwilling to continue in his present position, the Company's business would be disrupted and it might not be able to find replacements on a timely basis or with the same level of skill and experience. Finding and hiring any such replacements could be costly and might require the Company to grant significant equity awards or other incentive compensation, which could adversely impact its financial results.

The Company's success depends upon its ability to attract, retain and motivate highly skilled technical, managerial administrative support personnel. Because competition to attract such personnel is intense in the industry in which the Company operates, the Company may experience difficulty attracting, integrating or retaining the number of qualified personnel needed successfully to implement its business strategy. If the Company is delayed in recruiting key employees, it may be forced to incur significant additional recruitment, compensation and relocation expenses. If it is unable to hire and retain such personnel in the future, the Company may not be able to operate its business as it does today or meet the needs of its clients.

## **2.7 Dependence upon licences and other permits**

The ability of the Company to develop oil and gas reserves and resources in its target jurisdictions depends on the grant of licences, concessions, leases, permits and regulatory consents which may be refused, withdrawn or made subject to limitations. There can also be no assurance that an application for a new permit, licence or lease, an assignment of a permit, licence or lease will be approved or enacted. Governmental approvals, licences and permits are, as a practical matter, subject to the discretion of the applicable governments or governmental offices. The Company must comply with existing laws and regulations 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 Company's results of operations, financial conditions and prospects.

## **2.8 Insurance risks**

Where required to do so, the Company plans to insure the operations of the Company in accordance with industry practice and to insure other risks it considers appropriate for the Company's needs and circumstances. Insurance cover will not be available for every risk faced by the Company. Although the Company believes that where required to do so it should carry adequate insurance with respect to its holdings and operations in accordance with industry practice, in certain circumstances the insurance protection purchased by the Company or the operator Dominion/other JV parties/contractors (as applicable) may not cover or be adequate to cover the consequences of certain events. In addition, the Company may be subject to liability for pollution, blow-outs, or other hazards against which the Company or the operator may elect not to insure because of high premium costs or for other reasons. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of operations of the Company.

There is a risk that insurance premiums may increase to a level where the Company considers it is unreasonable or not in the Company's interests to maintain insurance cover or a level of coverage consistent with industry practice. In addition, the Company may, following a cost-benefit analysis, elect not to insure certain risks on the grounds that the premiums payable for that risk are excessive when compared to the potential benefit to the Company of the insurance cover.

## **2.9 Company voluntary arrangement**

So far as the Company is aware, all necessary steps required to complete its 2009 company voluntary arrangement have been correctly carried out. However, if the company voluntary arrangement is deemed to have been incorrectly implemented or is unwound for any reason, the Company may be liable to creditors for debts that would otherwise have been cancelled by the company voluntary arrangement.

## **2.10 Litigation risks**

Legal proceedings may arise from time to time in the course of the Company'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 not be brought against the Company in the future from time to time or that it may not be subject to any other form of litigation. The Company may find it difficult, impossible or very costly to enforce the rights it may have under agreements it may enter into.

# **3. OIL & GAS MARKET RISKS**

## **3.1 General development and production risks**

There are risks inherent in the development of oil and gas reserves. Whilst the rewards can be substantial, there is no guarantee that the Company's activities will lead to commercial discoveries. Oil and gas development activities by their nature involve significant risks. 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 guarantee a profit on the investment or recovery of drilling, completion and operating costs. Risks such as delays in the construction and commissioning of drilling platforms or other technical difficulties, lack of access to key infrastructure, adverse weather conditions, environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, unusual or unexpected geological formations, explosions and other acts of God are inherent to the business. Although in many cases these represent insurable risks, the Company may also become subject to other hazards (including pollution and oil seepage liability) against which it is not insured (for example where insurance is not available) or is under insured. Industry operating risks include the risk of unpredicted drilling-related problems, uncontrolled hydrocarbon emissions, cratering, fire, explosions, blow-outs, earthquake activity, extreme weather conditions, coastal erosion, pipe failure, abnormally pressured or over-pressurised formations, unusual or unexpected geological conditions, equipment failure, the absence of economically viable reserves and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures or discharges or toxic gases, the occurrence of any of which could result in substantial losses to the Company due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. Damages occurring as a result of such risks may give rise to claims against the Company which may not be covered, in whole or part, by insurance. The occurrence of any of these incidents can result in the Company's current or future project target dates for drilling or production being delayed or interrupted, increase capital expenditure and production costs and result in liability to the contractors or operator of the relevant assets and costs overruns.

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions or delays in the activities of the Company, the extent of which cannot be predicted. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner, which could limit or curtail production or development.

## **3.2 Oil and gas assets**

In the event of successful production, the Company's income will come from its interests in oil and/or gas fields and may remain dependent on a relatively small number of fields. Operational problems in any one field could have a material adverse effect on the Company.

### **3.3 Volatility of prices for oil and gas**

The demand for, and price of, oil and gas is highly dependent on a variety of factors, including international supply and demand, the level of consumer demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. Geographic location and a lack of adequate infrastructure may also result in any oil or gas produced being sold at a discount to world market prices for oil and gas. International oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future.

### **3.4 Decline in production**

In general, the volume of production from oil and gas properties declines as reserves are depleted. The decline rates depend on reservoir characteristics. Gulf of Mexico reservoirs tend to be recovered quickly through production with associated steep declines. The Company's reserves will decline as they are produced unless it acquires properties with proved reserves or conducts successful development and exploration drilling activities. The Company's future natural gas and oil production is highly dependent upon its level of success in finding or acquiring additional reserves at a unit cost that is sustainable at prevailing commodity prices.

### **3.5 Reserve estimate risks**

This document contains estimates of the Company's proved and probable oil and gas reserves and the estimated future net cash flows from such reserves. These estimates are based upon various assumptions, including assumptions relating to oil and gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating oil and natural gas reserves is complex. This process requires significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir and is therefore inherently imprecise.

### **3.6 Commercial risks**

Even if the Company recovers quantities of oil or gas, there is a risk that it will not achieve a commercial return. The Company may not be able to transport the oil or gas to commercially viable markets at a reasonable cost or may not be able to sell the oil or gas to customers at a price and quantity which would cover its operating and other costs.

### **3.7 Early stage of commercialisation**

The Company has not yet begun to generate revenues and is not yet trading profitably. There can be no certainty that the Company will achieve profitability in the short term.

### **3.8 Ability to exploit successful discoveries**

It may not always be possible for the Company to participate in the exploitation of successful discoveries made in areas in which the Company acquires an interest. Such exploitation may involve the need to obtain licences or clearances from the relevant authorities, which may require conditions to be satisfied and/or the exercise of discretion by such authorities. It may or may not be possible for such conditions to be satisfied. Furthermore, the decision to proceed to further exploitation may require the participation of other companies whose interests and objectives may not be the same as those of the Company. Such further work may also require the Company to meet or commit to financing obligations, which it may not have anticipated or may not be able to commit to due to lack of funds or inability to raise funds.

### **3.9 Speculative nature**

All drilling for oil and gas is inherently speculative. The techniques presently available to petroleum engineers and geologists to identify the existence and location of hydrocarbons are not infallible. Personal subjective judgment of petroleum engineers, and/or geologists, is involved in the selection of any prospect for drilling. In addition, even when drilling successfully identifies commercial volumes of

hydrocarbons, unforeseeable operating problems may render it uneconomic for the Company and its partners to produce oil and gas from a particular well.

### **3.10 Environmental regulation**

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

### **3.11 Political risks**

Whilst the Company's interests are at present focused on the Gulf of Mexico region of the United States and therefore, the Company's exposure to political risks is significantly reduced, operations may be affected in varying degrees by government regulations, including tax, energy conservation and environmental policies. The exact effect of these factors cannot be accurately predicted, but these factors could affect the Company's ability to achieve an adequate return on invested capital.

### **3.12 Hurricane risk**

The passage of hurricanes in the Gulf of Mexico in 2005 highlights the vulnerability of the area to the adverse effects of weather. Further hurricanes could damage not only physical infrastructure but also the pipelines and other infrastructure that support the operation of the Mustang Asset. In either case, such damage could affect the operations, and the ability to generate profits, of the Company.

### **3.13 Availability of equipment and supplies**

Some of the principal resources necessary for the development of oil and gas are drilling rigs and related equipment to drill for and produce oil and gas reserves. A shortage of drilling equipment and supplies could increase the costs and delivery times of equipment and supplies. There can be no assurance that necessary drilling equipment and supplies will be available on satisfactory terms. Any such shortages or material price increases could delay and adversely affect the Company's activities, its ability to exploit any hydrocarbons that may be discovered and its operations and profitability.

### **3.14 Currency and hedging**

The Company's financial obligations are expected to be substantially in US dollars although its financial results have been reported in Sterling. As a result, foreign currency effects may arise. The Company may engage in active hedging to minimise exchange rate risks but this may not offset currency movements.

### **3.15 Dependence on third party services**

The Company will rely on products and services provided by third parties, such as service providers and contractors, and those undertaking due diligence and technical reviews and providing general financial and strategic advice. If there is any interruption to the products or services provided by such third parties or those products or services are not as scalable as anticipated, or if there are problems in upgrading such products or services as the Company may require, the Company's business could be adversely affected and the Company may be unable to find adequate replacement services on a timely basis, if at all, and/or on acceptable commercial terms.

In addition, the termination of these arrangements, if not replaced on similar terms, could have a material adverse effect on the results of operations or the financial condition of the Company.



### **3.16 Decommissioning costs**

The Company may become responsible for costs associated with abandoning and reclaiming wells or facilities which it may in the future use for production of oil and gas. Should abandonment and reclamation of facilities and the costs associated therewith, or “decommissioning”, be required, the costs may exceed the value of hydrocarbon resources remaining at any particular time to cover them.

## **4. RISKS RELATING TO THE ORDINARY SHARES**

### **4.1 Possible volatility of the price of the Ordinary Shares**

The market price of the Ordinary Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Ordinary Shares (or securities similar to them) or in response to various factors and events, including any regulatory changes affecting the operations of the Company, variations in the operating results of the Company and business developments of the Company or its competitors.

Stock markets have from time to time experienced significant price and volume fluctuations which have affected the market prices for securities which may be unrelated to the Company’s operating performance or prospects. Furthermore the Company’s results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Ordinary Shares. The trading prices of the Ordinary Shares may go down as well as up and Shareholders may, therefore, not recover their original investment costs.

There can be no assurance that the Directors or other shareholders will not elect to sell their Ordinary Shares when they are legally entitled so to do. The market price of Ordinary Shares could decline as a result of any sales of such Ordinary Shares or as a result of the perception in the market which may occur as a result of such a sale. If these or any other sales were to occur, the Company may in the future have difficulty in offering or selling Ordinary Shares at a time or at a price it deems appropriate.

### **4.2 Dividends**

The dividend policy of the Company is dependent upon its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time and on the continued health of the markets in which it operates. There can be no guarantee that the Company will pay dividends in the foreseeable future.

### **4.3 Tax considerations**

Changes in tax laws or subordinate legislation or the practice of any taxation authority could have a material adverse effect on the Company. An investment in the Company may involve complex tax considerations which may differ for each investor and each investor is advised to consult their own tax advisers. Any tax legislation and its interpretation and the legal and regulatory regimes which apply in relation to an investment in the Company may change at any time.

Investors should refer to the paragraph entitled “United Kingdom Taxation” in paragraph 20 of Part IV of this document for a summary of the possible tax consequences of owning Ordinary Shares.

### **4.4 Securities traded on AIM**

Ordinary Shares will be traded on AIM rather than on the Official List. An investment in shares traded on AIM may carry a higher risk than an investment in shares listed on the Official List. Investors should be aware that the value of Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment especially since the market in Ordinary Shares on AIM may have limited liquidity.

The price at which investors may dispose of their shares in the Company may be influenced by a number of factors some of which may pertain to the Company and others of which are extraneous. Investors may realise less than the original amount invested.

#### **4.5 There is no guarantee that the Company will maintain its quotation on AIM**

The Company cannot assure investors that it will always retain a quotation on AIM. Additionally, if in the future the Company decides to obtain a listing or quotation on another exchange in addition to AIM, the level of liquidity of the Ordinary Shares traded on AIM could decline.

#### **4.6 Suitability**

Investment in the Ordinary Shares may not be suitable for all readers of this document. Readers are accordingly advised to consult their stockbroker, bank manager, solicitor or accountant or other independent financial adviser, being (in the case of persons resident in the United Kingdom) an organisation or firm authorised pursuant to FSMA who specialises in investments of this nature before making any investment decision.

#### **4.7 Forward looking statements**

This document contains certain forward looking statements that involve risks and uncertainties. All statements other than statements of historical fact contained in this document, including statements regarding the Company's future financial position, business strategy and plans, business model and approach and objectives of management for future operations, are forward looking statements. Generally, the forward looking statements in this document use words like "anticipate", "believe", "could", "estimate", "expect", "future", "intend", "may", "opportunity", "plan", "potential", "project", "seek", "will" and similar terms.

The Company's actual results could differ materially from those anticipated in the forward looking statements as a result of many factors, including the risks faced by the Company which are described in this Part II and elsewhere in this document. Investors are urged to read this entire document carefully before making an investment decision.

The forward looking statements in this document are based on the beliefs and assumptions of the Directors and Proposed Directors and information stated only as of the date of this document, and the forward looking events discussed in this document might not occur. Therefore, investors should not place any reliance on any forward looking statements.

Except as required by law, the Directors and Proposed Directors undertake no obligation to publicly update any forward looking statements, whether as a result of new information, future earnings, or otherwise.

The risk factors listed above are not intended to be exhaustive and do not necessarily comprise all of the risks to which the Company is exposed or all those associated with an investment in the Company. In particular, the Company's performance is likely to be affected by changes in the market and/or economic conditions and in legal, accounting, regulatory and tax requirements.

There may be additional risks that the Directors do not currently consider to be material or of which they are currently unaware. If any of the risks referred to in this Part II crystallise, the Company's business, financial condition, results or future operations could be materially adversely affected. In such case, the price of its shares could decline and investors may lose all or part of their investment.

**The risks listed above do not necessarily comprise all those faced by the Company.**

## PART III

### Competent Person's Report



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2 August 2011

Project ECV1716

#### **A COMPETENT PERSON'S REPORT ON CERTAIN ASSETS OF CORE OIL & GAS INC.**

This competent person's report ("CPR") has been prepared by RPS Energy ("RPS") for inclusion in a document in connection with an admission to AIM (the "Admission Document") to be published by Silvermere Energy plc. ("Silvermere" or the "Company"). Silvermere intends to exercise its pre-existing option to acquire the 33.33% working interest in the Mustang Island asset currently owned by Core Oil & Gas Inc. ("Core") and the admission and fund-raising will be designed to support the development of these assets. This CPR has been compiled in accordance with the requirements of the AIM Guidance Note for Mining, Oil and Gas Companies<sup>(1)</sup> dated June 2009 (the "AIM Guidance Note").

In accordance with your instructions to us and the requirements of the AIM Guidance Note, we confirm that we:

1. are professionally qualified and a member in good standing of a self-regulatory organisation of engineers and/or geoscientists including SPE, EI, AAPG and EAGE;
2. have at least five years' relevant experience in the estimation, assessment and evaluation of oil and gas assets;
3. are independent of both Core and Silvermere, their directors, senior management and advisers;
4. will be remunerated by way of a time-based fee and not by way of a fee that is linked to the Admission or value of the Company;
5. are not a sole practitioner;
6. have the relevant and appropriate qualifications, experience and technical knowledge to appraise professionally and independently the assets, being all assets, licences, joint ventures or other arrangements owned by the Group or proposed to be exploited or utilised by it ("Assets") and liabilities, being all liabilities, royalty payments, contractual agreements and minimum funding requirements relating to the Group's work programme and Assets ("Liabilities"); and

<sup>(1)</sup> [www.londonstockexchange.com/en-gb/products/companyservices/ourmarkets/aim\\_new/Publications](http://www.londonstockexchange.com/en-gb/products/companyservices/ourmarkets/aim_new/Publications)



7. consider that the scope of this CPR is appropriate, given the Group's Assets and Liabilities and includes and discloses all information required to be included therein and was prepared to a standard expected in accordance with the AIM Guidance Note.

Neither RPS, nor any of its directors, staff or sub-consultants who contributed to this report has any interest in:

1. either Core or Silvermere; or
2. any of the advisers to either Company; or
3. the Assets; or
4. the outcome of the Offer.

### Standard applied

In compiling this report we have used the definitions and guidelines set out by the SPE/WPC/AAPG/SPEE in 2007 as the internationally recognised standard required by the AIM Guidance Note (see Appendix B for more details).

### Summary of Reserves and Valuation<sup>2</sup>

#### Reserves

Reserves have been evaluated in the Mustang Island property. The gross, working interest and net entitlement Reserves are given in Table 1.

Reserves Basis	Gross Field Reserves <sup>A</sup>		Working Interest Reserves <sup>B</sup>		Net Entitlement Reserves <sup>C</sup>	
	Liquids <sup>D</sup> (MMbbl)	Gas (Bscf)	Liquids (MMbbl)	Gas (Bscf)	Liquids (MMbbl)	Gas (Bscf)
Fluid Type						
1P	0.132	21.93	0.044	7.31	0.027	4.57
2P	1.204	48.14	0.401	16.05	0.251	10.03
3P	9.113	91.13	3.038	30.38	1.899	18.99

A. Gross, 100% Basis

B. Silvermere WI, 33.333334% Basis

C. Silvermere Net Entitlement, 20.83% after over-riding Royalties to Texas State, Seadrift/WellMaster and Core

D. Liquids refer to the condensate that condenses out of the gas

**Table A: Summary of Reserves for Mustang Island**

#### Valuation

The Net Present Value (discounted at 10%) of Silvermere's Net Entitlement of the Mustang Island Reserves in South Texas is estimated to be (as at the valuation date –1 July 2011):

	Silvermere's Net Entitlement Reserves (Bscfe)	Silvermere's Net Entitlement NPV <sub>10</sub> (US\$ millions)	IRR
1P	4.73	4.49	23%
2P	11.53	24.87	79%
3P	30.38	94.36	395%

**Table B: NPV10 to Silvermere of the Mustang Island Reserves**

<sup>(2)</sup> All Working Interest and Net Entitlement Reserves and Net Present Value attributable to Silvermere are conditional on shareholder approval of the proposed acquisition of Core's interests in the Mustang Island Re-development.

## **Qualifications**

RPS is an independent consultancy specialising in petroleum reservoir evaluation and economic analysis. Except for the provision of professional services on a fee basis, RPS does not have a commercial arrangement with any other person or company involved in the interests that are the subject of this report. Mr Andrew Kirchin, Senior VP, Geoscience and Equity for RPS Energy, has supervised the evaluation. Mr Kirchin has over 24 years experience in upstream oil and gas studies and evaluations. Other RPS Energy employees involved in this work hold at least a Masters degree in geology, geophysics, petroleum engineering or a related subject or have at least five years of relevant experience in the practice of geology, geophysics or petroleum engineering.

## **Basis of Opinion**

The evaluation presented herein reflects our informed judgement based on accepted standards of professional investigation, but is subject to generally recognised uncertainties associated with the interpretation of geological, geophysical and engineering data. The evaluation has been conducted within our understanding of petroleum legislation, taxation and other regulations that currently apply to these interests. However, RPS is not in a position to attest to the property title, financial interest relationships or encumbrances related to the properties. Our estimates of resources and value are based on the data set available to, and provided by Core. We have accepted, without independent verification, the accuracy and completeness of these data. To the best of our knowledge, no new or other data exists which could cause a material change to the results and conclusions of this CPR.

The report represents RPS' best professional judgement and should not be considered a guarantee or prediction of results. It should be understood that any evaluation, particularly one involving exploration and future petroleum developments, may be subject to significant variations over short periods of time as new information becomes available. This report relates specifically and solely to the subject assets and is conditional upon various assumptions that are described herein. The report, of which this letter forms part, must therefore be read in its entirety. Except with permission from RPS, this report may not be reproduced or redistributed, in whole or in part, to any other person or published, in whole or in part, for any purpose without the express written consent of RPS. However in instances where excerpts only are to be reproduced or published, other than in relation to the circular and prospectus in connection with the Admission, this cannot be done without the express permission of RPS. RPS has given and not withdrawn its written consent to the issue of this Admission Document, with its name included within it, and to the inclusion of this report and references to this report in the Admission Document.

Yours faithfully,

RPS Energy

**Andrew J Kirchin**  
**Senior VP, Geoscience and Equity**

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## 1. Description of Assets

Core Oil & Gas Inc. (“Core”) currently has an interest in the shallow water Gulf of Mexico Mustang Island licence which contains a previously developed field which is planned for re-development to capture by-passed gas and condensate. RPS has been informed that Silvermere Energy Plc intends to exercise its pre-existing option to acquire the 33.33% working interest in the Mustang Island asset from Core, conditional on shareholder approval by 19th August 2011. Silvermere Energy Plc (“Silvermere”) was previously named Chalkwell Investments Plc and was renamed at an AGM held on 14th July 2011.

The specific licences and Core/Silvermere’s interest are detailed in Table 1.1 below:

Field /Well Name	Core/Silvermere Working Interest (%)	Silvermere Net Entitlement (%)	Operator	Status	Expiry
Licences 108873 & 108874 in Block MU 818 (Mustang Island)	33.333334%	20.83%	Dominion Production Company LLC	Shut in	Annual Renewal Fee

**Table 1.1 – Core/Silvermere’s licences and interest**

The purchase of the assets shown in Table 1.1 from previous owners was completed by Core on July 1st 2011.

### 1.1 Liabilities

We are not aware of any outstanding licence commitments or delivery quotas that the Company must contribute or be liable for.

### 1.2 General

The evaluation presented in this Competent Person’s Report (“CPR”) has been conducted within our understanding of petroleum legislation, taxation and other regulations that currently apply to these interests. RPS is not in a position to attest to the property title, financial interest relationships or encumbrances related to the properties.

Our estimates of Reserves, Resources and risks are based on the limited data set available to, and provided by, Core and Chalkwell (now Silvermere). We have accepted, without independent verification, the accuracy and completeness of these data.

Volumes and risk factors are presented in accordance with the 2007 SPE/WPC/AAPG/SPEE Petroleum Resource Management System (PRMS).

### 1.3 Reserves and Resource Classification

Reserves or resources are estimated according to the 2007 PRMS. The PRMS Definitions are summarised in Appendix B.

In estimating Reserves and Resources we have used standard petroleum engineering techniques. These techniques combine geological and production data with detailed information concerning fluid characteristics and reservoir pressure. RPS has estimated the degree of uncertainty inherent in the measurements and interpretation of the data and has calculated a range of recoverable reserves. RPS has assumed that the working interest and net entitlement in each asset advised by Core is correct and RPS has not investigated nor does it make any warranty as to the Core interest in these properties.

Hydrocarbon Resource and Reserve estimates are expressions of judgement based on knowledge, experience and industry practice and are restricted to the data made available. They are, therefore, imprecise and depend to some extent on interpretations, which may prove to be inaccurate. Estimates that were reasonable when made may change significantly when new information from additional exploration or appraisal activity becomes available.

## **1.4 Risk Assessment**

For prospects and leads estimates of the geological chance of success for Prospective Resources has been made. In the PRMS system this is called the Chance of Discovery (CoD). To avoid confusion with the acronym for Chance of Development (also CoD) we have used the term Geological Probability of Success (GPoS) in this document synonymously with Chance of Discovery.

### **1.4.1 Contingent Resources**

A Contingent Resource includes both proved hydrocarbon accumulations for which there is currently no development plan or sales contract and proved hydrocarbon accumulations that are too small or are in reservoirs that are of insufficient quality to allow commercial development at current prices. As a result the estimation of the chance that the volumes will be commercially extracted may have to address both commercial (i.e. contractual or oil price considerations) and technical (i.e. technology to address low deliverability reservoirs) issues.

### **1.4.2 Prospective Resources (Exploration Prospects)**

Unlike risk assessment for Contingent Resources, when dealing with undrilled prospects there is a more accepted industry approach to risk assessment for Prospective Resources. It is standard practice to assign a Geological Probability of Success (GPoS) which represents the likelihood of source rock, charge, reservoir, trap and seal combining to result in a present-day hydrocarbon accumulation. RPS assesses risk by considering both a Play Risk (unless already established as 100%) and a Prospect Risk. The chance of success for the Play and Prospect are multiplied together to give a Geological Probability of Success (GPoS). We consider three factors when assessing Play Risk: source, reservoir, seal and we consider four factors when assessing Prospect Risk: trap, seal, reservoir and charge. The result is the chance or probability of discovering hydrocarbon volumes within the range defined (Section 1.5). It is not an estimation of commercial chance of success.

## **1.5 Uncertainty Estimation**

The estimation of expected hydrocarbon volumes is an integral part of the evaluation process. It is normal practice to assign a range to the volume estimates because of the uncertainty over exactly how large the discovery or prospect will be. Estimating the range is normally undertaken in a probabilistic way (i.e. using Monte Carlo simulation), using a range for each input parameter to derive a range for the output volumes. Key contributing factors to the overall uncertainty are data uncertainty, interpretation uncertainty and model uncertainty.

Volumetric input parameters, gross rock volume (GRV), porosity, net-to-gross ratio (N:G), water saturation ( $S_w$ ), fluid formation volume factor ( $B_{oi}$  or  $B_{gi}$ ) and recovery factor, are considered separately. RPS has internal guidelines on the best practice in characterising appropriate input distributions for these parameters.

Systematic bias in volumetric assessment is a well-established phenomenon. There is a tendency to estimate parameters to a greater degree of precision than is warranted<sup>(3)</sup> and to bias pre-drill estimates to the high side<sup>(4)</sup>. Rose and Edwards observe the tendency towards assessing volumes in too narrow a range with overly large low-side and mean estimates. RPS uses benchmarked P90/P10 ratios and known field size distributions to check the reasonableness of estimated volumes.

<sup>(3)</sup> Rose, P.R., 1987. Dealing with Risk and Uncertainty in Exploration: How Can We Improve? AAPG Bulletin, 71 (1), pp. 1-16.

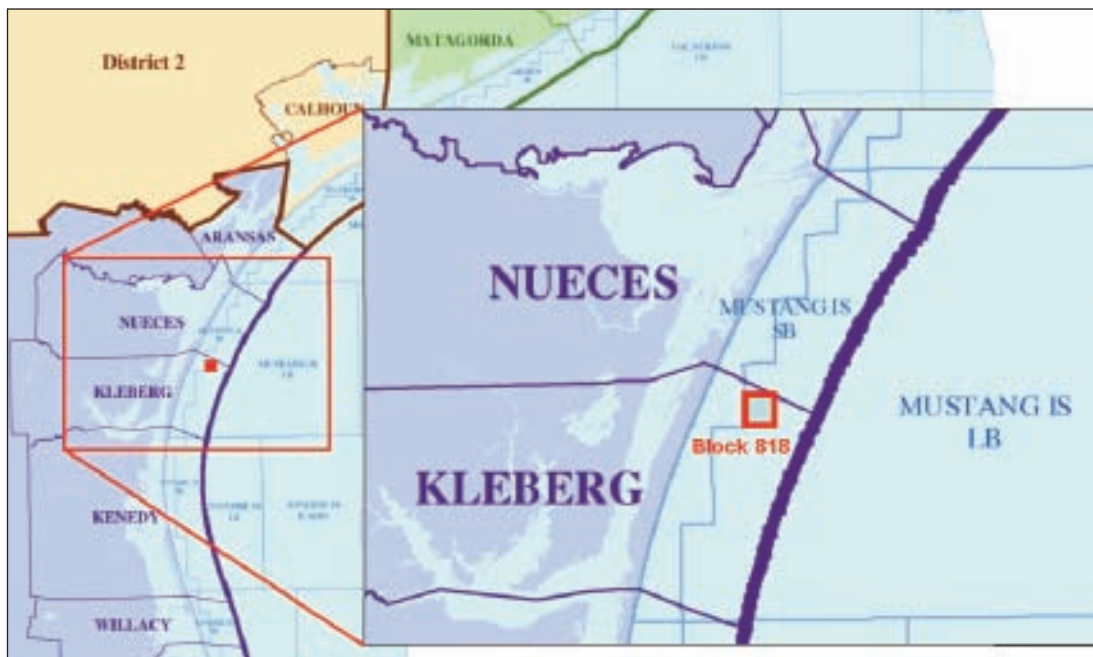
<sup>(4)</sup> Rose, R.P. and Edwards, B., 2001. Could this prospect turn out to be a mediocre little one-well field? Abstract, AAPG Bulletin, 84(13)



## 2. MUSTANG ISLAND

### 2.1 Introduction

The Mustang Island 818-L Field, located in the Kleberg County waters of the Gulf of Mexico (see Figure 2.1), is a field re-habilitation project targeting bypassed or only partially produced gas-condensate. The Mustang Island gas field was drilled and produced by Samedan Oil Corp in the 1980s, based on 2D seismic mapping. At abandonment some 25 wells had been drilled targeting several stacked clastic reservoir sands grouped as the 'A', 'B', 'G' and 'I' sands. At the time of abandonment, the field had produced a total of 138.9 Bcf of gas between January 1980 and February 1995. This includes production from the D1 and D2 wells which are outside of the seismic area and therefore not taken into consideration for this evaluation. Total production from the wells within the seismic coverage is 125.6 Bcf.



**Figure 2.1 – Mustang Island Block 818 location map**

Texas Land office leases 108873 & 108874 cover only ¼ of Block 818, the Southern half of the North-West quarter and the Northern half of the South-West quarter respectively, as shown in Figure 2.2.

Both leases were registered to Magellan E&P Holdings Inc. with the Texas General Land Office. The subsequent Offshore Operating Agreement between Magellan, Seadrift Management LLC and Gulf Standard Energy LLC agrees a 33 1/3% split between the 3 parties. RPS has been informed that the Magellan and Gulf Standard working interests were subsequently acquired by Dominion Production Company LLC who also became Operator.

Based on information provided to RPS, Core completed the purchase of Seadrift's entire working interest on 1st July 2011 and Silvermere plans to exercise its option to acquire Core's 33.33% working interest in the Mustang Island asset subject to and conditional on shareholder approval.

The specified leases only cover the central portion of the field structure as mapped on seismic, which does not include wells E1 & E2, D1 & D2, C2 & C3. The surrounding sections of block 818 and adjacent blocks 933, 934 & 942 are not currently leased according to the Texas General Land Office public GIS database.

A key well, I-1, has been re-entered and sidetracked out of the base of liner with an original aim to re-complete in the I sands (I1-I7). Pressures are reported as encouragingly high in the previously unproduced I7 and similarly high pressures throughout the I-series sands despite previous production from the I-1 well and the nearby A-2, A-4 and B-5 wells, all located in the footwall northwest of the Main Intra-field Fault.



On June 24th 2011, the Operator (Dominion) conducted a four and a half hour test of the I-5 sand which flowed gas and condensate. The length of the test and the fact that stabilised rates were not achieved due to liquid storage limitations means that the test, although positive, is not definitive in establishing Reserves in the I sands in the western fault block. However, since the I-1 well has successfully tested gas and condensate, it is planned to be put on production via an existing pipeline to the Six Pigs facility (see Figure 2.2). In the event that the well continues to produce gas and condensate without a dramatic decrease in either flowrate or pressure, RPS expects that an increase in Reserves in the western fault block will result.

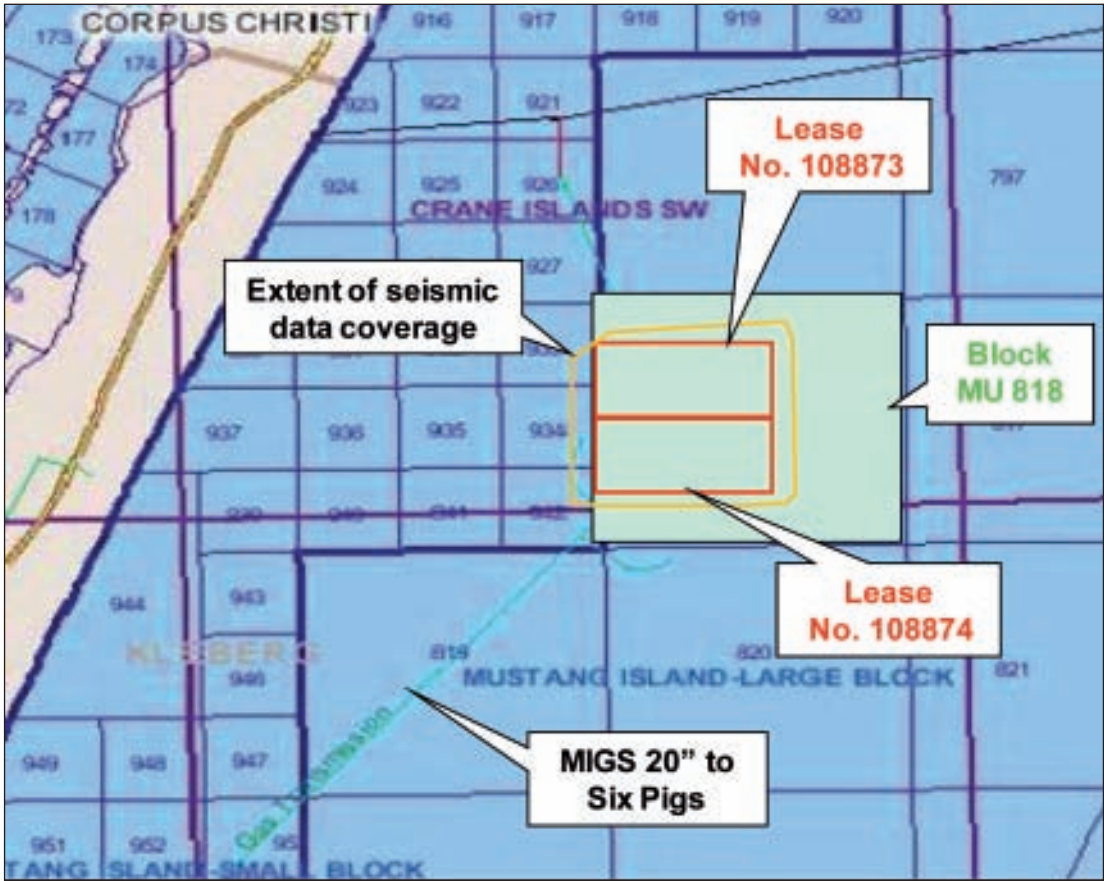


Figure 2.2 – Location of Leases and pipeline

**2.1.1 Data Constraints**

The seismic project which was supplied does not cover the whole field. There is production from wells D1 and D2 to the south but we have not been able to account for the GIIP in this area. Figure 2.2 shows the extent of the available data.

**2.2 General Geology and Geophysics**

**2.2.1 Background Geology**

Mustang Island block 818 is located in the north west of the Gulf of Mexico, off the Texan coast. This part of the Gulf is characterised by massive Tertiary deposits created by multiple episodes of deltaic progradation. Erosion of the uplifted Sierra Madre to the west and north-west provided sediment that combined with volcani-clastics and ash allowed rapid build-up of fluvio-deltaic deposits. The Rio Grande Embayment was built out by a sand rich, wave dominated delta in the area where Mustang Island exists today.

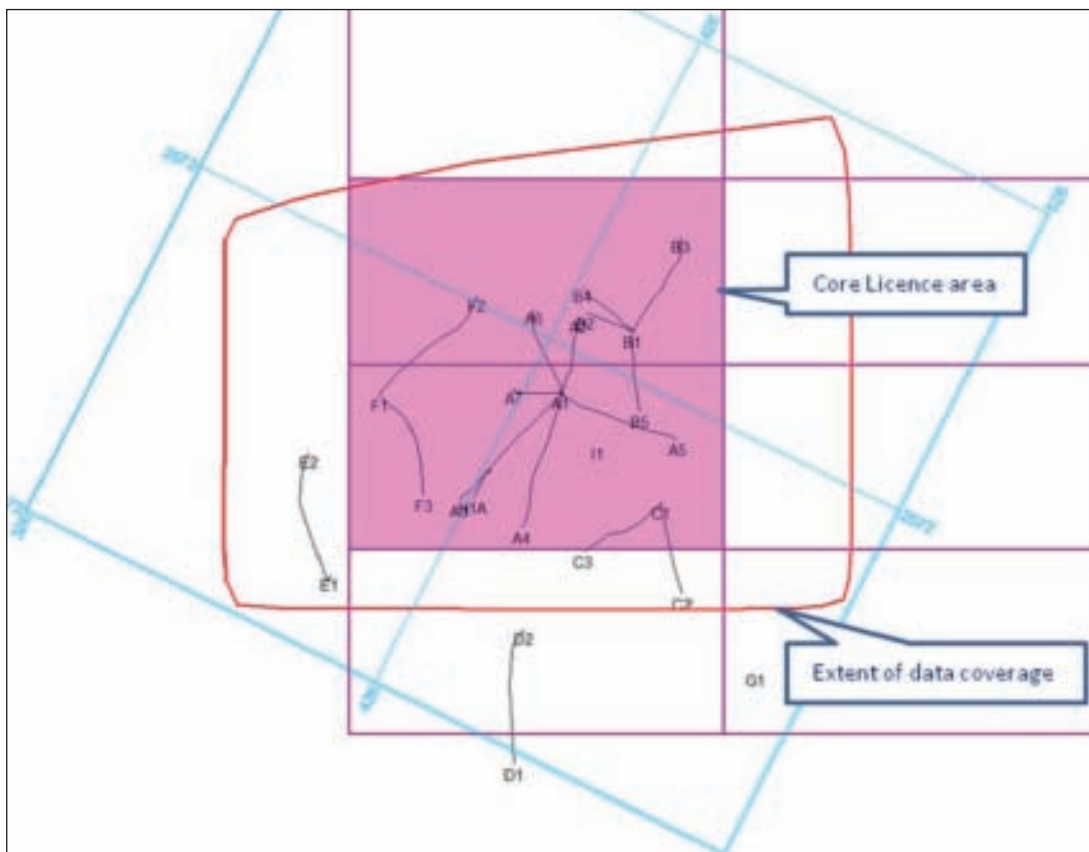
Over the field area the reservoir section comprises of a series of stacked sands with interbedded shales. The sandstones that form the reservoir in the Mustang Island 818-L field are Oligocene Frio formation. These are composed of a series of these deltaic sediments, with marginal-marine sandstones and shales which in this area have been thickened and vertically displaced. Rapid sedimentation led to large scale

gravity sliding and growth faults, creating a listric fault system of normal faults and rollovers. This depositional sequence created hydrocarbon reservoirs and traps, many of which are over-pressured.

RPS has not been supplied with data that can identify the petrographic nature of the sands. From supplied reports and public domain literature we understand the sands to be argillaceous and in some cases very clay rich. This has the effect of suppressing resistivity log which has implications for log analysis as discussed below.

### 2.2.2 Seismic interpretation and mapping

A 3D seismic survey covering approximately 10km<sup>2</sup> was supplied. The survey covered only the two Core blocks and did not include the whole field area, (Figure 2.3). The field extends at least as far south as the D1 and D2 wells. The seismic data appears to be zero-phase, where a positive acoustic-impedance event is represented by a positive (red) loop on the seismic.



**Figure 2.3 – Mustang Island Data extent does not cover whole field area**

Seismic data quality is generally adequate for a reasonably robust interpretation. The target horizons are mostly continuous, strong reflections that are relatively interpretable. Reflection continuity and strength decreases with depth, apparently as a result of seismic attenuation. The reservoir units are relatively thin, and closely-spaced, which can present difficulty in tracing the correct reflections across the many normal faults.

RPS has made its own interpretation of the sands as listed below based on the seismic tie at the A-7 well, which is the only well with a T/D curve. The picks that could be confidently interpreted away from the A-7 well were traced to other wells and pseudo-time depth pairs were created for those wells by matching the top depth (supplied by Dominion/Core) with the associated seismic TWT read off from the intersection of the well-bore with 3D seismic dataset. Great care was taken to only extend picks in the dip-direction relative to the most significant faults (although this does vary along their length). The horizons that were interpreted and their level of difficulty are shown in Table 2.1 below. In general the field is split into two main panels either side of a southwest-northeast down-to-the southeast throwing intra field fault. The footwall (west of the fault) is generally well imaged and can be interpreted with

confidence although care has to be taken not to over-extend picks when interpreting parallel to the fault(s), the orientation of which does change. The hanging wall is considerably more complex with many sub-blocks divided by short-range, small throw faults. The hanging wall is significantly less well imaged making interpretation (particularly without calibrated time-depth data in the wells) considerably less confident.

Horizon Name	Chosen Pick Character	Pick Confidence
A1 Sand	Moderate to strong trough	Footwall – good, Hanging wall – moderate
A13/15 Sand	Strong trough	Footwall – good, Hanging wall – mainly good
A23 Sand	Moderate trough	Footwall – reasonable, Hanging wall – poor
B7 Sand	Strong trough	Footwall – good, Hanging wall – mainly good
G1 Sand	Weak trough	Footwall – reasonable, Hanging wall – moderate
I1 Sand	Moderate to strong trough	Footwall – reasonable, Hanging wall – difficult
I5 Sand	Strong trough	Footwall – good, Hanging wall – difficult
I7 Sand	Moderate to weak trough	Footwall – moderate to poor, Hanging wall – very difficult

**Table 2.1 – Mustang Island Interpreted Horizons**

After several iterations on the interpretation of both the faults and reservoir horizons, RPS is confident that we have made a suitably robust interpretation of the seismic data for our probabilistic volumetric analysis. As such, we do not consider mapping, and thus GRV, to be a major source of uncertainty.

A reservoir model was constructed from the raw horizon and fault interpretation in Petrel™. TWT maps were produced and depth converted using an average velocity (based on well data) which was gridded with faults to preserve the expected break in average velocity over the faults. Potential target horizons which were not directly interpreted were created within Petrel™ using isochors created using TVT calculations based on the digitised logs and well tops correlation.

### 2.2.3 Reservoir Zonation

A sequence of 27 correlative sand bodies have been identified in the wells located in the field area. These were based on the supplied selected top sand picks in the wells. RPS added base sand picks and extended the sands picks into the wells which they had not been identified. Reservoir sands picks were based solely on the supplied image logs which were subsequently digitised, see section below on log quality. Figure 2.4 (A Sands) and Figure 2.5 (B and deeper Sands) illustrate the correlative nature of many of the sands, while Figure 2.6 indicates the location of the wells used in the correlations. While most of the sands can be correlated field wide others have a more restricted areal extent and have been mapped as such.

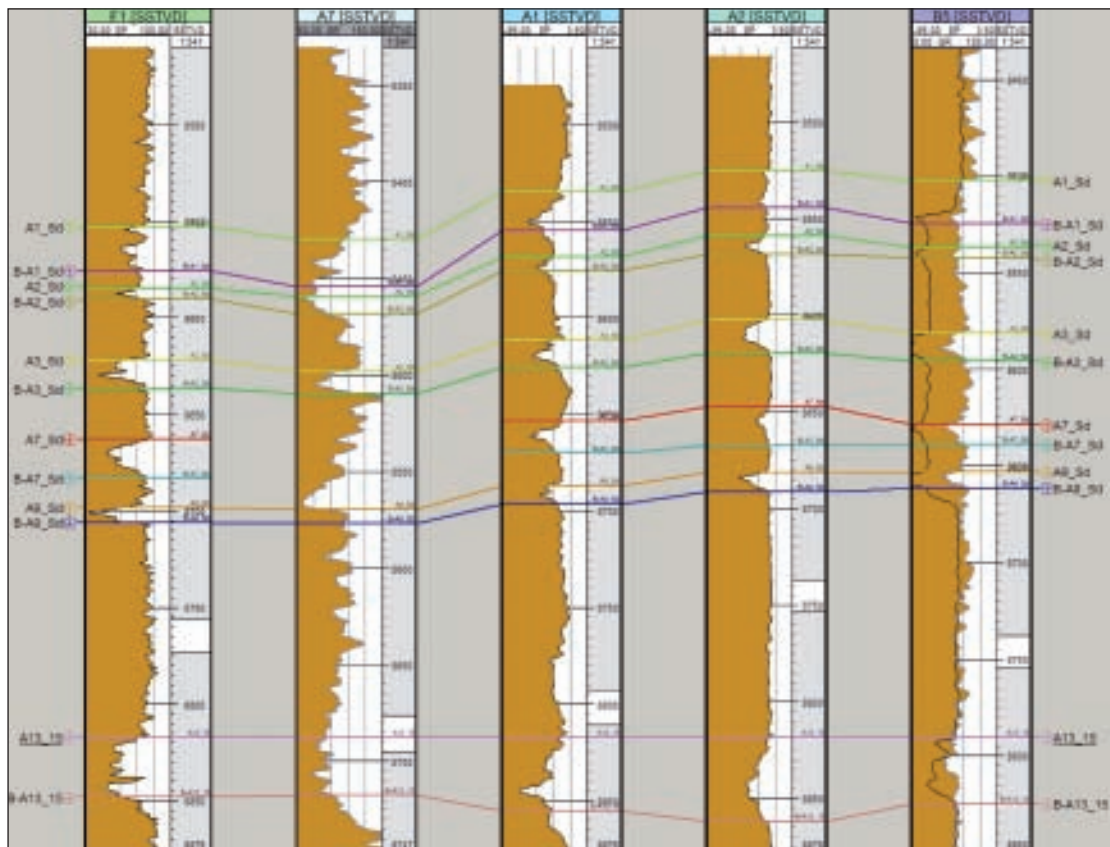


Figure 2.4 – Mustang Island correlation panel, A Sands

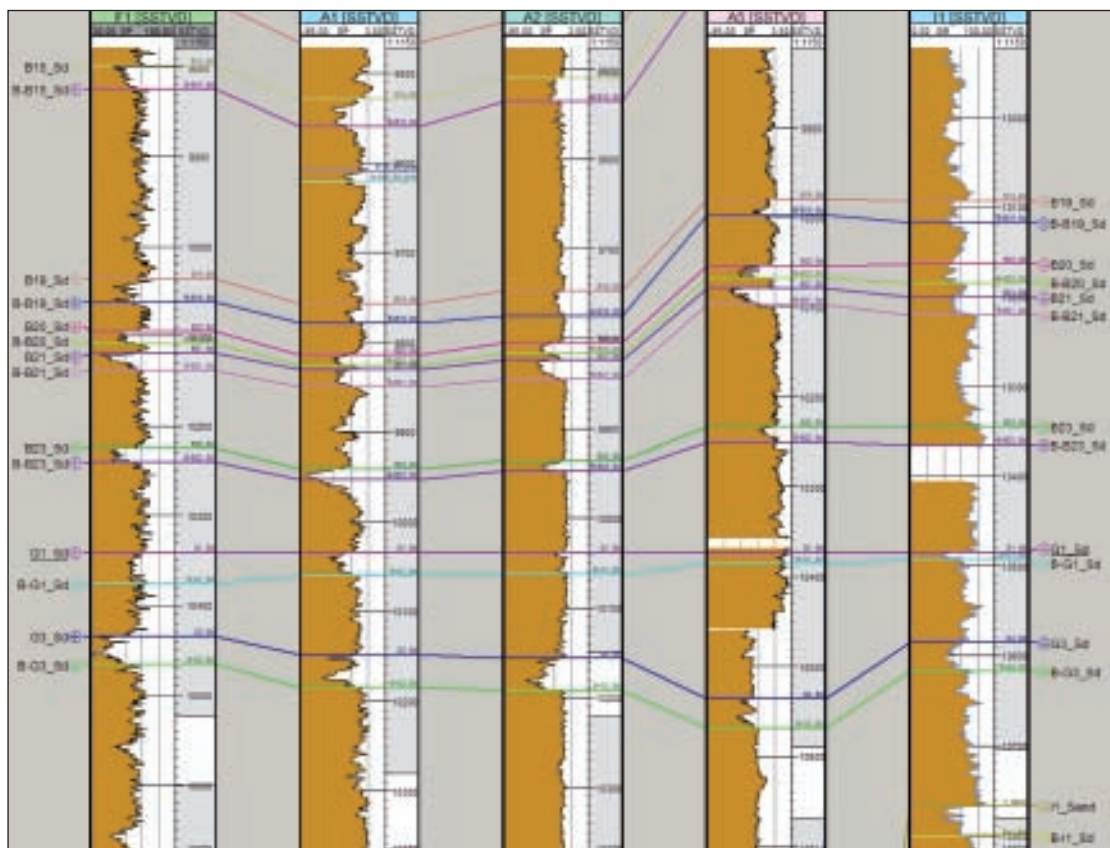
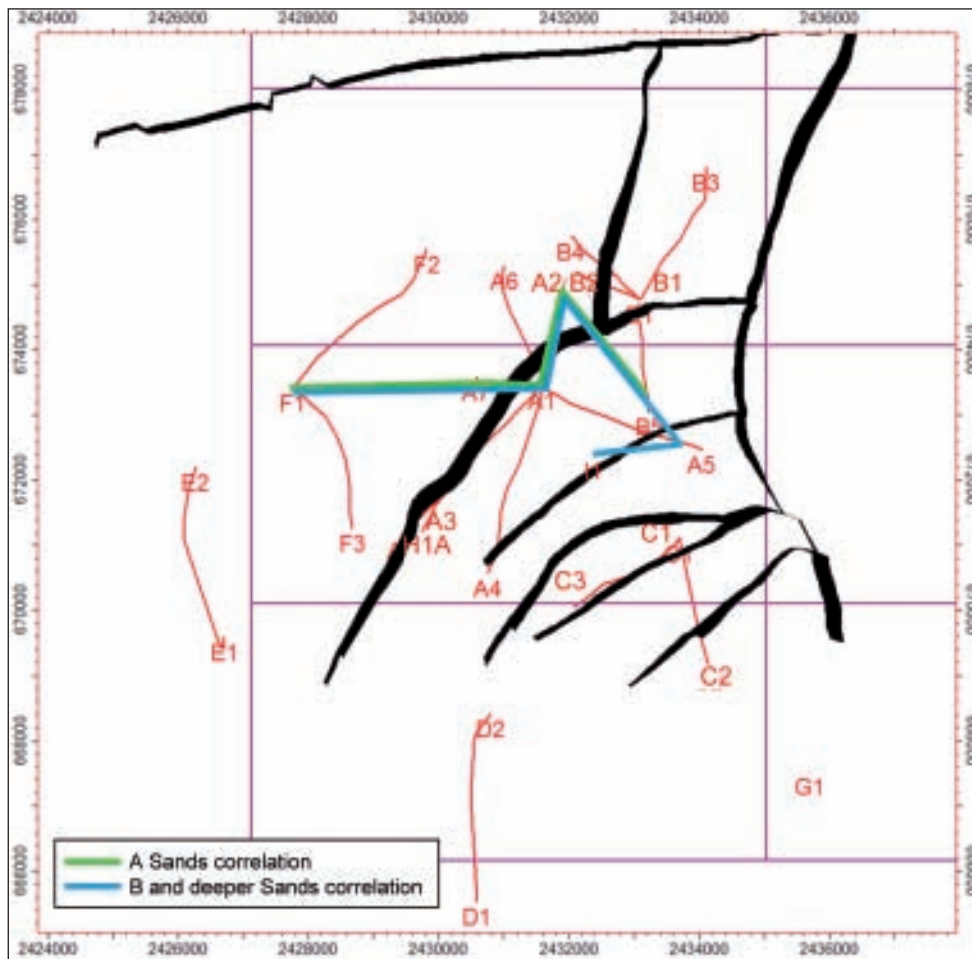


Figure 2.5 – Mustang Island correlation panel, B and deeper Sands





**Figure 2.6 – Location map for Mustang Island correlation panels**

The calculated subsea depth values were based on the supplied deviation surveys. It was found in a few cases that the calculated values were not the same as the zone values posted on the supplied structure maps. Some of the differences could be assigned to KB values while others perhaps due to different vintages of deviation survey calculation. This, of course, represents an uncertainty in the reservoir sand depths.

## 2.2.4 Petrophysics

### 2.2.4.1 Data

Data for 23 wells from the Mustang Island Licence, Gulf of Mexico offshore Texas were received as digital images. It was agreed with the client, that a sufficient number of log curves for a first pass petrophysical analysis, should be digitized from each well over the intervals of interest. A list of wells and digitized curves is presented in Table A1 in Appendix A. No mudlogs for the 23 wells were available for lithological control, and it was assumed that the dominant reservoir lithology was sandstone. Depths of perforated intervals were supplied. Only data for well I1-ST, a re-entry of an older well, were received in digital format. The curves from a Halliburton pulsed neutron tool included gamma ray, near and far count rates and ratio, corrected formation capture cross section, shale volume, total and effective porosity, total and effective hydrocarbon saturation. For the I1 sidetrack only behind casing logs were acquired plus a mudlog.

### 2.2.4.2 Bore Hole Quality

None of the images of the paper prints contained a calliper curve. Therefore, without access to borehole quality indicators such as calliper data, it is not possible to comment with full confidence on borehole condition.

### 2.2.4.3 Shale Volume – Vsh

Shale volume was calculated from the SP and GR responses (based on log availability and quality) using the linear calculation method shown in equations 1 and 2.

$$Vsh = (GR \log - GR \text{ matrix}) / (GR \text{ Shale} - GR \text{ matrix}) \dots\dots\dots(1)$$

$$Vsh = (SP \log - SP \text{ shale}) / (SP \text{ sand} - SP \text{ shale}) \dots\dots\dots(2)$$

For well I1-ST a Vsh curve derived from the pulsed neutron tool (Halliburton TMD-L) response was supplied.

### 2.2.4.4 Porosity.

All porosity curves from the wells digitized came from the sonic tool. Total porosity was calculated using the Raymer Hunt transform<sup>(5)</sup>. For well I1-ST, total and effective porosity curves derived from the pulsed neutron tool (Halliburton TMD-L) response were supplied.

$$V = Vma * (1 - PHIT)^2 + PHIT * Vf$$

where Vma = 10<sup>6</sup>/DTma (Matrix sonic velocity)

$$Vf = 10^6/DTf (Fluid sonic velocity)$$

if the calculated porosity is greater than 0.37, then use another equation:

$$DT37 = 1 / (0.1376 * Vma + 0.37 * Vf)$$

$$PHIT = (0.1 * DT - 0.47 * DT37 + 0.37 * DTf) / (DTf - DT37) \dots\dots\dots(3)$$

### 2.2.4.5 Effective Porosity.

Effective porosity for the digitized data was calculated from equation 4 below;

$$PHIE = PHIT * (1 - VSH) \dots\dots\dots(4)$$

### 2.2.4.6 Water Saturation.

Archie parameters applied were a=0.62 m=2.15 and n=2.0 (Humble formula<sup>(6)</sup>).

Saturation was obtained from the shaly-sand model of Modified Simandoux equation:

$$1/RT = [(PHIE^m * SW^n) / (a * RW * (1 - VSH))] + [(VSH * SW) / (2 * RSH)] \dots\dots\dots(5)$$

Where: SW – Water Saturation

a – Tortuosity Constant

m – Cementation Exponent

n – Saturation Exponent

RW – Formation Water Resistivity @ formation temp

VSH – Shale Volume

PHIE – Effective Porosity

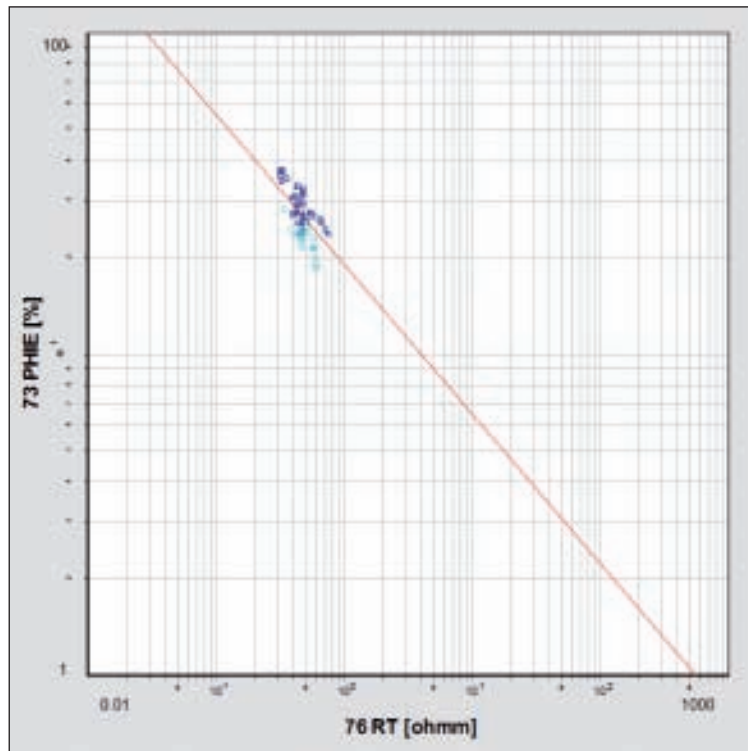
RT – Deep Resistivity Log

RSH – Resistivity of Shale

A water resistivity (Rw) of 0.045 Ohmm at 190° F (~60k ppm NaCl equivalent) was derived from the SP response in the water bearing B10\_Sd sand (10037.21 – 10069.81 ft MD RKB) from Well A4, and the Pickett Plot of the sand (Figure 2.7) supports the result.

<sup>(5)</sup> Raymer L.L., Hunt E.R., Gardner J.S., 1980, "An improved Sonic Transit Time to Porosity Transform", Paper P, Twenty-First Annual Logging Symposium Transactions, Lafayette, Louisiana.  
<sup>(6)</sup> Winsauer W.O., Shearin H.M., Masson P.H., Williams M., "Resistivity of Brine-Saturated Sands in Relation to Pore Geometry, AAPG Bulletin 36 (1952)





**Figure 2.7 – Pickett-Plot of a water-bearing sand in Mustang Island well A4**

For other wells, log header information gave bottom hole temperatures and corresponding depths. From these, temperature depth profiles were constructed.  $R_w$  at temperature for each well was determined using Arps' formula.

#### **2.2.4.7 Evaluation Discussion.**

The data set used was digitized from Tiff files. The data set was unusual because no calliper log was recorded in any of the files received. Therefore, it was difficult to comment on borehole quality. The curves presented in the tiff files were from tools that were not designed to come into contact with the borehole wall. However, the sonic log did appear to show some sensitivity to the borehole condition where unusually large sonic slowness values were recorded, often in zones that appeared from shale volume calculations to be shale/claystones. This may indicate caving in the shales. Excursions to high sonic slowness in sands, especially where these are associated with high resistivity readings, may indicate attenuation of the sonic signal (cycle skipping), in the presence of gas, and gas effects on the sonic log will lead to the calculation of higher porosity if unaccounted for. In this study core data were not available to calibrate log porosity. Therefore, it is possible that some calculated log porosities are optimistic.

It is also likely that where sands are identified that they may be argillaceous. Comments to this effect are made in "Reserve Discussion.docx" received as part of the data set supplied, and this view is supported by local RPS experience. Review of the producing intervals shows that deep resistivity values seldom exceed 5 Ohmm in pay. Resistivity may be suppressed by high water saturations in argillaceous sands. However if sands do contain chlorite and/or illite then high water saturation would not preclude the production of water free gas because the water is trapped by capillary forces and immobile.

The  $V_{sh}$  and porosity cutoffs applied by RPS were the same as the operator's, namely  $V_{sh} \Rightarrow >0.5$ ,  $Phie \Rightarrow <0.15$ , however for  $S_{we}$  higher cutoff of  $\Rightarrow >0.70$  was adopted to reflect the low resistivity nature of the pay sands and to ensure all pay was captured in the volumetric calculation. This allowed volumes to be calculated that are more consistent with the field production.

### 2.3 Volumetric Analysis

A probabilistic approach based on a monte carlo simulation was adopted to generate low, mid and high GIIPs. Volumes are based on the extent of the supplied data.

Top and base structure maps were generated for all the reservoir sands intervals by creating subzones from the mapped seismic horizons and picks in the wells, Figure 2.8 is an example isopach map. The field was subdivided into West, North and South blocks, Figure 2.9

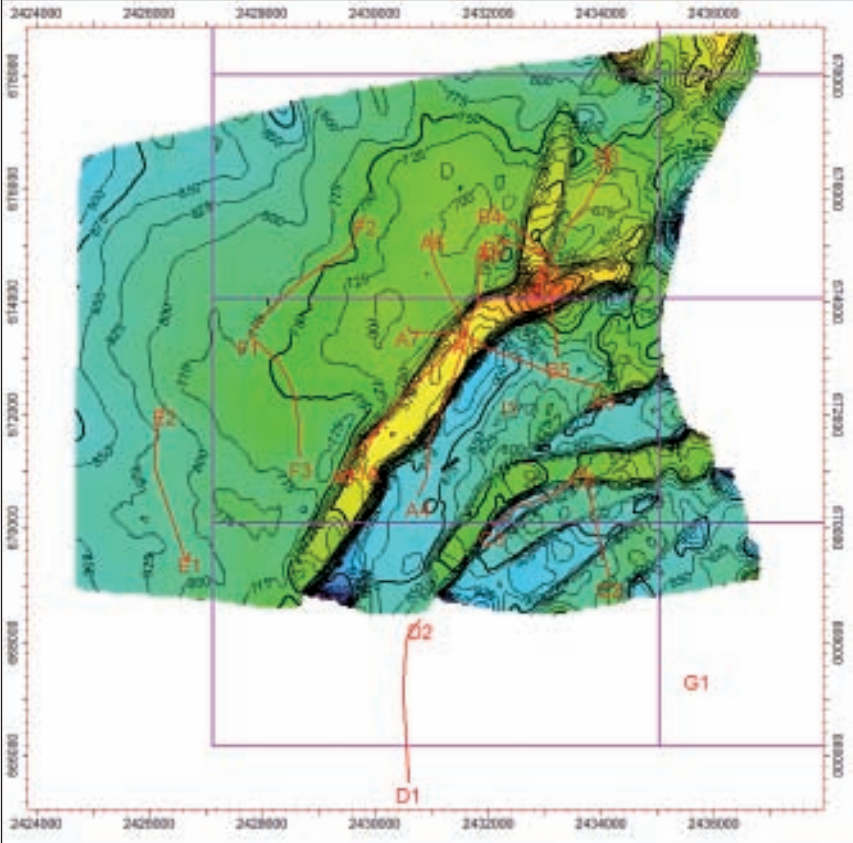
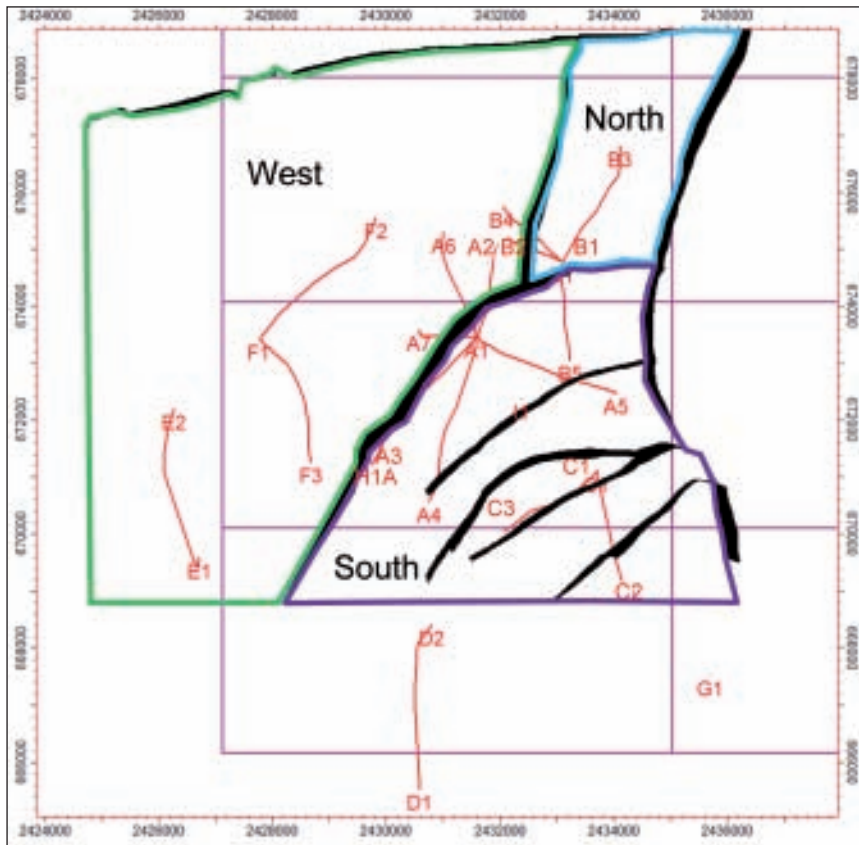


Figure 2.8 – Mustang Island – example isopach map



**Figure 2.9 – Mustang Island – schematic showing subdivisions used for volumetrics**

Gas-down-to's (GDT) and water-up-to's (WUT) and in a few cases gas-water contacts (GWC) were identified in both North/West Fault Block (NWFB) and South Fault Block (SFB) based mainly on log response. No pressure data were available to support possible contacts. Area depth tables for each reservoir layer in both the NWFB and SFB were output from the Petrel™ model and input into the monte carlo application. Where no GWC was defined a range of possible contacts based on the GDT and WUT were input into the monte carlo simulation.

Reservoir parameters were derived from our petrophysical analysis of the wells where we had log data. The weighted averages were calculated for each reservoir zone which formed the basis for the distribution of parameters input into the monte carlo simulation. In addition where production data was available it was used as a constraint, based on recovery factors being typically in the range 40% to 60%. In some cases to be consistent with production reservoir parameters had to be adjusted away from the averages seen in the wells. This was considered to be justified as the confidence in the petrophysical data was not high due to the short comings described in Section 2.1.2.4. Further iterations with the field production suggested that it would best to treat the North and West as one reservoir area and the South as a separate area. Clearly the detailed juxtaposition of sand units across the main fault may set up communication of reservoirs. Without the benefit of pressure data it is not possible to identify communicating sands and such a study is beyond the scope of this report.

The input parameters can be found in Appendix B. Table 2.2 below summarises the GIIP for each reservoir sand on a field-wide basis but limited to the data extent.

Sand	North and West fault blocks GIIP, Bscf				South fault block GIIP, Bscf			
	P90	P50	P10	Mean	P90	P50	P10	Mean
<b>A1</b>	2.27	3.51	5.15	3.63	2.31	3.48	4.91	3.56
<b>A2</b>	0.556	0.881	1.33	0.917	0.799	1.25	1.84	1.29
<b>A3</b>	5.32	10.7	17.1	11	2.76	5.55	8.92	5.73
<b>A7</b>	1.32	2.7	4.21	2.74	0.486	0.992	1.56	1.01
<b>A9</b>	1.86	4.11	6.91	4.27	1.07	2.52	5	2.81
<b>A13/15</b>	17.1	23.9	33.6	24.7	9.15	12.8	17.9	13.2
<b>A20</b>	0.207	0.493	0.905	0.531	0	0	0	0
<b>A22</b>	0.0109	0.0223	0.034	0.224	0	0	0	0
<b>A23</b>	0.245	0.459	0.785	0.492	0.486	0.865	1.32	0.887
<b>A24</b>	0.18	0.262	0.364	0.268	0	0	0	0
<b>B7</b>	13.7	30.5	52.2	32	0	0	0	0
<b>B9</b>	1.19	1.96	2.88	2	0	0	0	0
<b>B10</b>	13	15.9	19.5	16.1	0	0	0	0
<b>B15</b>	18.2	27.8	37.4	27.8	6.44	9.91	13.5	9.95
<b>B16</b>	0.0278	0.0379	0.0497	0.0384	0	0	0	0
<b>B19</b>	0.466	1.12	2.06	1.2	0	0	0	0
<b>B20</b>	2.67	3.83	5.48	3.98	1.81	2.66	3.89	2.77
<b>B21</b>	3.72	6.07	9.62	6.43	2.02	3.18	4.85	3.34
<b>B23</b>	17.1	22.8	30.3	23.3	11.9	15.7	20.9	16.1
<b>G1</b>	4.25	9.35	16.2	9.86	3.38	7.26	12.1	7.57
<b>G3</b>	1.01	1.38	1.83	1.4	1.55	2.11	2.79	2.15
<b>I1</b>	3.59	7.71	14.7	8.54	0	0	0	0
<b>I3</b>	19.1	27.7	40	28.8	0	0	0	0
<b>I5</b>	19.6	26.3	34.1	26.6	0	0	0	0
<b>I6</b>	8.55	12.9	19	13.4	0	0	0	0
<b>Total</b>	155.24	242.40	355.71	250.22	44.16	68.28	99.48	70.37

**Table 2.2 – Mustang Island GIIP, by fault block**

## 2.4 Production History and Analysis

In order to examine the possible remaining potential with the field, historical production volumes must be allocated to each horizon and subtracted from the STOIPP volumes. If the field consisted of a single producing horizon and all the wells produced from that same horizon this would be a simple process.

However, this is not the case in Mustang Island, with multiple producing horizons, wells producing simultaneously from numerous horizons. As a result, the production allocation is subject to some uncertainty.

RPS was supplied with a number of well-data summaries as PDF files. These contained various scanned images of production history tables, final well reports, various pressure data, some fluid analysis comments and various hand-written notes regarding well performance and potential. Much of this data has been transcribed to Excel and a digital analysis of the production histories on a per well basis made.

Well-data summaries were not included for all wells. A well completion schedule was also supplied which details all the wells drilled on the field, total production volumes for each well and producing intervals for each well, including the time periods these intervals were produced. However, there is no data regarding volumetric splits between different intervals, which would have required production logging to assess.

Volumes recorded in the well data summaries do not always match production volumes specified in the completion schedule. In some cases, the volumes specified in the completion schedule are less than those from the well data summaries. As a result, RPS have assumed the volumes in the well data

summaries are correct where available and used those volumes noted on the completion schedule where well data summaries are unavailable.

It is not clear whether production from individual wells was measured independently or if the volumes noted for each well are based on some form of production allocation basis. Test data for individual wells does exist periodically, which may have been performed as part of condensate production monitoring only or as part of a production allocation scheme.

Therefore, production volumes from individual wells and from individual horizons within a well may be subject to uncertainty. However, there is no way to ascertain this with the data available so RPS has assumed that production data on a per well basis is correct.

As shown in Figure 2.2, GIIP has been calculated across the extent of the seismic mapping. However, this area does not include the D1 and D2 production wells. As a result, production volumes from these wells have been excluded from the evaluation under the assumption that the volumes produced from these wells are not derived from the area of evaluation.

#### 2.4.1 Production Allocation for Producing Horizons

In order to assign production to individual horizons where multiple horizons are flowing simultaneously, RPS has proportioned volumes using net porosity-height as a proxy for permeability-height ( $k_h$ ), as demonstrated below in Table 2.3.

<b>Sand</b>	<b>Net Pay</b>	<b>Porosity</b>	<b>Porosity-Height</b>	<b>Split</b>	<b>Production Allocation</b>
	<b>ft</b>	<b>frac</b>	<b>ft</b>	<b>frac</b>	<b>Mscf</b>
<b>B-15</b>	19.0	0.24	4.579	0.847	3,962,503
<b>B-16</b>	2.5	0.21	0.525	0.097	453,793
<b>B-19</b>	1.5	0.20	0.303	0.056	261,984
<b>Total (Mscf)</b>					<b>4,678,280</b>

**Table 2.3 – Production Allocation Split – A1 Well**

Table 2.3 shows the calculated Porosity height function and resulting production allocation split for production from the A1 well (May 1981- Dec. 1984). The Porosity-Height split for each sand is calculated as a fraction of the total for all horizons flowing in a particular period. The total production for the period is then multiplied by the split for each sand to allocate production to each horizon.

Calculated splits based on net pay are shown in **Appendix C**.

This process is performed for each producing period, in each well, to estimate total production from each horizon, with wells categorised as West, North or South depending on where each well penetrates each horizon with the mapped area.

#### 2.4.2 Reconciliation of Produced Volumes & Calculated GIIP

Following the production allocation process, estimated volumes produced from individual sands are subtracted from the calculated GIIP in the P90-P50-P10 cases for each sand on a region (North, West or South) basis, and the resulting historical recovery factor is calculated.

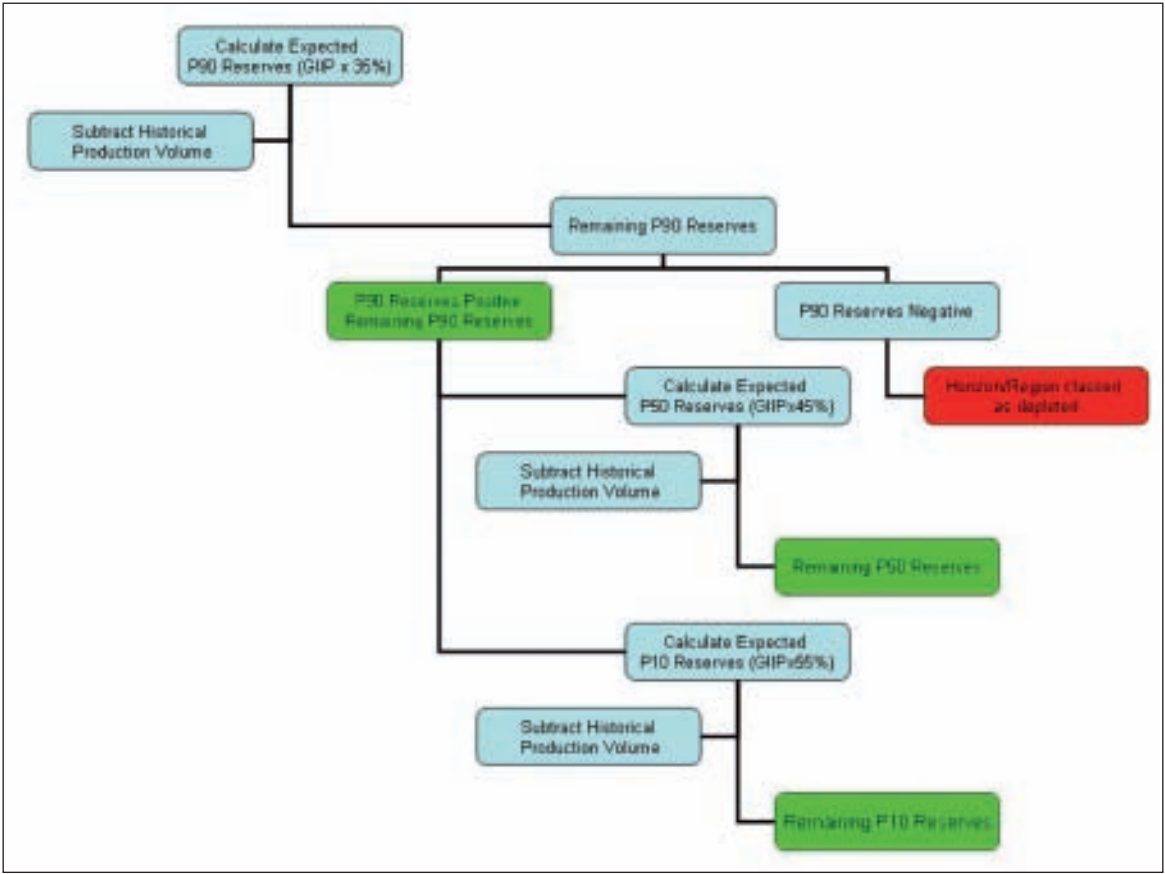
The results are shown in **Appendix D**.

As can be seen from these results, some sands have calculated very high recovery factors, in some cases greater than 100%, indicating that errors exist in either the GIIP calculations or production allocation process, or both. It is not possible to reconcile these issues with the data available.

In order to define areas where potentially recoverable gas still exists, RPS assumed a range of recovery factors, based on the available information.

Based on analogue fields with similar production mechanisms (gas/condensate with strong water drive), RPS have chosen to use recovery factors of 35/45/55% to discriminate between areas where potential recoverable gas still exists.

If remaining reserves are calculated in the P90 case, then P50 and P10 remaining reserves are subsequently calculated. If remaining reserves in the P90 case are zero, then the sand is classed as depleted, as shown in Figure 2.10:



**Figure 2.10 – Workflow for Remaining Reserves Calculations**

This process avoids having cases where some sands may have remaining reserves in the P50 or P10 case, but not in the P90 which is appropriate for a previously produced field. However, it is possible that, with further data (wells) that the P50 and P10 recoverable volumes will increase as the current P90 may prove to be in error.



Based on the results of this process, Table 2.4 lists the zones which show remaining potential for production.

Sand	West			North			South		
	P90	P50	P10	P90	P50	P10	P90	P50	P10
A1	0.43	0.90	1.72	0.36	0.68	1.12			
A2									
A3				0.15	0.99	2.23			
A7				0.11	0.31	0.60			
A9				0.22	0.63	1.29	0.26	1.02	2.64
A13/15				1.16	2.12	3.63	1.16	3.72	7.81
A20				0.04	0.13	0.27			
A22									
A23				0.01	0.10	0.23	0.17	0.39	0.73
A24									
B7									
B9				0.02	0.04	0.07			
B10				0.18	0.32	0.44			
B15				0.81	1.53	2.53	2.25	4.46	7.43
B16									
B19				0.05	0.16	0.37			
B20	0.25	0.64	1.29	0.53	0.94	1.58			
B21	0.97	2.12	4.01	0.10	0.38	1.05			
B23				0.35	0.59	0.99	4.17	7.07	11.50
G1	1.25	3.52	7.43	0.24	0.68	1.49	1.18	3.27	6.66
G3				0.01	0.01	0.03	0.54	0.95	1.53
I1	0.69	2.27	5.37	0.33	0.96	2.48			
I3				1.26	2.30	4.01			
I5				1.02	1.76	2.81			
I6				1.63	3.20	5.86			

**Table 2.4 – Mustang Island zones with remaining potential production**

## 2.5 Estimated Recoverable Reserves and Production Profiles

In order to calculate Condensate volumes, the available test data were examined, and a histogram of all recorded condensate gas ratios created, Figure 2.11. Based on this histogram, the P90, P50 and P10 condensate-gas ratios (CGR) was taken and applied to the calculated remaining gas reserves to provide estimates of remaining condensate volumes, Table 2.5. This assumes that all test data is taken above the dew point, which cannot be confirmed without any fluid PVT data, but is a reasonable assumption.

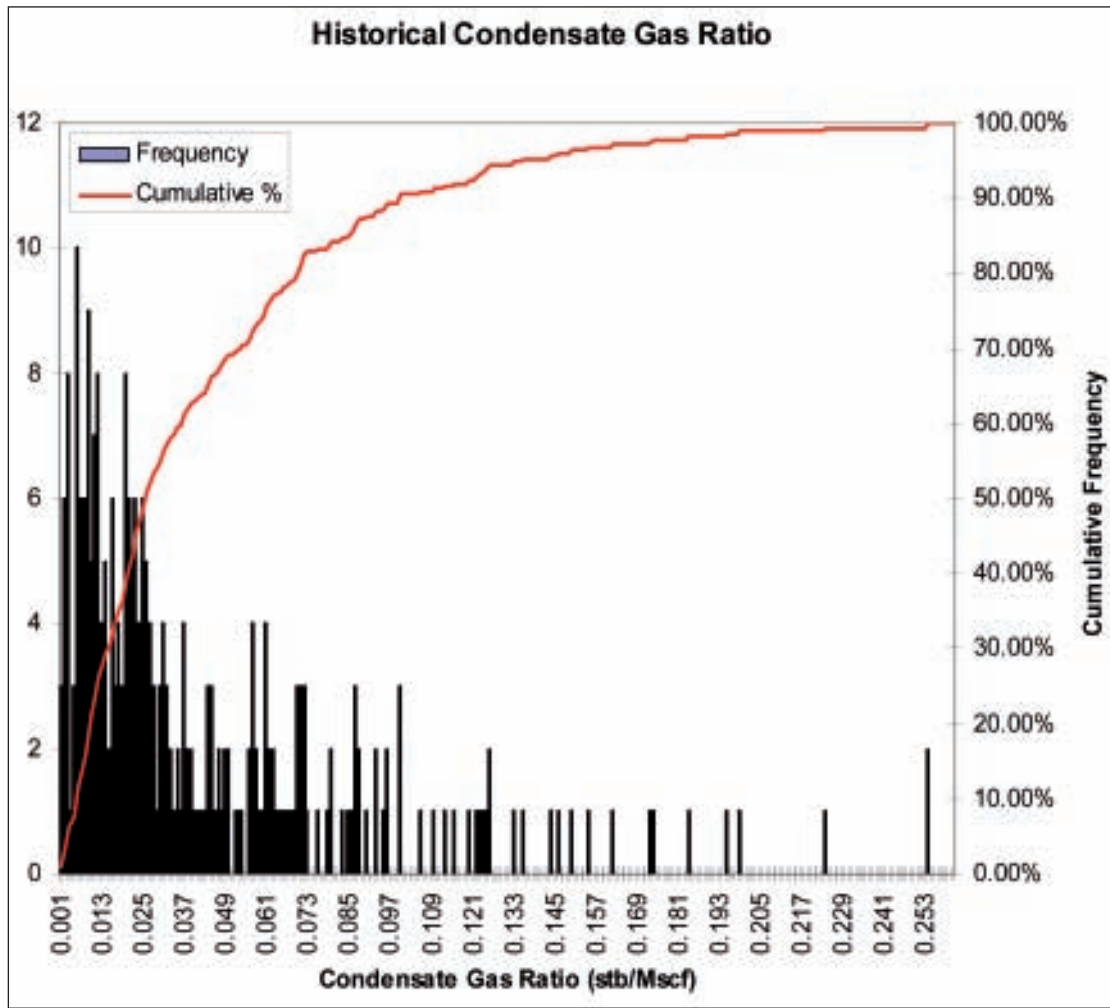


Figure 2.11 – Produced Condensate Gas Ratio Histogram

Case	P90	P50	P10
CGR (bbl/MMscf)	6	25	100

Table 2.5 – Condensate Gas Ratio (CGR)

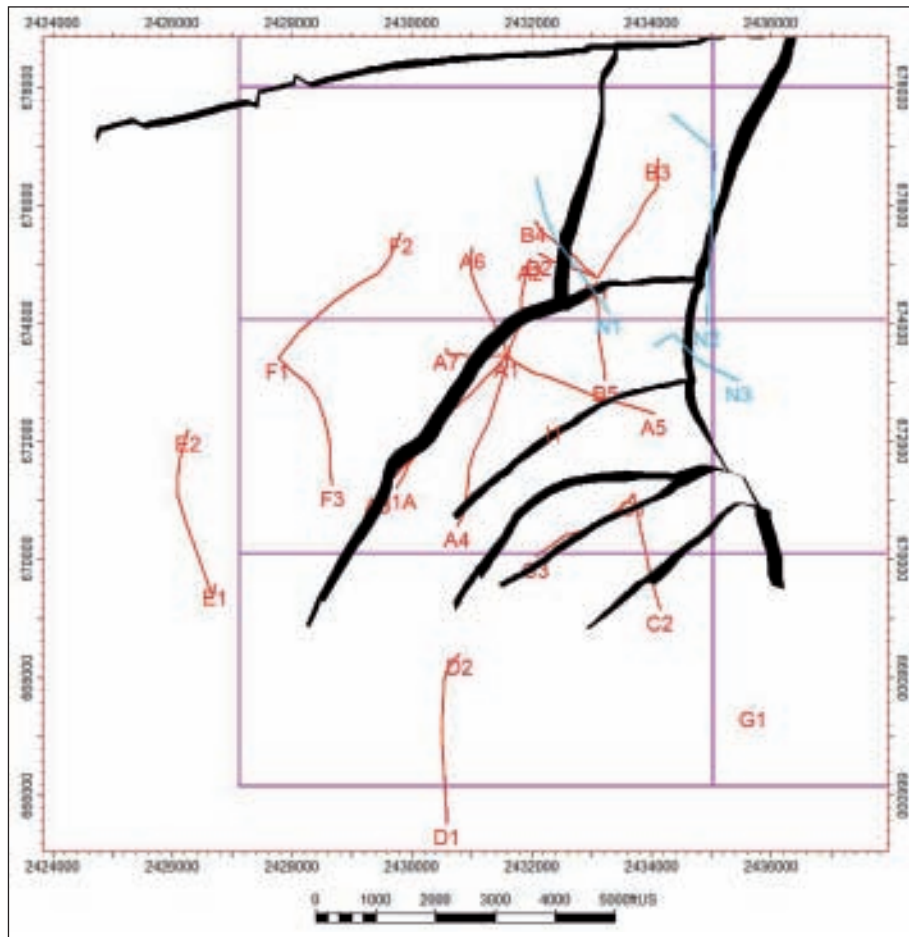
Resulting Gas and Condensate Remaining Reserves are shown in Table 2.6:

	1P		2P		3P	
	Gas (Bscf)	Condensate (bbl)	Gas (Bscf)	Condensate (bbl)	Gas (Bscf)	Condensate (bbl)
West	3.59	21,547	9.46	236,410	19.81	1,980,700
North	8.58	51,453	17.82	445,395	33.04	3,303,980
South	9.74	58,450	20.87	521,856	38.28	3,828,050
Field (Sum)	21.91	131,450	48.15	1,203,661	91.13	9,112,730

Table 2.6 – Remaining Gas & Condensate Reserves (100% WI)

Based on the structure mapped, each fault block has a structural high, which is likely where any remaining gas will accumulate. In each fault area, none of these structural highs has been drilled by any of the existing well stock further supporting the idea of remaining attic gas being present.

As a result, the most suitable location of any new wells to penetrate would be on each of the structural highs identified. For this reason, 3 new wells are proposed to test and subsequently produce the remaining gas volumes. These well locations are shown in blue in Figure 2.12.



**Figure 2.12 – Location of proposed wells**

In order to construct production profiles for these wells, the existing production data has been used as a guide. For wells with well data summaries, monthly gas and water production volumes are available. These have been used to plot production curves for gas and water for those wells. Decline curves have subsequently been fitted to each production curve where a single set of sands are producing. Where production intervals have changed (due to additional perforations or plugging back of perforations), separate declines have been fitted.

The resulting decline information has been used to benchmark the proposed production profiles for the 3 suggested new wells.

Producing intervals have been grouped in much the same way as the field was originally produced. Production commences with the deepest horizons first, and higher horizons are subsequently perforated once rates drop sufficiently low to warrant additional perforations (nominally a rate of 500 Mscf/d has been chosen). Once rates drop below 100 Mscf/d, which has been the approximate abandonment rate observed historically, the intervals are plugged back.

In this way, production profiles and time-spans similar to those observed originally in the field are achieved, which seems reasonable.

The resulting production profiles for the 3 wells are shown in Figures 2.13 to 2.15:

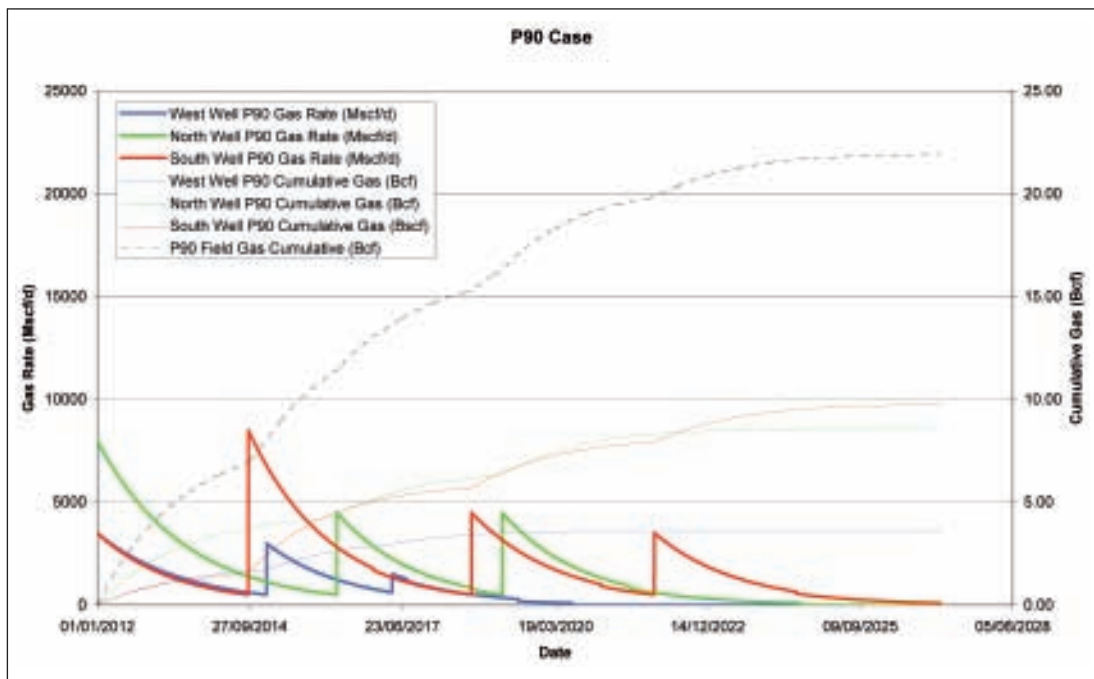


Figure 2.13 – 1P Case Profiles

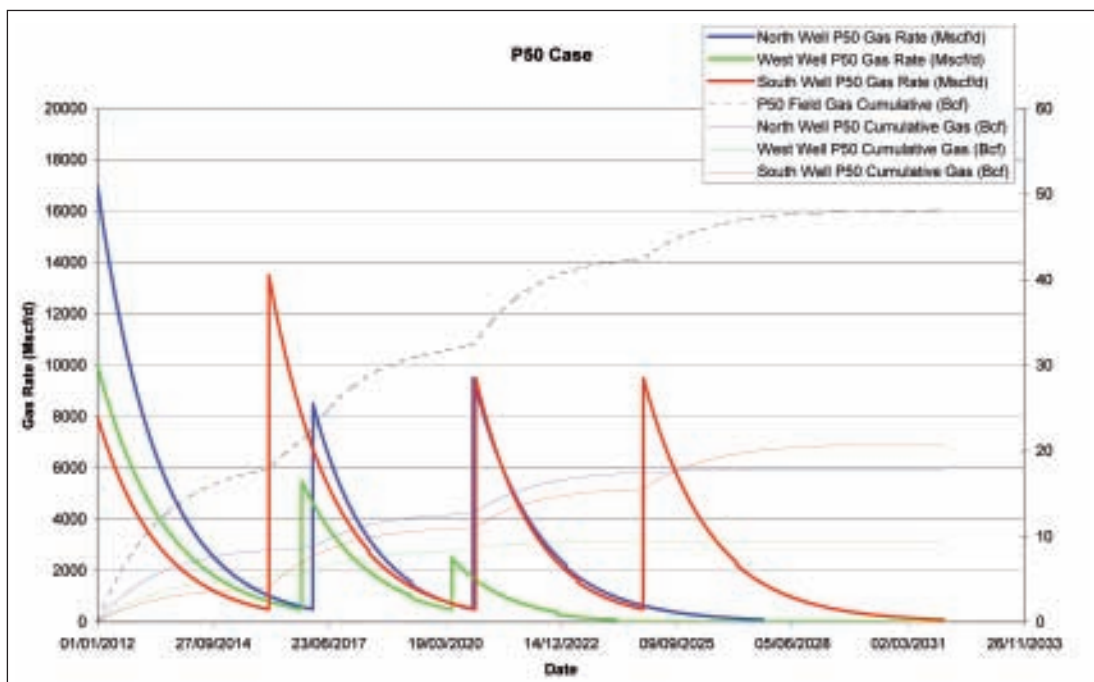


Figure 2.14 – 2P Case Profiles

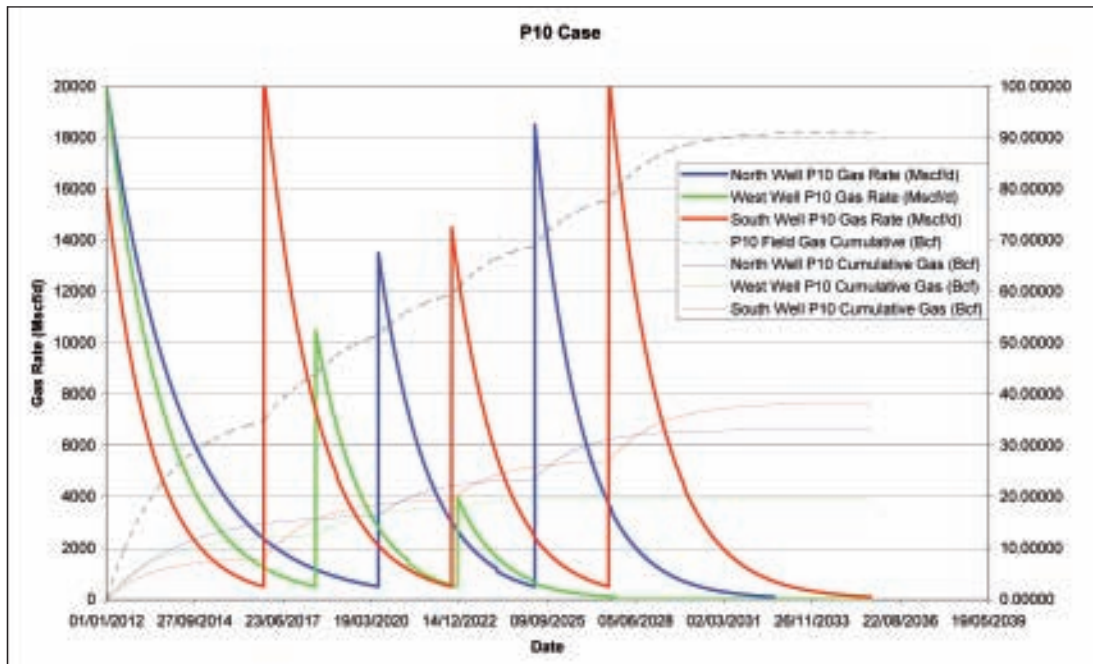


Figure 2.15 – 3P Case Profiles

## 2.6 Development Costs

Drilling costs have been supplied by Core and endorsed by Silvermere based on their recent activity. Estimates of US\$5 – 8MM were supplied and include the costs of connecting the wells into the existing infrastructure which is connected to the Six Pigs processing facility onshore. Since no other Capex has been assumed, RPS has taken the upper end of the estimate for each of the three wells envisaged within our Reserves scenario.

The infrastructure (mini platform, flow-lines, main 20” export line to Six Pigs and the Six Pigs processing facility itself) is assumed to be in good order and to have been tested for operational capacity. However, RPS has not had the opportunity to visit the facilities to verify this to be the case.

## 3. PETROLEUM ECONOMICS

### 3.1 Assumptions

#### Core Working Interest and Silvermere Net Entitlement

According to the 8 June 2011 document, “Limited Title Opinion,” prepared by the US law firm Burselson LLP (Houston), the working interest (WI) of Core Oil & Gas, Inc. (which Silvermere intends to fully acquire) in the Mustang licence is 33.333334%. The combined effect of various royalties – equal to approximately 12.5% of total licence revenue, as detailed below – is paid out of the 33.333334% WI, giving Silvermere a Net Entitlement of approximately 20.83%.

#### Inflation

Annual inflation is assumed to be 2.0%.

#### Commodity Price Assumptions

We have used Core/Silvermere’s assumption that realised prices (before deducting processing tariffs) for Mustang Island condensate will be at parity with West Texas Intermediate (WTI) crude oil prices.

We have used Core/Silvermere’s assumption that realised prices for Mustang Island gas equal 99.0% of the Houston Shipping Channel (HSC) marker price minus a transport tariff of Real 2011 \$0.12/Mscf. Based on a comparison of average monthly HSC prices with average monthly Henry Hub prices from June 2010 through May 2011, we assume that HSC gas prices in turn will equal 99.1% of Henry Hub prices.

Annual price assumptions are shown in Table 3.1, below. RPS Energy’s Base Case Henry Hub forecast has been converted from MOD \$ / BTU to MOD \$ / Mscf assuming a calorific value of 1,020 BTU per scf.

(All Dollar amounts are MOD ("money of the day"))	WTI / Silvermere Condensate Realisation \$/bbl	Henry Hub Gas Price \$/MMBTU	Henry Hub Gas Price \$/MCF	Silvermere Gas Realisation \$/MCF
2012	105.00	5.03	4.93	4.72
2013	105.00	5.53	5.42	5.19
2014	103.00	6.19	6.07	5.82
2015	102.00	6.66	6.53	6.27
2016	102.00	7.18	7.04	6.77
2017	103.00	7.32	7.18	6.90
2018	104.00	7.47	7.32	7.04
2019	106.00	7.62	7.47	7.18
2020	107.56	7.77	7.62	7.32
2021	109.71	7.92	7.77	7.46
2022	111.90	8.08	7.92	7.61
2023	114.14	8.24	8.08	7.76
2024	116.42	8.41	8.24	7.92
2025	118.75	8.58	8.41	8.08
2026	121.13	8.75	8.58	8.24
2027	123.55	8.92	8.75	8.40
2028	126.02	9.10	8.92	8.57
2029	128.54	9.28	9.10	8.74
2030	131.11	9.47	9.28	8.91
2031	133.74	9.66	9.47	9.09
2032	136.41	9.85	9.66	9.27
2033	139.14	10.05	9.85	9.45
2034	141.92	10.25	10.05	9.64
2035	144.76	10.45	10.25	9.83

**Table 3.1 – Annual price assumptions**

### Overriding Royalty

Based on the aforementioned “Limited Title Opinion” by Burleson LLP and on copies of the Mustang leases furnished to us by Silvermere, we assume the following royalties will have effect:

- A royalty payable to the State of Texas which is levied at a rate equal to 22.50% of all of 100% WI basis Mustang Island lease production. (Note that if Mustang Island production starts after 29 May 2012 – as opposed to our assumption of 1 January 2012 – this rate will increase to 25.00%). Silvermere management warrants that Silvermere’s share of this total royalty obligation is 33.33334%.
- An overriding royalty, levied at a rate equal to 0.75% of all of 100% WI basis Mustang Island lease production, and payable to Wellmaster Exploration & Production Co., LLC, once Core Oil & Gas Inc.’s WI share of field revenue, gross of royalty, exceeds \$100,000. Silvermere management warrants that Silvermere’s share of this royalty obligation is 100%.
- An overriding royalty, levied at a rate equal to 0.25% of all of 100% WI basis Mustang Island lease production, and payable to Seadrift Management, LLC. Silvermere management warrants that Silvermere’s share of this royalty obligation is 100%.
- An overriding royalty, levied at a rate equal to 4.00% of all of 100% WI basis Mustang Island lease production, and payable to Core Oil & Gas, Inc. Silvermere management warrants that Silvermere’s share of this royalty obligation is 100%.



## Ad valorem taxes

We have estimated *ad valorem* tax in Texas as being equal to 2% of realised revenue (before the deduction of overriding royalty).

## Texas Severance Taxes

The Texas Severance Tax is assumed to be levied on the value of production sold, gross of royalty. The rates are as follows:

- Condensate: 4.6%
- Gas 7.5%

(The Texas Severance Tax on crude oil is not discussed here as the Mustang Island Licence is not expected to produce any).

All of the Mustang Island Licence wells are assumed to be gas wells. Severance Tax credits are available for gas wells if both a production rate test and a price test are satisfied:

- Under the production rate test, a well's hydrocarbon production during the prior quarter must have averaged less than 90 Mscfe/d. (N.B. 1 bbl = 6,000 sscfe)
- If the production test rate test is met, then credits are determined by the following price tests:

Gas Price in Real 2005 \$/mscf		Severance Tax Credit
>=	<=	%
0.00	2.50	100
2.51	3.00	50
3.01	3.50	25
3.51	No limit	0

## Opex

We have assumed fixed opex of Real 2011 \$17,500 per production month per well on a 100% WI basis. This is the average of the Real 2011 \$15,000-\$20,000 range provided by Core/Silvermere.

We have used Core/Silvermere's assumption for variable opex of Real 2011 \$1.75/bbl for condensate processing.

## Capex

The I-1 well test was conducted on 24th June 2011. Pre-test estimates of costs were \$3.5MM on a 100% WI basis and no further update has been supplied. As this precedes the 1 July 2011 valuation date, this expenditure has no direct impact on our model, i.e. it is not counted as a cash outflow. However, we have assumed that this sum is depreciated as an intangible drilling cost for tax purposes during the valuation period, and therefore impacts net cashflow by reducing future tax liabilities.

We have assumed that each of the three Mustang Island Licence development wells costs Real 2011 \$8.0MM on a 100% WI basis. This is the top of the Real 2011 \$5.0-\$8.0MM range provided by Core/Silvermere and includes costs for hook-up into the offtake facilities. It is assumed that the costs of all three development wells are incurred in 4Q 2011.

## Economic Limit Test and Abandonment

Each well is assumed to be abandoned when it is no longer commercially viable. Commercial viability is determined by an Economic Limit Test (ELT). According to this test, a well is abandoned once peak cumulative operating cashflow has been attained. For this purpose, operating cashflow is defined as revenue minus opex, overriding royalty, *ad valorem* tax and severance tax.

Data presented as being on a "pre-ELT" or "post-ELT" basis in the Results section, below, means that the data ignores or considers the ELT, respectively.

The cost to abandon a well is assumed to equal, in Real 2011\$ terms, 10% of each development well’s cost. A well’s abandonment cost is assumed to be incurred in one lump sum in the quarter following the end of the well’s economic life, and is inflated to that date accordingly.

**Tangible/Intangible split of Capex**

Based on data provided by Core in an October 2010 presentation, we assume that development well capex is 47% tangible and 53% intangible. This is relevant for tax depreciation purposes. Tangible capex is depreciated, while intangible capex (excluding well tests, as discussed below) are expensed.

**Depreciation of I-1 Well test expenditure**

RPS understands that the I-1 well test was completed on 24th July 2011 and cost a total of US\$3.5MM. As a result, for US Federal Income Tax and Texas Franchise Tax purposes, the well test expenditure is depreciated over a two year period using the mid-year convention. We assume that this depreciation starts with the assumed commencement of production in 1Q 2012.

**Depreciation of other capex**

Tangible capex is assumed to be depreciated for US Federal Income Tax and Texas State Franchise Tax purposes using the following Modified Accelerated Cost Recovery System (MACRS) schedule published by the US Internal Revenue Service.

Year Of Production	Depreciation rate (% of initial book value)
1	14.3%
2	24.5%
3	17.5%
4	12.5%
5	8.9%
6	8.9%
7	8.9%
8	4.5%
Total	100.0%

*Source: US IRS: “How to Depreciate Property”, April 2011, Table A-1*

We assume that Silvermere’s undepreciated balance of tax depreciable assets as at 1 January 2011 is nil.

**Silvermere income taxes estimated on a standalone basis**

Our valuation model forecasts income taxes payable by Silvermere based only on its taxable income attributable to its WI in the Mustang Island licence.

**Texas Franchise Tax**

We assume, based on our understanding of relevant regulations, that in any given tax year, the payer of the Texas Franchise Tax (i.e. state income tax) has potentially two main options:

Option (1) is to pay 1% of the lowest of the following three bases:

- total revenue minus costs of goods sold, where the latter is the sum of overriding royalties, severance and *ad valorem* taxes, opex, expensed capex and depreciation as per federal tax rules, and abandonment costs
- total revenue minus compensation (which we assume to equal 5.0% of annual opex)
- total revenue times 70%

Option (2) is to pay 0.575% of total revenue if gross revenue is \$10MM or less.

We understand that the taxpayer may choose the option resulting in the lowest tax liability.

We understand further that, regardless of which option is chosen, no tax is due for the 2011 tax year if total revenue is equal or less than \$1.0MM, and that none is due for the 2012 tax year and after if total annual revenue is equal or less than \$0.6MM.

Franchise Tax payments for a given tax year are due in May of the following year, so we have assumed Silvermere pays them in 2Q of the relevant year.

We understand further that during months when the average closing price of WTI crude oil is below \$40.00/bbl and the NYMEX gas price is below \$5.00/MMbtu, gas well revenue shall be excluded from the Franchise Tax calculation for wells producing less than 250 mscf/d over 90 days.

We understand further that tax loss carryforwards are permitted only if the taxpayer was subject to Franchise Tax in 2006, and that the loss carryforwards are not transferrable; we therefore assume loss carryforwards are not available to Silvermere with regard to Mustang Island income.

**US Federal Income Taxes**

We have assumed the following US Federal Tax rates apply over the valuation period:

Tax Rate Schedule			
If taxable income (line 30, Form 1120) on page 1 is:			
Over—	But not over—	Tax is:	Of the amount over—
\$0	\$50,000	15%	\$0
50,000	75,000	\$ 7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	10,000,000	113,900 + 34%	335,000
10,000,000	15,000,000	3,400,000 + 35%	10,000,000
15,000,000	18,333,333	5,150,000 + 38%	15,000,000
18,333,333	-----	35%	0

Source: US IRS Form 1120 for the 2010 Tax Year

We further assume that the following potential tax mitigants remain in effect over the valuation period:

- a) the Small Producers Tax Exemption, whereby 15% of revenue (assumed to be revenue gross of royalty) is tax-free to owners of production not exceeding 6.0 MMscf/d, providing that the exemption does not exceed 65% of taxable income for the tax year in question.
- b) the “Section 199 Deduction”, whereby 6.0% of net income is deductible, provided that the deduction does not exceed 50% of “W-2” payroll costs (which are assumed to equal compensation, as discussed above). It is assumed that net income for these purposes is net income after the application of the Small Producers Tax Exemption.

It is assumed that tax losses may be carried forward. It is further assumed that the balance of Silvermere tax losses as at 1 January 2011 is nil.

US Federal Income Tax payments for a given tax year are due in April of the following year, so we have assumed Silvermere pays them in 2Q of the relevant year.

**Net Present Value Methodology**

Our base case valuations assume a 10.0% discount rate (using the mid-year discounting convention) and a valuation date of 1 July 2011. Economics and cash-flow analyses do not include acquisition and financing costs.

### 3.2 Valuation Results<sup>7</sup>

The results of our valuation of Silvermere's Net Entitlement in the Mustang Island Licence in the 1P, 2P and 3P cases are summarised in Table 3.2, below and are detailed in the case-specific tables which follow.

<b>Mustang Island Licence – Key Results</b>				
<b>Item</b>	<b>unit</b>	<b>1P</b>	<b>2P</b>	<b>3P</b>
<b>Production, 100% WI Basis, gross of royalty</b>				
Pre-Economic Limit Test (ELT)				
Condensate	bbl	131,583	1,203,486	9,113,016
Gas	MMscf	21,930	48,139	91,130
Hydrocarbon	MMscfe	22,720	55,360	145,808
ELT reached	year	Q4 2026	Q4 2031	Q3 2035
Post-ELT				
Condensate	bbl	131,518	1,203,476	9,112,802
Gas	MMscf	21,920	48,139	91,128
Hydrocarbon	MMscfe	22,709	55,360	145,805
<b>Production, Silvermere WI Basis, post-ELT</b>				
Gross of Royalty				
Condensate	bbl	43,839	401,159	3,037,601
Gas	MMscf	7,307	16,046	30,376
Hydrocarbon	MMscfe	7,570	18,453	48,602
<b>Net of Royalty (i.e. Silvermere Net Entitlement)</b>				
Condensate	bbl	27,402	250,732	1,898,516
Gas	MMscf	4,567	10,029	18,985
Hydrocarbon	MMscfe	4,731	11,534	30,376
<b>Financial results, Silvermere Net Entitlement Basis, post-ELT</b>				
NPV@0%	MOD \$MM	11.54	48.99	188.50
NPV@10%	MOD \$MM	4.49	24.87	94.36
IRR	%	23%	79%	395%

**Table 3.2 – Mustang Island Valuation of Silvermere's Net Entitlement**

<sup>7)</sup> All Working Interest and Net Entitlement Reserves and Net Present Value attributable to Silvermere are conditional on shareholder approval of the proposed acquisition of Core's interests in the Mustang Island Re-development.

IP case	100% WI basis production, gross of royalty										Silvermere WI basis, post-ELT					
	Pre-Economic Limit Test (ELT)					Post-Economic Limit Test (ELT)					Production, gross of royalty			Production, net of ~12.5% royalty		
	Condensate bbl	Gas MMscf	Hydrocarbon MMscfe	Condensate bbl	Gas MMscf	Hydrocarbon MMscfe	Condensate bbl	Gas MMscf	Hydrocarbon MMscfe	Condensate bbl	Gas MMscf	Hydrocarbon MMscfe	Condensate bbl	Gas MMscf	Hydrocarbon MMscfe	
H2 2011	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
2012	24,114	4,019	4,164	24,114	4,019	4,164	8,038	1,340	1,388	5,026	838	—	—	—	868	
2013	12,422	2,070	2,145	12,422	2,070	2,145	4,141	690	715	2,588	431	—	—	—	447	
2014	11,043	1,841	1,907	11,043	1,841	1,907	3,681	614	636	2,301	383	—	—	—	397	
2015	17,497	2,916	3,021	17,497	2,916	3,021	5,832	972	1,007	3,645	608	—	—	—	629	
2016	13,745	2,291	2,373	13,745	2,291	2,373	4,582	764	791	2,864	477	—	—	—	494	
2017	9,174	1,529	1,584	9,174	1,529	1,584	3,058	510	528	1,911	319	—	—	—	330	
2018	7,076	1,179	1,222	7,076	1,179	1,222	2,359	393	407	1,474	246	—	—	—	255	
2019	12,682	2,114	2,190	12,682	2,114	2,190	4,227	705	730	2,642	440	—	—	—	456	
2020	7,641	1,274	1,319	7,635	1,273	1,318	2,545	424	439	1,591	265	—	—	—	275	
2021	3,615	602	624	3,615	602	624	1,205	201	208	753	126	—	—	—	130	
2022	6,571	1,095	1,135	6,571	1,095	1,135	2,190	365	378	1,369	228	—	—	—	236	
2023	3,388	565	585	3,388	565	585	1,129	188	195	706	118	—	—	—	122	
2024	1,590	265	274	1,561	260	270	520	87	90	325	54	—	—	—	56	
2025	657	109	113	657	109	113	219	36	38	137	23	—	—	—	24	
2026	339	56	58	339	56	58	113	19	19	71	12	—	—	—	12	
2027	30	5	5	—	—	—	—	—	—	—	—	—	—	—	—	
<b>Total</b>	<b>131,583</b>	<b>21,930</b>	<b>22,720</b>	<b>131,518</b>	<b>21,920</b>	<b>22,709</b>	<b>43,839</b>	<b>7,307</b>	<b>7,570</b>	<b>27,402</b>	<b>4,567</b>	<b>27,402</b>	<b>7,570</b>	<b>4,567</b>	<b>4,731</b>	

Table 3.3 – Mustang Island Licence Production Volumes, 100% WI Basis & Silvermere WI Basis, IP Case

Prices		Silvermere WI basis cashflow, post-ELT																					
		Silvermere Realisations		Revenue, net of royalty		Non-income Taxes		Operating Costs		Capital Costs		Abandonment Costs		Texas Inc. Tax		Federal Inc. Tax		Net Cashflow		1Jul.2011 Disc. factor		Discounted Net Cashflow	
IP case	Condensate	Gas	Condensate	Gas	Condensate	Gas	Total	MOD \$MM	MOD \$MM	MOD \$MM	MOD \$MM	MOD \$MM	MOD \$MM	MOD \$MM	MOD \$MM	MOD \$MM	MOD \$MM	MOD \$MM	MOD \$MM	@10%rate	MOD \$MM	MOD \$MM	
H2 2011																							
2012	105.00	4.72	0.53	3.95	—	—	4.48	—	9.17	—	—	—	—	—	—	—	—	—	—	1.000	-9.17	-9.17	
2013	105.00	5.19	0.27	2.24	2.23	0.66	2.51	0.22	—	0.37	0.22	—	—	—	—	—	—	—	—	0.909	3.60	3.27	
2014	103.00	5.82	0.24	2.23	2.23	0.36	2.47	0.22	—	0.36	0.22	—	—	0.02	—	—	—	—	—	0.826	1.90	1.57	
2015	102.00	6.27	0.37	3.81	3.81	0.62	4.18	0.22	—	0.62	0.22	—	—	0.01	—	—	—	—	—	0.751	1.88	1.41	
2016	102.00	6.77	0.29	3.23	3.23	0.52	3.52	0.22	—	0.52	0.22	—	—	0.01	—	—	—	—	—	0.683	3.33	2.27	
2017	103.00	6.90	0.20	2.20	2.20	0.35	2.39	0.22	—	0.35	0.22	—	—	0.02	—	—	—	—	—	0.621	2.76	1.71	
2018	104.00	7.04	0.15	1.73	1.73	0.28	1.88	0.22	—	0.28	0.22	—	—	0.02	—	—	—	—	—	0.564	1.40	0.79	
2019	106.00	7.18	0.28	3.16	3.16	0.51	3.44	0.22	—	0.51	0.22	—	—	0.01	—	—	—	—	—	0.513	1.08	0.55	
2020	107.56	7.32	0.17	1.94	1.94	0.31	2.11	0.18	—	0.31	0.18	—	0.34	0.02	—	—	—	—	—	0.467	2.50	1.17	
2021	109.71	7.46	0.08	0.94	0.94	0.15	1.02	0.14	—	0.15	0.14	—	—	0.01	—	—	—	—	—	0.424	0.68	0.29	
2022	111.90	7.61	0.15	1.74	1.74	0.28	1.89	0.15	—	0.28	0.15	—	—	0.00	—	—	—	—	—	0.386	0.46	0.18	
2023	114.14	7.76	0.08	0.91	0.91	0.15	0.99	0.14	—	0.15	0.14	—	—	0.01	—	—	—	—	—	0.350	1.30	0.46	
2024	116.42	7.92	0.04	0.43	0.43	0.07	0.47	0.11	—	0.07	0.11	—	0.38	0.00	—	—	—	—	—	0.290	-0.25	-0.07	
2025	118.75	8.08	0.02	0.18	0.18	0.03	0.20	0.07	—	0.03	0.07	—	—	0.00	—	—	—	—	—	0.263	0.10	0.03	
2026	121.13	8.24	0.01	0.10	0.10	0.02	0.11	0.07	—	0.02	0.07	—	—	—	—	—	—	—	—	0.239	0.02	0.00	
2027	123.55	8.40	—	—	—	—	—	—	—	—	—	—	0.41	—	—	—	—	—	—	0.218	-0.41	-0.09	
<b>Total</b>			<b>2.88</b>	<b>28.79</b>	<b>31.67</b>	<b>4.68</b>	<b>2.61</b>	<b>9.17</b>	<b>1.13</b>	<b>0.15</b>	<b>2.39</b>	<b>11.54</b>	<b>NPV —&gt;</b>	<b>4.49</b>									

Table 3.4 – Mustang Island Licence, Cashflow and Net Present Value net to Silvermere WI, 1P Case



<b>1P case NPV Sensitivity Analysis – Macro and Field assumptions</b>						
<b>Silvermere WI NPV @ 10% (MOD \$MM) when parameter changed</b>						
<b>Change in parameter (% of base case)</b>	<b>Condensate and Gas production</b>	<b>Benchmark Gas Price (H. Hub)</b>	<b>Benchmark Oil Price (WTI) *</b>	<b>Capital Costs</b>	<b>Operating Costs</b>	
70.0%	0.41	0.72	4.09	6.44	4.82	
80.0%	1.79	2.00	4.22	5.79	4.71	
90.0%	3.15	3.25	4.36	5.15	4.60	
<b>100.0%</b>	<b>4.49</b>	<b>4.49</b>	<b>4.49</b>	<b>4.49</b>	<b>4.49</b>	
110.0%	5.83	5.73	4.63	3.83	4.38	
120.0%	7.15	6.95	4.76	3.17	4.28	
130.0%	8.48	8.18	4.89	2.50	4.16	

\* Although Mustang produces no oil, the WTI oil price benchmark is assumed to affect the realised condensate price

**Table 3.5 – Mustang Island Licence: Sensitivity of Net Present Value, net to Silvermere WI, to Macro and Field parameters, 1P Case**

<b>1P case NPV Sensitivity Analysis – Discount Rate</b>	
<b>Discount Rate</b>	<b>Silvermere WI NPV MOD \$MM</b>
0.0%	11.54
2.5%	9.31
5.0%	7.44
7.5%	5.85
<b>10.0%</b>	<b>4.49</b>
12.5%	3.33
15.0%	2.33
17.5%	1.45
20.0%	0.69

**Table 3.6 – Mustang Island Licence: Sensitivity of Net Present Value, net to Silvermere WI, to Discount Rate, 1P Case**

2P case	100% WI basis production, gross of royalty												Silvermere WI basis, post-ELT					
	Pre-Economic Limit Test (ELT)				Post-Economic Limit Test (ELT)				Production, gross of royalty				Production, net of ~12.5% royalty					
	Condensate bbl	Gas MMscf	Hydrocarbon MMscfe		Condensate bbl	Gas MMscf	Hydrocarbon MMscfe		Condensate bbl	Gas MMscf	Hydrocarbon MMscfe		Condensate bbl	Gas MMscf	Hydrocarbon MMscfe			
H2 2011	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
2012	233,476	9,339	10,740	233,476	9,339	10,740	77,825	3,113	3,580	48,649	1,946	2,238	1,946	2,238	1,946	2,238		
2013	119,165	4,767	5,482	119,165	4,767	5,482	39,722	1,589	1,827	24,826	993	1,142	993	1,142	993	1,142		
2014	61,113	2,445	2,811	61,113	2,445	2,811	20,371	815	937	12,732	509	586	509	586	509	586		
2015	31,374	1,255	1,443	31,374	1,255	1,443	10,458	418	481	6,536	261	301	261	301	261	301		
2016	107,331	4,293	4,937	107,331	4,293	4,937	35,777	1,431	1,646	22,361	894	1,029	894	1,029	894	1,029		
2017	132,773	5,311	6,108	132,773	5,311	6,108	44,258	1,770	2,036	27,661	1,106	1,272	1,106	1,272	1,106	1,272		
2018	69,147	2,766	3,181	69,147	2,766	3,181	23,049	922	1,060	14,406	576	663	576	663	576	663		
2019	33,550	1,342	1,543	33,550	1,342	1,543	11,183	447	514	6,990	280	322	280	322	280	322		
2020	40,995	1,640	1,886	40,995	1,640	1,886	13,665	547	629	8,541	342	393	342	393	342	393		
2021	127,319	5,093	5,857	127,319	5,093	5,857	42,440	1,698	1,952	26,525	1,061	1,220	1,061	1,220	1,061	1,220		
2022	63,312	2,532	2,912	63,312	2,532	2,912	21,104	844	971	13,190	528	607	528	607	528	607		
2023	29,955	1,198	1,378	29,955	1,198	1,378	9,985	399	459	6,241	250	287	250	287	250	287		
2024	22,537	901	1,037	22,527	901	1,036	7,509	300	345	4,693	188	216	188	216	188	216		
2025	63,994	2,560	2,944	63,994	2,560	2,944	21,331	853	981	13,332	533	613	533	613	533	613		
2026	33,760	1,350	1,553	33,760	1,350	1,553	11,253	450	518	7,033	281	324	281	324	281	324		
2027	16,989	680	782	16,989	680	782	5,663	227	261	3,539	142	163	142	163	142	163		
2028	8,529	341	392	8,529	341	392	2,843	114	131	1,777	71	82	71	82	71	82		
2029	4,509	180	207	4,509	180	207	1,503	60	69	939	38	43	38	43	38	43		
2030	2,392	96	110	2,392	96	110	797	32	37	498	20	23	20	23	20	23		
2031	1,267	51	58	1,267	51	58	422	17	19	264	11	12	11	12	11	12		
<b>Total</b>	<b>1,203,486</b>	<b>48,139</b>	<b>55,360</b>	<b>1,203,476</b>	<b>48,139</b>	<b>55,360</b>	<b>401,159</b>	<b>16,046</b>	<b>18,453</b>	<b>250,732</b>	<b>10,029</b>	<b>11,534</b>	<b>10,029</b>	<b>11,534</b>	<b>10,029</b>	<b>11,534</b>		

Table 3.7 – Mustang Island Licence Production Volumes, 100% WI Basis & Silvermere WI Basis, 2P Case

		Silvermere WI basis cashflow, post-ELT																										
		Prices				Silvermere Realisations				Revenue, net of royalty		Non-income Taxes		Operating Costs		Capital Costs		Abandonment Costs		Texas Inc. Tax		Federal Inc. Tax		Net Cashflow		1Jul.2011 Disc. factor		Discounted Net Cashflow
2P case		MOD \$/bbl	MOD \$/Mscf	Gas Condensate	MOD \$MM	MOD \$MM	Gas	MOD \$MM	Total	MOD \$MM	MOD \$MM	Operating Costs	MOD \$MM	Capital Costs	MOD \$MM	Abandonment Costs	MOD \$MM	Texas Inc. Tax	MOD \$MM	Federal Inc. Tax	MOD \$MM	Cashflow	MOD \$MM	Disc. factor @10%rate	MOD \$MM	Disc. factor @10%rate	MOD \$MM	
H2 2011																												
2012		105.00	4.72	5.11	9.18	14.29	1.93	0.35	9.17	1.93	0.35	0.35	9.17											1.000	1.000		-9.17	-9.17
2013		105.00	5.19	2.61	5.16	7.77	1.06	0.28		1.06	0.28	0.28											0.909	0.909		12.00	10.91	
2014		103.00	5.82	1.31	2.97	4.28	0.59	0.25		0.59	0.25	0.25											0.826	0.826		4.09	3.38	
2015		102.00	6.27	0.67	1.64	2.31	0.32	0.23		0.32	0.23	0.23											0.751	0.751		2.39	1.80	
2016		102.00	6.77	2.28	6.05	8.33	1.16	0.28		1.16	0.28	0.28											0.683	0.683		1.21	0.82	
2017		103.00	6.90	2.85	7.63	10.48	1.46	0.30		1.46	0.30	0.30											0.621	0.621		6.64	4.12	
2018		104.00	7.04	1.50	4.05	5.55	0.77	0.26		0.77	0.26	0.26											0.564	0.564		7.14	4.03	
2019		106.00	7.18	0.74	2.01	2.75	0.38	0.23		0.38	0.23	0.23											0.513	0.513		2.49	1.28	
2020		107.56	7.32	0.92	2.50	3.42	0.48	0.24		0.48	0.24	0.24											0.467	0.467		1.15	0.54	
2021		109.71	7.46	2.91	7.92	10.83	1.51	0.31		1.51	0.31	0.31											0.424	0.424		2.26	0.96	
2022		111.90	7.61	1.48	4.02	5.49	0.77	0.26		0.77	0.26	0.26											0.386	0.386		8.36	3.22	
2023		114.14	7.76	0.71	1.94	2.65	0.37	0.23		0.37	0.23	0.23											0.350	0.350		2.24	0.79	
2024		116.42	7.92	0.55	1.49	2.03	0.28	0.18		0.28	0.18	0.18				0.38							0.319	0.319		0.97	0.31	
2025		118.75	8.08	1.58	4.31	5.89	0.82	0.19		0.82	0.19	0.19											0.290	0.290		0.71	0.21	
2026		121.13	8.24	0.85	2.32	3.17	0.44	0.17		0.44	0.17	0.17											0.263	0.263		4.63	1.22	
2027		123.55	8.40	0.44	1.19	1.63	0.23	0.14		0.23	0.14	0.14				0.41							0.239	0.239		1.36	0.32	
2028		126.02	8.57	0.22	0.61	0.83	0.12	0.08		0.12	0.08	0.08											0.218	0.218		0.23	0.05	
2029		128.54	8.74	0.12	0.33	0.45	0.06	0.07		0.06	0.07	0.07											0.198	0.198		0.48	0.10	
2030		131.11	8.91	0.07	0.18	0.24	0.03	0.07		0.03	0.07	0.07											0.180	0.180		0.16	0.03	
2031		133.74	9.09	0.04	0.10	0.13	0.02	0.07		0.02	0.07	0.07											0.164	0.164		0.07	0.01	
2032		136.41	9.27													0.46							0.149	0.149		0.03	0.00	
<b>Total</b>				<b>26.94</b>	<b>65.57</b>	<b>92.52</b>	<b>12.81</b>	<b>4.21</b>	<b>9.17</b>	<b>1.26</b>	<b>0.44</b>	<b>15.64</b>	<b>48.99</b>	<b>NPV—&gt;</b>	<b>24.87</b>													

Table 3.8 – Mustang Island Licence, Cashflow and Net Present Value net to Silvermere WI, 2P Case

**2P case NPV Sensitivity Analysis – Macro and Field assumptions**

Silvermere WI NPV @ 10% (MOD \$MM) when parameter changed

Change in parameter (% of base case)	Condensate and Gas production	Benchmark Gas Price (H. Hub)	Benchmark Oil Price (WTI) *	Capital Costs	Operating Costs
70.0%	14.99	17.85	21.75	26.65	25.30
80.0%	18.28	20.19	22.79	26.06	25.16
90.0%	21.57	22.53	23.83	25.46	25.01
<b>100.0%</b>	<b>24.87</b>	<b>24.87</b>	<b>24.87</b>	<b>24.87</b>	<b>24.87</b>
110.0%	27.68	27.21	25.91	24.28	24.73
120.0%	29.99	29.55	26.95	23.69	24.58
130.0%	33.15	31.89	27.99	23.09	24.44

\* Although Mustang produces no oil, the WTI oil price benchmark is assumed to affect the realised condensate price

**Table 3.9 – Mustang Island Licence: Sensitivity of Net Present Value, net to Silvermere WI, to Macro and Field parameters, 2P Case**

2P case NPV Sensitivity Analysis – Discount Rate	
Discount Rate	Silvermere WI NPV MOD \$MM
0.0%	48.99
2.5%	40.68
5.0%	34.18
7.5%	29.02
<b>10.0%</b>	<b>24.87</b>
12.5%	21.49
15.0%	18.70
17.5%	16.37
20.0%	14.41

**Table 3.10 – Mustang Island Licence: Sensitivity of Net Present Value, net to Silvermere WI, to Discount Rate, 2P Case**

3P case	100% WI basis production, gross of royalty												Silvermere WI basis, post-ELT					
	Pre-Economic Limit Test (ELT)				Post-Economic Limit Test (ELT)				Production, gross of royalty				Production, net of ~12.5% royalty					
	Condensate bbl	Gas MMscf	Hydrocarbon MMscfe		Condensate bbl	Gas MMscf	Hydrocarbon MMscfe		Condensate bbl	Gas MMscf	Hydrocarbon MMscfe		Condensate bbl	Gas MMscf	Hydrocarbon MMscfe			
H2 2011	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
2012	1,571,080	15,711	25,137	1,571,080	15,711	25,137	523,693	5,237	8,379	8,379	327,323	3,273	5,237	3,273	5,237			
2013	902,862	9,029	14,446	902,862	9,029	14,446	300,954	3,010	4,815	4,815	188,096	1,881	3,010	1,881	3,010			
2014	526,606	5,266	8,426	526,606	5,266	8,426	175,535	1,755	2,809	2,809	109,710	1,097	1,755	1,097	1,755			
2015	310,455	3,105	4,967	310,455	3,105	4,967	103,485	1,035	1,656	1,656	64,678	647	1,035	647	1,035			
2016	270,060	2,701	4,321	270,060	2,701	4,321	90,020	900	1,440	1,440	56,263	563	900	563	900			
2017	612,770	6,128	9,804	612,770	6,128	9,804	204,257	2,043	3,268	3,268	127,661	1,277	2,043	1,277	2,043			
2018	490,482	4,905	7,848	490,482	4,905	7,848	163,494	1,635	2,616	2,616	102,184	1,022	1,635	1,022	1,635			
2019	367,836	3,678	5,885	367,836	3,678	5,885	122,612	1,226	1,962	1,962	76,632	766	1,226	766	1,226			
2020	416,428	4,164	6,663	416,428	4,164	6,663	138,809	1,388	2,221	2,221	86,756	868	1,388	868	1,388			
2021	337,959	3,380	5,407	337,959	3,380	5,407	112,653	1,127	1,802	1,802	70,408	704	1,127	704	1,127			
2022	322,421	3,224	5,159	322,421	3,224	5,159	107,474	1,075	1,720	1,720	67,171	672	1,075	672	1,075			
2023	478,144	4,781	7,650	478,144	4,781	7,650	159,382	1,594	2,550	2,550	99,613	996	1,594	996	1,594			
2024	238,967	2,390	3,823	238,967	2,390	3,823	79,656	797	1,274	1,274	49,785	498	797	498	797			
2025	483,156	4,832	7,731	483,156	4,832	7,731	161,052	1,611	2,577	2,577	100,658	1,007	1,611	1,007	1,611			
2026	345,132	3,451	5,522	345,132	3,451	5,522	115,044	1,150	1,841	1,841	71,903	719	1,150	719	1,150			
2027	435,233	4,352	6,964	435,019	4,350	6,960	145,006	1,450	2,320	2,320	90,629	906	1,450	906	1,450			
2028	492,479	4,925	7,880	492,479	4,925	7,880	164,160	1,642	2,627	2,627	102,600	1,026	1,642	1,026	1,642			
2029	253,817	2,538	4,061	253,817	2,538	4,061	84,606	846	1,354	1,354	52,879	529	846	529	846			
2030	129,029	1,290	2,064	129,029	1,290	2,064	43,010	430	688	688	26,881	269	430	269	430			
2031	66,877	669	1,070	66,877	669	1,070	22,292	223	357	357	13,933	139	223	139	223			
2032	33,813	338	541	33,813	338	541	11,271	113	180	180	7,044	70	113	70	113			
2033	15,790	158	253	15,790	158	253	5,263	53	84	84	3,289	33	53	33	53			
2034	8,236	82	132	8,236	82	132	2,745	27	44	44	1,716	17	27	17	27			
2035	3,382	34	54	3,382	34	54	1,127	11	18	18	705	7	11	7	11			
<b>Total</b>	<b>9,113,016</b>	<b>91,130</b>	<b>145,808</b>	<b>9,112,802</b>	<b>91,128</b>	<b>145,805</b>	<b>3,037,601</b>	<b>30,376</b>	<b>48,602</b>	<b>48,602</b>	<b>1,898,516</b>	<b>18,985</b>	<b>30,376</b>	<b>18,985</b>	<b>30,376</b>			

Table 3.11 – Mustang Island Licence Production Volumes, 100% WI Basis & Silvermere WI Basis, 3P Case

3P case		Silvermere WI basis cashflow, post-ELT																				
		Prices																				
		Silvermere Realisations		Revenue, net of royalty		Non-income Taxes		Operating Costs		Capital Costs		Abandonment Costs		Texas Inc. Tax		Federal Inc. Tax		Net Cashflow		Discounted Net Cashflow		
Condensate	Gas	Condensate	Gas	MOD \$/Mscf	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	MOD \$/MM	
H2 2011																						
2012	105.00	4.72	34.37	15.44		49.81	5.98	1.16	9.17													
2013	105.00	5.19	19.75	9.77		29.52	3.57	0.77														
2014	103.00	5.82	11.30	6.39		17.69	2.16	0.55														
2015	102.00	6.27	6.60	4.06		10.65	1.31	0.41														
2016	102.00	6.77	5.74	3.81		9.55	1.18	0.39														
2017	103.00	6.90	13.15	8.81		21.96	2.73	0.63														
2018	104.00	7.04	10.63	7.19		17.82	2.22	0.56														
2019	106.00	7.18	8.12	5.50		13.62	1.69	0.48														
2020	107.56	7.32	9.33	6.35		15.68	1.95	0.52														
2021	109.71	7.46	7.72	5.26		12.98	1.61	0.47														
2022	111.90	7.61	7.52	5.11		12.63	1.57	0.46														
2023	114.14	7.76	11.37	7.73		19.10	2.38	0.60														
2024	116.42	7.92	5.80	3.94		9.74	1.21	0.41														
2025	118.75	8.08	11.95	8.13		20.08	2.50	0.62														
2026	121.13	8.24	8.71	5.92		14.63	1.82	0.51														
2027	123.55	8.40	11.20	7.61		18.81	2.34	0.58			0.41											
2028	126.02	8.57	12.93	8.79		21.72	2.70	0.59														
2029	128.54	8.74	6.80	4.62		11.42	1.42	0.38														
2030	131.11	8.91	3.52	2.39		5.92	0.74	0.27														
2031	133.74	9.09	1.86	1.27		3.13	0.39	0.21														
2032	136.41	9.27	0.96	0.65		1.61	0.20	0.16			0.47											
2033	139.14	9.45	0.46	0.31		0.77	0.10	0.09														
2034	141.92	9.64	0.24	0.17		0.41	0.05	0.08														
2035	144.76	9.83	0.10	0.07		0.17	0.02	0.06			0.51											
<b>Total</b>			<b>210.13</b>	<b>129.28</b>		<b>339.42</b>	<b>41.84</b>	<b>10.95</b>	<b>9.17</b>	<b>1.40</b>	<b>1.63</b>	<b>85.92</b>	<b>188.50</b>	<b>NPV</b>	<b>→</b>	<b>94.36</b>						

Table 3.12 – Mustang Island Licence, Cashflow and Net Present Value net to Silvermere WI, 3P Case



**3P case NPV Sensitivity Analysis – Macro and Field assumptions**

Silvermere WI NPV @ 10% (MOD \$MM) when parameter changed

Change in parameter (% of base case)	Condensate and Gas production	Benchmark Gas Price (H. Hub)	Benchmark Oil Price (WTI) *	Capital Costs	Operating Costs
70.0%	66.38	83.12	74.18	96.12	95.39
80.0%	76.16	86.87	80.92	95.54	95.05
90.0%	84.93	90.62	87.65	94.95	94.70
<b>100.0%</b>	<b>94.36</b>	<b>94.36</b>	<b>94.36</b>	<b>94.36</b>	<b>94.36</b>
110.0%	104.52	98.12	101.09	93.78	94.02
120.0%	113.77	101.86	107.80	93.19	93.68
130.0%	122.92	105.61	114.51	92.60	93.34

\* Although Mustang produces no oil, the WTI oil price benchmark is assumed to affect the realised condensate price

**Table 3.13 – Mustang Island Licence: Sensitivity of Net Present Value, net to Silvermere WI, to Macro and Field parameters, 3P Case**

3P case NPV Sensitivity Analysis – Discount Rate	
Discount Rate	SilvermereWI NPV MOD \$MM
0.0%	188.50
2.5%	153.46
5.0%	127.90
7.5%	108.85
<b>10.0%</b>	<b>94.36</b>
12.5%	83.13
15.0%	74.24
17.5%	67.10
20.0%	61.25

**Table 3.14 – Mustang Island Licence: Sensitivity of Net Present Value, net to Silvermere WI, to Discount Rate, 3P Case**

## 4. CONCLUSIONS

RPS have conducted a review of the Mustang Island asset, based on a complete re-work and assessment of GIIP, and incorporated historical production volumes to reach an estimate of the remaining reserves potential of the asset on a sand by sand basis.

A development plan to recover the remaining reserves, focussed on maximising NPV, has been outlined, involving drilling and completing 3 new wells, selectively perforating and draining the deeper sand intervals before plugging back and completing shallower intervals in 3-4 stages.

Capex and Opex estimates provided by Core/Silvermere have been used to perform ELT economic analysis of the proposed field redevelopment to assess NPV.

Key results are shown in Table 4.1. All Net Entitlement Reserves and Net Present Value attributable to Silvermere are conditional on shareholder approval of the proposed acquisition of Core's interests in the Mustang Island Re-development.

<b>Mustang Island Licence – Key Results</b>				
<b>Item</b>	<b>unit</b>	<b>1P</b>	<b>2P</b>	<b>3P</b>
<b>Production, 100% WI Basis, gross of royalty</b>				
Pre-Economic Limit Test (ELT)				
Condensate	bbl	131,583	1,203,486	9,113,016
Gas	MMscf	21,930	48,139	91,130
Hydrocarbon	MMscfe	22,720	55,360	145,808
ELT reached	year	Q4 2026	Q4 2031	Q3 2035
Post-ELT				
Condensate	bbl	131,518	1,203,476	9,112,802
Gas	MMscf	21,920	48,139	91,128
Hydrocarbon	MMscfe	22,709	55,360	145,805
<b>Production, Silvermere WI Basis, post-ELT</b>				
Gross of Royalty				
Condensate	bbl	43,839	401,159	3,037,601
Gas	MMscf	7,307	16,046	30,376
Hydrocarbon	MMscfe	7,570	18,453	48,602
<b>Net of Royalty (i.e. Silvermere Net Entitlement)</b>				
Condensate	bbl	27,402	250,732	1,898,516
Gas	MMscf	4,567	10,029	18,985
Hydrocarbon	MMscfe	4,731	11,534	30,376
<b>Financial results, Silvermere Net Entitlement Basis, post-ELT</b>				
NPV@0%	MOD \$MM	11.54	48.99	188.50
NPV@10%	MOD \$MM	4.49	24.87	94.36
IRR	%	23%	79%	395%

**Table 4.1 – Mustang Island Key Economic Results**

## APPENDIX A: PETROPHYSICS

WELL	Interval ft	GR	SP	RILD	SFLU	DT
A1	8530 – 10500		1	1		1
A2	8600 – 12210		1	1		1
A3	9100 -10940		1	1		1
A4	8890 -12178	1	1	1		1
A5	8700 – 12260	1	1	1		1
A6	8800 -10700		1	1		1
A7	8000 -10300	1				
B1	8550 – 10510		1	1		1
B2	8580 – 9930	1		1		1
B3	8680 -12040		1	1		1
B4	8640 – 9958		1	1		1
B5	8490 – 11704	1	1	1		
C1	8560 – 11952		1	1		1
C2	9110 – 10972		1	1		1
C3	8800 – 10730	1	1	1	1	
D2	8950 -12530		1	1		1
E2	9340 – 10320	1	1	1		1
F1	8000 – 11700	1	1	1	1	1
F2	8662 – 12184		1	1		1
F3	8910 – 10890	1	1	1		1
G1	8820 – 11040		1	1		1
H1A	8670 – 11800		1	1		1
I1	8500 – 11400	1	1	1		

**Table A1 – List of digitized curves**

## APPENDIX B: PETROPHYSICAL PARAMETERS FOR MONTE CARLO INPUT

Sand	Parameter	Shape	Low	Mid	High
<b>A1</b>	West & North contact, ft	Rectangular	8468		8500
	South contact, ft	Rectangular	8555		8581
	Net-to-gross, %	Beta*	23	33	43
	Porosity, %	Beta	22	24	26
	Sw, %	Beta	54	59	64
	FVF, scf/rcf	Single		344	
<b>A2</b>	West & North contact, ft	Rectangular	8515		8550
	South contact, ft	Rectangular	8576		8610
	Net-to-gross, %	Beta	25	35	50
	Porosity, %	Beta	21	23	26
	Sw, %	Beta	47	52	57
	FVF, scf/rcf	Single		348	
<b>A3</b>	West & North contact, ft	Rectangular	8622		8627
	South contact, ft	Rectangular	8633		8657
	Net-to-gross, %	Beta	23	43	70
	Porosity, %	Beta	25	27	29
	Sw, %	Beta	45	50	55
	FVF, scf/rcf	Single		352	
<b>A7</b>	West & North contact, ft	Rectangular	8634		8657
	South contact, ft	Rectangular	8667		8700
	Net-to-gross, %	Beta	11	22	33
	Porosity, %	Beta	21	23	26
	Sw, %	Beta	61	64	67
	FVF, scf/rcf	Single		412	
<b>A9</b>	West & North contact, ft	Rectangular	8626		8647
	South contact, ft	Rectangular	8636		8731
	Net-to-gross, %	Beta	20	40	70
	Porosity, %	Beta	25	27	29
	Sw, %	Beta	51	56	60
	FVF, scf/rcf	Single		440	
<b>A13/15</b>	West & North contact, ft	Rectangular	8872		8882
	South contact, ft	Rectangular	8916		8926
	Net-to-gross, %	Beta	22	27	40
	Porosity, %	Beta	21	23	25
	Sw, %	Beta	49.9	55	58
	FVF, scf/rcf	Single		449	
<b>A20</b>	West & North contact, ft	Rectangular	8816		8850
	Net-to-gross, %	Beta	8	17	30
	Porosity, %	Beta	20	23	26
	Sw, %	Beta	59	63	64
	FVF, scf/rcf	Single		467	
<b>A22</b>	West & North contact, ft	Rectangular	8843		8843
	Net-to-gross, %	Beta	12	24	36
	Porosity, %	Beta	23	25	26
	Sw, %	Beta	35	40	45
	FVF, scf/rcf	Single		469	

\* Beta distribution is based on a triangular distribution with a shape factor applied.

<b>Sand</b>	<b>Parameter</b>	<b>Shape</b>	<b>Low</b>	<b>Mid</b>	<b>High</b>
<b>A23</b>	West & North contact, ft	Rectangular	8906		8949
	South contact, ft	Rectangular	9129		9139
	Net-to-gross, %	Beta	10	17	25
	Porosity, %	Beta	23	25	27
	Sw, %	Beta	54	59	64
	FVF, scf/rcf	Single		491	
<b>A24</b>	West & North contact, ft	Rectangular	8952		8962
	Net-to-gross, %	Beta	6	12	25
	Porosity, %	Beta	25	27	29
	Sw, %	Beta	47	51	58.2
	FVF, scf/rcf	Single		491	
	<b>B7</b>	West & North contact, ft	Rectangular	9548	
Net-to-gross, %		Beta	17	34	60
Porosity, %		Beta	26	28	30
Sw, %		Beta	35	40	50
FVF, scf/rcf		Single		501	
<b>B9</b>		West & North contact, ft	Rectangular	9478	
	Net-to-gross, %	Beta	25	40	55
	Porosity, %	Beta	26	28	30
	Sw, %	Beta	49	54	59
	FVF, scf/rcf	Single		503	
	<b>B10</b>	West & North contact, ft	Rectangular	9508	
Net-to-gross, %		Beta	55	61	74
Porosity, %		Beta	27	29	31
Sw, %		Beta	34.4	39	44
FVF, scf/rcf		Single		504	
<b>B15</b>		West & North contact, ft	Rectangular	9824	
	South contact, ft	Rectangular	9778		9797
	Net-to-gross, %	Beta	34	54	64
	Porosity, %	Beta	24	26	28
	Sw, %	Beta	46	51	56
	FVF, scf/rcf	Single		508	
<b>B16</b>	West & North contact, ft	Rectangular	9621		9800
	Net-to-gross, %	Beta	17	22	27
	Porosity, %	Beta	19	21	23
	Sw, %	Beta	35	40	45
	FVF, scf/rcf	Single		518	
	<b>B19</b>	West & North contact, ft	Rectangular	9778	
Net-to-gross, %		Beta	4	8	16
Porosity, %		Beta	19	21	23
Sw, %		Beta	59	64	69
FVF, scf/rcf		Single		525	
<b>B20</b>		West & North contact, ft	Rectangular	9826	
	South contact, ft	Rectangular	10067		10131
	Net-to-gross, %	Beta	45	55	80
	Porosity, %	Beta	24	26	28
	Sw, %	Beta	36	41	46
	FVF, scf/rcf	Single		527	

<b>Sand</b>	<b>Parameter</b>	<b>Shape</b>	<b>Low</b>	<b>Mid</b>	<b>High</b>
<b>B21</b>	West & North contact, ft	Rectangular	9850		9919
	South contact, ft	Rectangular	10097		10165
	Net-to-gross, %	Beta	28	38	60
	Porosity, %	Beta	27	29	31
	Sw, %	Beta	41	46	50
	FVF, scf/rcf	Single		528	
<b>B23</b>	West & North contact, ft	Rectangular	10240		10260
	South contact, ft	Rectangular	10437		10457
	Net-to-gross, %	Beta	50	60	80
	Porosity, %	Beta	22	24	26
	Sw, %	Beta	39	44	49
	FVF, scf/rcf	Single		533	
<b>G1</b>	West & North contact, ft	Rectangular	10223		10241
	South contact, ft	Rectangular	10607		10617
	Net-to-gross, %	Beta	12	24	40
	Porosity, %	Beta	20	23	27
	Sw, %	Beta	45	55	60
	FVF, scf/rcf	Single		547	
<b>G3</b>	West & North contact, ft	Rectangular	10136		10146
	South contact, ft	Rectangular	10610		10630
	Net-to-gross, %	Beta	14	18	23
	Porosity, %	Beta	26	28	30
	Sw, %	Beta	55	57	62
	FVF, scf/rcf	Single		552	
<b>I1</b>	West & North contact, ft	Rectangular	10920		11215
	Net-to-gross, %	Beta	10	16	26
	Porosity, %	Beta	19	21	23
	Sw, %	Beta	55	60	65
	FVF, scf/rcf	Single		595	
<b>I3</b>	West & North contact, ft	Rectangular	11268		11359
	Net-to-gross, %	Beta	40	50	75
	Porosity, %	Beta	23	25	27
	Sw, %	Beta	45	50	55
	FVF, scf/rcf	Single		606	
<b>I5</b>	West & North contact, ft	Single		11262	
	Net-to-gross, %	Beta	40	50	55
	Porosity, %	Beta	25	27	29
	Sw, %	Beta	30	40	50
	FVF, scf/rcf	Single		612	
<b>I6</b>	West & North contact, ft	Single		11400	
	Net-to-gross, %	Beta	12	16	25
	Porosity, %	Beta	25	27	29
	Sw, %	Beta	45	50	55
	FVF, scf/rcf	Single		618	



**APPENDIX C: MUSTANG ISLAND PRODUCTION – FRACTIONAL FLOW**

Sand	Well A1			Well A2			Well A4			Well A5 - No porosity (use averages)		
	Net Pay ft	Porosity frac	Split 1 frac	Net Pay ft	Porosity frac	Split 1 frac	Net Pay ft	Porosity frac	Split 1 frac	Net Pay ft	Porosity frac	Split 1 frac
A-1	10.50	0.26	2.68789815	0	0.256	0	12.00	0.26	3.141287	0	0.213	0
A-2												0.126
A-3												0.567
A-7							5.00	0.29	1.444193	0	0.098	0
A-9												0.307
A-13/15	10.50	0.23	2.40302475	0	0.229	0	18.00	0.25	4.569932	0	0.309	0
A19												
A-20												
A21												
A-22												
A-23												
A-24												
B-7												
B-8												
B-9												
B-10												
B-15	19.00	0.24	4.579095	0.847	0.436							
B-16	2.50	0.21	0.525905	0.097	0.05							
B-19	1.50	0.20	0.3039684	0.056	0.029							
B-20												
B-21												
B-23							7.00	0.26	1.806722	0	1	0
G-1												
G-3												
GX1												
GX2												
I-1												
I-2												
I-3							25.50	0.26	6.596401	1	0	0
I-4												
I-5							0.00	0.00	0	0	0	0
I-6							16.50	0.24	3.972758	0.708	0.269	0

Sand	Well A6						Well A7 - No Logs (use averages)						Well B1						Well B2							
	Net Pay ft	Porosity frac	Poro Pay ft	Split 1 frac	Split 2 frac	Split 2 frac	Gross Pay ft	NTG frac	Net Pay ft	Porosity frac	Poro Pay ft	Split 1 frac	Split 2 frac	Split 3 frac	Net Pay ft	Porosity frac	Poro Pay ft	Split 1 frac	Split 2 frac	Split 2 frac	Net Pay ft	Porosity frac	Poro Pay ft	Split 1 frac	Split 2 frac	Split 2 frac
A-1																										
A-2																										
A-3	6.00	0.26	1.556887	0	0.143																					
A-7																										
A-9																										
A-13/15	21.00	0.26	5.460126	0	0.501																					
A19																										
A-20																										
A21																										
A-22																										
A-23																										
A-24																										
B-7																										
B-8																										
B-9																										
B-10																										
B-15	16.00	0.24	3.873283	1	0.356																					
B-16																										
B-19																										
B-20																										
B-21																										
B-23																										
G-1																										
G-3																										
GX1																										
GX2																										
I-1																										
I-2																										
I-3																										
I-4																										
I-5																										
I-6																										

Sand	Well B3						Well B4						Well B5 - No Logs (use averages)								
	Gros:NTG ft	Net Pay ft	Porosity frac	Porosity ft	Split 1 frac	Split 2 frac	Split 3 frac	Net Pay ft	Porosity frac	Porosity ft	Split 1 frac	Split 2 frac	Gros:NTG ft	Net Pay ft	Porosity frac	Porosity ft	Split 1 frac	Split 2 frac	Split 3 frac	Split 4 frac	
A-1																					
A-2																					
A-3	####	0.44	7.23	0.25	1.832	0	0.2757	0	0.717												
A-7	####	0.24	2.86	0.25	0.724	0	0	0	0.283												
A-9																					
A-13/15																					
A19																					
A-20								6.00	0.26	1.5454	0	0.125136									
A21								6.00	0.29	1.7346	0	0.1404555									
A-22								2.00	0.28	0.5636	0	0.0456399									
A-23								4.00	0.26	1.0261	0	0.0830844									
A-24								22.00	0.34	7.48	1	0.6056842									
B-7								19.00	0.25	4.814	1	0.7243									
B-8								0.00	0.00	0	0	0									
B-9																					
B-10																					
B-15																					
B-16																					
B-19																					
B-20																					
B-21																					
B-23																					
G-1																					
G-3																					
GX1																					
GX2																					
I-1								38.8	0.16	6.10	0.21	1.26906	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.148	
I-2								47.8	0.00	0.00	0.00	0	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	
I-3								24.4	0.50	12.18	0.23	2.76924	0.000	0.379	0.379	0.379	0.000	0.379	0.379	0.323	
I-4																					
I-5								39.4	0.41	16.31	0.23	3.78104	0.000	0.517	0.517	0.517	0.000	0.517	0.517	0.441	
I-6								40	0.08	3.38	0.22	0.75881	1.000	0.104	0.104	0.104	1.000	0.104	0.104	0.088	

Sand	Well C1 - No Logs (use averages)					Well C3 - No Logs (use averages)					Well D1 - No Logs (use averages)						
	Gross P <sub>r</sub>	NTG	Net Pay	Porosit	ft	Gross P <sub>r</sub>	NTG	Net Pay	Porosit	ft	Gross P <sub>r</sub>	NTG	Net Pay	Porosity	ft	Split	frac
A-1																	
A-2	7.04	0.34	2.41	0.25	0.6088477												
A-3	13.26	0.44	5.81	0.28	1.6523445	17.22	0.44	7.55	0.28	2.146	0.1634024	0.29					
A-7						27.47	0.24	6.54	0.23	1.507	0.1147561	0.2					
A-9						12.66	0.41	5.22	0.29	1.509	0.1149294	0.2					
A-13/15	39.21	0.32	12.56	0.23	2.9167284	31.24	0.32	10.00	0.23	2.324	0.1769613	0.31					
A19																	
A-20																	
A21																	
A-22						20.38	0.28	5.76	0.23	1.318	0.10034	0					
A-23																	
A-24																	
B-7																	
B-8																	
B-9																	
B-10																	
B-15																	
B-16																	
B-19																	
B-20						23.39	0.69	16.07	0.27	4.328	0.3296108	0					
B-21																	
B-23																	
G-1																	
G-3																	
GX1																	
GX2																	
I-1																	
I-2																	
I-3																	
I-4																	
I-5																	
I-6																	

Sand	Well D2 - No Logs in I Sands (use averages)						Well E1 - No Logs (use averages)						Well E2						Well F1														
	Gross PzNTG ft	frac	ft	frac	ft	frac	Gross PzNTG ft	frac	ft	frac	ft	frac	Net Pa Porosit ft	frac	ft	frac	Net Pa Porosit ft	frac	ft	frac	Net Pa Porosit ft	frac	ft	frac	Net Pa Porosit ft	frac	ft	frac					
A-1																																	
A-2																																	
A-3																																	
A-7																																	
A-9																																	
A-13/15	36.98	0.05	2.00	0.18	0.36	0	0	0	0	0	0	0.11991					26	0.32	8.33	0.23	1.93407	1	21.50	0.21	4.58754	0	0	1	25.00	0.29	7.20059	1	0.70802
A-19																																	
A-20	0	0.00	0.00	0.16	0	0	0	0	0	0	0																						
A-21																																	
A-22																																	
A-23																																	
A-24	39.05	0	0.00	0.00	0	0	0	0	0	0	0																						
B-7																																	
B-8																																	
B-9																																	
B-10																																	
B-15																																	
B-16																																	
B-19																																	
B-20																																	
B-21																																	
B-23	0.00	#DIV/0!	0.00	0.00	0	0	0	0	0	0	0																						
G-1																																	
G-3																																	
GX1																																	
GX2																																	
I-1																																	
I-2																																	
I-3	23.29	0.50	11.62	0.23	2.642	1	1	1	0.88009																								
I-4																																	
I-5																																	
I-6																																	

Sand	Well F2				Well F3				Well H1A				Well I1					
	Net Pa	Porosity	Poro Pay	Split 1	Split 2	Split 3	Net Pa	Porosity	Poro Pay	Split 1	Split 2	Split 3	Net Pay	Porosity	Poro Pay	Split 1	Split 2	Split 3
	ft	frac	ft	frac	frac	ft	frac	ft	frac	frac	frac	ft	frac	ft	frac	frac	frac	frac
A-1																		
A-2																		
A-3	12.50	0.29	3.61986	0	0.579015	1	6.00	0.32	1.91105	0	0.186	4.00	0.25	1.00083	0	0	0.461056	
A-7							10.50	0.29	3.013	0	0.293	4.50	0.26	1.16991	0	0	0.538944	
A-9							6.00	0.27	1.64859	0	0.16							
A-13/15																		
A19																		
A-20																		
A21																		
A-22																		
A-23																		
A-24																		
B-7												20.50	0.32	6.52649	0	1	0	
B-8												0.00	0.00	0	0	0	0	
B-9																		
B-10																		
B-15												23.00	0.27	6.21731	1	0	0	
B-16																		
B-19																		
B-20																		
B-21																		
B-23	11.00	0.24	2.6319	1	0.420985	0	12.50	0.30	3.71082	1	0.361							
G-1																		
G-3																		
GX1																		
GX2																		
I-1												0.50	0.17	0.0845	0	0	0.022298	
I-2												0.00	0.00	0	0	0	0	
I-3												0.00	0.00	0	0	0	0	
I-4												0.00	0.00	0	0	0	0	
I-5												19.50	0.19	3.705	1	1	0.977702	
I-6																		



## APPENDIX D: MUSTANG ISLAND PRODUCTION SUMMARY

Well	Sand							
	A1	A2	A3	A7	A9	A13/15	A20	A22
A1	945,705					845,963		
A2								
A3								
A4	112,646			51,828		163,417		
A5		670,721	3,018,244	1,634,217				
A6			91,318			319,934		
A7		22,504			23,703			
B1								
B2				596,844	1,011,899			
B3			362,152	8,779				
B4							84,434	94,567
B5								
C1		180,776	488,708			862,516		
C2								
C3			157,341	110,277	110,769	170,043		9,900
D1								
D2								
E1						5,167,000		
E2						1,100,000		717,000
F1			459,101			7,867,485		
F2			2,844,725					
F3		734,505	1,157,044		631,833			
G1								
H1A		1,372,397	1,604,603					
I1								
<b>Total Prod</b>	<b>1.06</b>	<b>2.98</b>	<b>10.18</b>	<b>2.40</b>	<b>1.78</b>	<b>16.50</b>	<b>0.08</b>	<b>0.82</b>
<b>GIIP W</b>								
P90	1.23	0.556	3.85	0.972	1.22	13.8	0.0846	0.0109
P50	2	0.881	7.71	1.98	2.7	19.2	0.211	0.0223
P10	3.12	1.33	12.4	3.11	4.56	27	0.417	0.034
<b>Total Prod W</b>	<b>0.00</b>	<b>0.76</b>	<b>4.55</b>	<b>0.60</b>	<b>1.67</b>	<b>14.45</b>	<b>0.08</b>	<b>0.81</b>
P90 RF	0.00%	136.15%	118.24%	61.40%	136.67%	104.74%	99.80%	7445.56%
P50 RF	0.00%	85.93%	59.04%	30.14%	61.76%	75.28%	40.02%	3639.31%
P10 RF	0.00%	56.92%	36.71%	19.19%	36.57%	53.53%	20.25%	2386.96%
<b>Remaining Reserves</b>								
P90 (35% RF)	0.43	0.00	0.00	0.00	0.00	0.00	0.00	0.00
P50 (45% RF)	0.90	0.00	0.00	0.29	0.00	0.00	0.01	0.00
P10 (55% RF)	1.72	0.00	2.27	1.11	0.84	0.40	0.14	0.00
<b>GIIP N</b>								
P90	1.04	0	1.47	0.348	0.64	3.3	0.1224	0
P50	1.51	0	2.99	0.72	1.41	4.7	0.282	0
P10	2.03	0	4.7	1.1	2.35	6.6	0.488	0
<b>Total Prod N</b>	<b>0.00</b>	<b>0.00</b>	<b>0.36</b>	<b>0.01</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
P90 RF	0.00%		24.64%	2.52%	0.00%	0.00%	0.00%	
P50 RF	0.00%		12.11%	1.22%	0.00%	0.00%	0.00%	
P10 RF	0.00%		7.71%	0.80%	0.00%	0.00%	0.00%	
<b>Remaining Reserves</b>								
P90 (35% RF)	0.36		0.15	0.11	0.22	1.16	0.04	
P50 (45% RF)	0.68		0.98	0.32	0.63	2.12	0.13	
P10 (55% RF)	1.12		2.22	0.60	1.29	3.63	0.27	
<b>GIIP S</b>								
P90	2.31	0.799	2.76	0.486	1.07	9.15	0	0
P50	3.48	1.25	5.55	0.992	2.52	12.8	0	0
P10	4.91	1.84	8.92	1.56	5	17.9	0	0
<b>Total Prod S (Bcf)</b>	<b>1.06</b>	<b>2.22</b>	<b>5.27</b>	<b>1.80</b>	<b>0.11</b>	<b>2.04</b>	<b>0.00</b>	<b>0.01</b>
P90 RF	45.82%	278.33%	190.90%	369.61%	10.35%	22.32%		
P50 RF	30.41%	177.91%	94.94%	181.08%	4.40%	15.95%		
P10 RF	21.56%	120.86%	59.07%	115.15%	2.22%	11.41%		
<b>Remaining Reserves</b>								
P90 (35% RF)	0.00	0.00	0.00	0.00	0.26	1.16	0.00	0.00
P50 (45% RF)	0.51	0.00	0.00	0.00	1.02	3.72	0.00	0.00
P10 (55% RF)	1.64	0.00	0.00	0.00	2.64	7.80	0.00	0.00
<b>Totals</b>								
P90	4.58	1.36	8.08	1.81	2.93	26.25	0.21	0.01
P50	6.99	2.13	16.25	3.69	6.63	36.70	0.49	0.02
P10	10.06	3.17	26.02	5.77	11.91	51.50	0.91	0.03
<b>Remaining Reserves (all)</b>								
P90 Total	0.79	0.00	0.15	0.11	0.49	2.32	0.04	0.00
P50 Total	2.09	0.00	0.98	0.61	1.66	5.83	0.14	0.00
P10 Total	4.47	0.00	4.49	1.71	4.77	11.83	0.41	0.00
<b>Remaining Reserves (Valid P90 only)</b>								
P90 Total	0.79		0.15	0.11	0.49	2.32	0.04	
P50 Total	1.58		0.98	0.32	1.66	5.83	0.13	
P10 Total	2.83		2.22	0.60	3.93	11.43	0.27	

Well	Sand							
	A23	A24	B7	B9	B10	B15	B16	B19
A1						5,573,158	638,501	369,114
A2								
A3								
A4								
A5								
A6						4,419,758		
A7			4,885,541					
B1	45,635	113,736						
B2				1,900,536	9,617,864			
B3			9,147,272					
B4	31,072	56,064	9,584,711					
B5								
C1								
C2								
C3								
D1								
D2								
E1								
E2	0							
F1								
F2								
F3								
G1								
H1A			15,000			2,083,000		
I1								
<b>Total Prod</b>	<b>0.08</b>	<b>0.17</b>	<b>23.63</b>	<b>1.90</b>	<b>9.62</b>	<b>12.08</b>	<b>0.64</b>	<b>0.37</b>
<b>GIIP W</b>								
P90	0.061	0.067	9.54	1.14	12.5	15.9	0.0278	0.316
P50	0.128	0.162	21.2	1.88	15.2	24.4	0.0379	0.757
P10	0.277	0.296	36.3	2.76	18.7	32.8	0.0497	1.39
<b>Total Prod W</b>	<b>0.03</b>	<b>0.06</b>	<b>14.49</b>	<b>1.90</b>	<b>9.62</b>	<b>12.08</b>	<b>0.64</b>	<b>0.37</b>
P90 RF	50.94%	83.68%	151.84%	166.71%	76.94%	75.95%	2296.77%	116.81%
P50 RF	24.27%	34.61%	68.33%	101.09%	63.28%	49.49%	1684.70%	48.76%
P10 RF	11.22%	18.94%	39.90%	68.86%	51.43%	36.82%	1284.71%	26.55%
<b>Remaining Reserves</b>								
P90 (35% RF)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
P50 (45% RF)	0.03	0.02	0.00	0.00	0.00	0.00	0.00	0.00
P10 (55% RF)	0.12	0.11	5.48	0.00	0.67	5.96	0.00	0.40
<b>GIIP N</b>								
P90	0.184	0.0545	4.16	0.05	0.5	2.3	0	0.15
P50	0.331	0.132	9.3	0.08	0.7	3.4	0	0.363
P10	0.508	0.24	15.9	0.12	0.8	4.6	0	0.67
<b>Total Prod N</b>	<b>0.05</b>	<b>0.11</b>	<b>9.15</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
P90 RF	24.80%	208.69%	219.89%	0.00%	0.00%	0.00%		0.00%
P50 RF	13.79%	86.16%	98.36%	0.00%	0.00%	0.00%		0.00%
P10 RF	8.98%	47.39%	57.53%	0.00%	0.00%	0.00%		0.00%
<b>Remaining Reserves</b>								
P90 (35% RF)	0.02	0.00	0.00	0.02	0.18	0.81		0.05
P50 (45% RF)	0.10	0.00	0.00	0.04	0.32	1.53		0.16
P10 (55% RF)	0.23	0.00	0.00	0.07	0.44	2.53		0.37
<b>GIIP S</b>								
P90	0.486	0	0	0	0	6.44	0	0
P50	0.865	0	0	0	0	9.91	0	0
P10	1.32	0	0	0	0	13.5	0	0
<b>Total Prod S (Bcf)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
P90 RF	0.00%					0.00%		
P50 RF	0.00%					0.00%		
P10 RF	0.00%					0.00%		
<b>Remaining Reserves</b>								
P90 (35% RF)	0.17	0.00		0.00	0.00	2.25		
P50 (45% RF)	0.39	0.00		0.00	0.00	4.46		
P10 (55% RF)	0.73	0.00		0.00	0.00	7.43		
<b>Totals</b>								
P90	0.73	0.12	13.70	1.19	13.00	24.64	0.03	0.47
P50	1.32	0.29	30.50	1.96	15.90	37.71	0.04	1.12
P10	2.11	0.54	52.20	2.88	19.50	50.90	0.05	2.06
<b>Remaining Reserves (all)</b>								
P90 Total	0.19	0.00	0.00	0.02	0.18	3.06	0.00	0.05
P50 Total	0.52	0.02	0.00	0.04	0.32	5.99	0.00	0.16
P10 Total	1.08	0.11	5.48	0.07	1.11	15.92	0.00	0.76
<b>Remaining Reserves (Valid P90 only)</b>								
P90 Total	0.19			0.02	0.18	3.06		0.05
P50 Total	0.49			0.04	0.32	5.99		0.16
P10 Total	0.96			0.07	0.44	9.96		0.37

Well	Sand								
	B20	B21	B23	G1	G3	I1	I3	I5	I6
A1									
A2			1,826,595				3,216,691	0	
A3									
A4							2,212,632	5,364,802	
A5	875,824	2,999,505	0						
A6									
A7									
B1	154,456	229,577			4,247,133				
B2									
B3									
B4									
B5						206,808	1,110,170	1,514,946	4,584,881
C1									
C2									
C3	32,670								
D1									
D2									
E1									
E2									
F1									
F2			2,280,418						
F3			3,774,055						
G1									
H1A									
I1						35,004		6,692,412	
Total Prod	1.06	3.23	7.88	0.00	4.25	0.24	6.54	13.57	4.58
GIIP W									
P90	1.15	3.436	16.1	3.56	0.991	2.656	15.51	16.7	3.89
P50	1.75	5.232	21.5	7.83	1.35	5.58	22.58	22.4	5.78
P10	2.61	7.71	28.5	13.5	1.78	10.2	32.71	29	8.35
Total Prod W	0.15	0.23	7.88	0.00	4.25	0.24	6.54	13.57	4.58
P90 RF	13.43%	6.68%	48.95%	0.00%	428.57%	9.10%	42.16%	81.27%	117.86%
P50 RF	8.83%	4.39%	36.66%	0.00%	314.60%	4.33%	28.96%	60.59%	79.32%
P10 RF	5.92%	2.98%	27.65%	0.00%	238.60%	2.37%	19.99%	46.80%	54.91%
Remaining Reserves									
P90 (35% RF)	0.25	0.97	0.00	1.25	0.00	0.69	0.00	0.00	0.00
P50 (45% RF)	0.63	2.12	1.79	3.52	0.00	2.27	3.62	0.00	0.00
P10 (55% RF)	1.28	4.01	7.79	7.43	0.00	5.37	11.45	2.38	0.01
GIIP N									
P90	1.52	0.284	1	0.69	0.019	0.934	3.59	2.9	4.66
P50	2.08	0.838	1.3	1.52	0.03	2.13	5.12	3.9	7.12
P10	2.87	1.91	1.8	2.7	0.05	4.5	7.29	5.1	10.65
Total Prod N	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
P90 RF	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
P50 RF	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
P10 RF	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Remaining Reserves									
P90 (35% RF)	0.53	0.10	0.35	0.24	0.01	0.33	1.26	1.02	1.63
P50 (45% RF)	0.94	0.38	0.59	0.68	0.01	0.96	2.30	1.76	3.20
P10 (55% RF)	1.58	1.05	0.99	1.49	0.03	2.48	4.01	2.81	5.86
GIIP S									
P90	1.81	2.02	11.9	3.38	1.55	0	0	0	0
P50	2.66	3.18	15.7	7.26	2.11	0	0	0	0
P10	3.89	4.85	20.9	12.1	2.79	0	0	0	0
Total Prod S (Bcf)	0.91	3.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
P90 RF	50.19%	148.49%	0.00%	0.00%	0.00%				
P50 RF	34.15%	94.32%	0.00%	0.00%	0.00%				
P10 RF	23.35%	61.85%	0.00%	0.00%	0.00%				
Remaining Reserves									
P90 (35% RF)	0.00	0.00	4.17	1.18	0.54				
P50 (45% RF)	0.29	0.00	7.07	3.27	0.95				
P10 (55% RF)	1.23	0.00	11.50	6.66	1.53				
Totals									
P90	4.48	5.74	29.00	7.63	2.56	3.59	19.10	19.60	8.55
P50	6.49	9.25	38.50	16.61	3.49	7.71	27.70	26.30	12.90
P10	9.37	14.47	51.20	28.30	4.62	14.70	40.00	34.10	19.00
Remaining Reserves (all)									
P90 Total	0.78	1.07	4.52	2.67	0.55	1.01	1.26	1.02	1.63
P50 Total	1.86	2.50	9.44	7.47	0.96	3.23	5.93	1.76	3.20
P10 Total	4.09	5.06	20.28	15.57	1.56	7.84	15.46	5.18	5.87
Remaining Reserves (Valid P90 only)									
P90 Total	0.78	1.07	4.52	2.67	0.55	1.01	1.26	1.02	1.63
P50 Total	1.57	2.50	7.65	7.47	0.96	3.23	2.30	1.76	3.20
P10 Total	2.86	5.06	12.49	15.57	1.56	7.84	4.01	2.81	5.86

## APPENDIX E: GLOSSARY OF TECHNICAL TERMS

AAPG	American Association of Petroleum Geologists
API	American Petroleum Institute
B	Billion
barg	gauge pressure in Bar
bbbl	Barrels
b(o/w)pd	barrels of oil/water per day
BHFP	Bottomhole flowing pressure
boe	Barrels of oil equivalent (converted at 1 boe $\cong$ 5,800 scf)
bbbl/d	barrels of oil per day
Bo(g)i	initial formation volume factor for oil (or gas)
B(s)cf	billion (standard) cubic feet
Bscfe	billion standard cubic feet equivalent hydrocarbon
CGR	Condensate: Gas Ratio
CVD	Constant Volume Depletion (a laboratory experiment)
DST	drill stem test
Entitlement Volumes	the volumes of oil and/or gas which a Contractor receives under the terms of a PSA
EUR	Expected ultimate recovery
ft	Feet
FVF	Formation Volume Factor
GIIP	Gas Initially In Place
GPoS	Geological Probability of Success
GRV	gross rock volume
GWC	Gas-water contact
IRR	internal rate of return
$k_{(e)}$	(effective) permeability
kg	Kilogram
km	Kilometre
m	metres
mm	millimetre
M	thousand
MD	measured depth
mD	(permeability in) millidarcies
MM	million
Mbbl	thousand barrels
MMbbl	million barrels
MMscf/d	millions of standard cubic feet per day

MMscfe	millions of standard cubic feet equivalent hydrocarbon
MMstb	million stock tank barrels
MOD	Money of the Day (calculated allowing for the effect of inflation)
N:G	Net to gross ratio
NPV	Net present value
OWC	oil-water contact
$p_{(b/r)}$	(bubble point or reservoir) pressure
ppm	Parts per million
psi(a/g)	pounds per square inch (absolute/gauge)
PVT	Pressure, Volume & Temperature
RF	Recovery Factor
$R_w$	Water resistivity
S	Skin, a measure of damage derived from well test analysis
sq km	square kilometres
scf	standard cubic feet
SPE	Society of Petroleum Engineers
SPEE	Society of Petroleum Evaluation Engineers
$S_w$	Water Saturation
TD	Total Depth
$T_r$	Reservoir temperature
TVD	True vertical depth
TVDSS	true vertical depth (sub-sea)
WHFP	Wellhead Flowing Pressure
WI	Working Interest
WPC	World Petroleum Council

## APPENDIX F: SPE/WPC/AAPG/SPEE RESERVE/RESOURCE DEFINITIONS

The following is extracted from the SPE/WPC/AAPG/SPEE PRMS 2007 using the section numbering and spelling from PRMS.

### 1.0 Basic Principles and Definitions

The estimation of petroleum resource quantities involves the interpretation of volumes and values that have an inherent degree of uncertainty. These quantities are associated with development projects at various stages of design and implementation. Use of a consistent classification system enhances comparisons between projects, groups of projects, and total company portfolios according to forecast production profiles and recoveries. Such a system must consider both technical and commercial factors that impact the project's economic feasibility, its productive life, and its related cash flows.

### 1.1 Petroleum Resources Classification Framework

Petroleum is defined as a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid, or solid phase. Petroleum may also contain non-hydrocarbons, common examples of which are carbon dioxide, nitrogen, hydrogen sulfide and sulfur. In rare cases, non-hydrocarbon content could be greater than 50%.

The term “resources” as used herein is intended to encompass all quantities of petroleum naturally occurring on or within the Earth's crust, discovered and undiscovered (recoverable and unrecoverable), plus those quantities already produced. Further, it includes all types of petroleum whether currently considered “conventional” or “unconventional.”

Figure 1-1 is a graphical representation of the SPE/WPC/AAPG/SPEE resources classification system. The system defines the major recoverable resources classes: Production, Reserves, Contingent Resources, and Prospective Resources, as well as Unrecoverable petroleum.

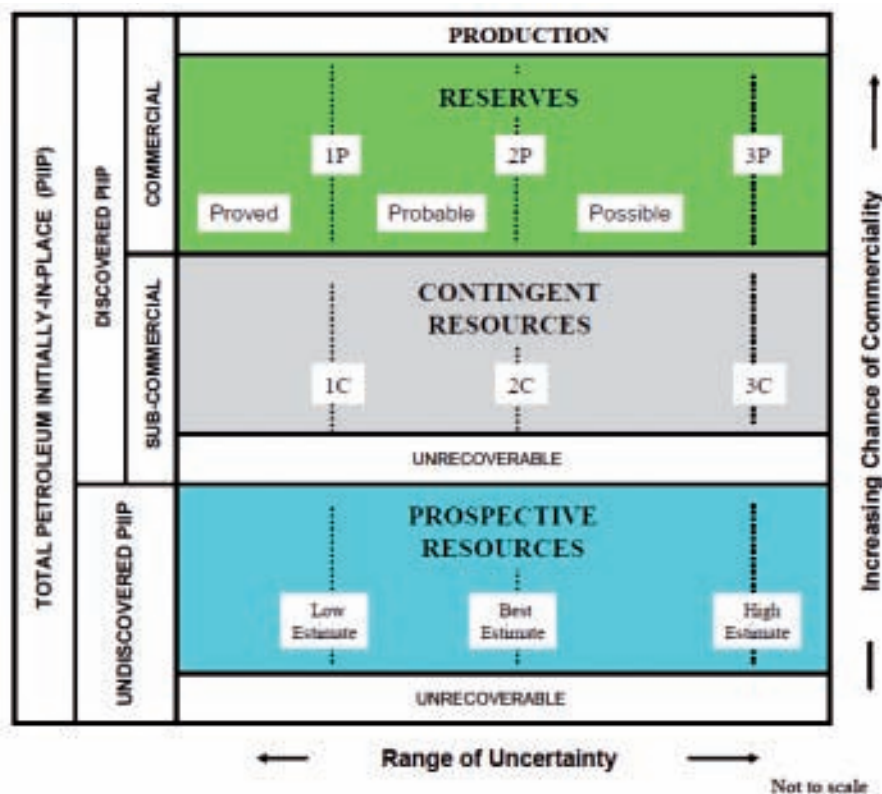


Figure 1-1: Resources Classification Framework.

The “Range of Uncertainty” reflects a range of estimated quantities potentially recoverable from an accumulation by a project, while the vertical axis represents the “Chance of Commerciality, that is, the



chance that the project that will be developed and reach commercial producing status. The following definitions apply to the major subdivisions within the resources classification:

**TOTAL PETROLEUM INITIALLY-IN-PLACE** is that quantity of petroleum that is estimated to exist originally in naturally occurring accumulations. It includes that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production plus those estimated quantities in accumulations yet to be discovered (equivalent to “total resources”).

**DISCOVERED PETROLEUM INITIALLY-IN-PLACE** is that quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production.

**PRODUCTION** is the cumulative quantity of petroleum that has been recovered at a given date. While all recoverable resources are estimated and production is measured in terms of the sales product specifications, raw production (sales plus non-sales) quantities are also measured and required to support engineering analyses based on reservoir voidage.

Multiple development projects may be applied to each known accumulation, and each project will recover an estimated portion of the initially-in-place quantities. The projects shall be subdivided into Commercial and Sub-Commercial, with the estimated recoverable quantities being classified as Reserves and Contingent Resources respectively, as defined below.

**RESERVES** are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.

**CONTINGENT RESOURCES** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterized by their economic status.

**UNDISCOVERED PETROLEUM INITIALLY-IN-PLACE** is that quantity of petroleum estimated, as of a given date, to be contained within accumulations yet to be discovered.

**PROSPECTIVE RESOURCES** are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

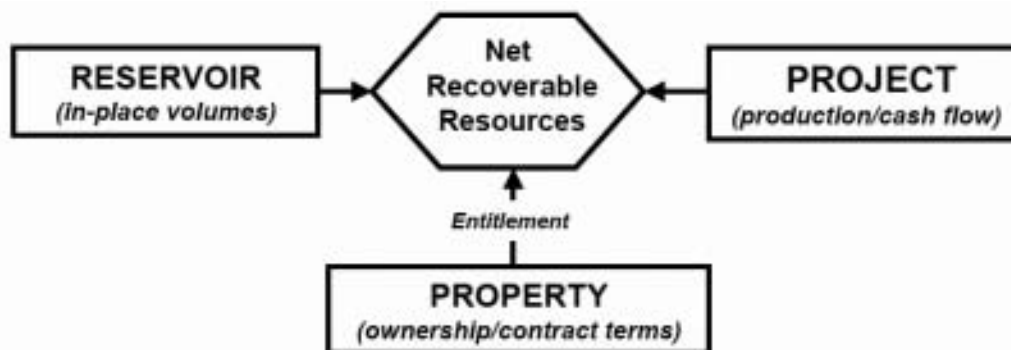
**UNRECOVERABLE** is that portion of Discovered or Undiscovered Petroleum Initially-in-Place quantities which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

Estimated Ultimate Recovery (EUR) is not a resources category, but a term that may be applied to any accumulation or group of accumulations (discovered or undiscovered) to define those quantities of petroleum estimated, as of a given date, to be potentially recoverable under defined technical and commercial conditions plus those quantities already produced (total of recoverable resources).

## 1.2 Project-Based Resources Evaluations

The resources evaluation process consists of identifying a recovery project, or projects, associated with a petroleum accumulation(s), estimating the quantities of Petroleum Initially-in-Place, estimating that portion of those in-place quantities that can be recovered by each project, and classifying the project(s) based on its maturity status or chance of commerciality.

This concept of a project-based classification system is further clarified by examining the primary data sources contributing to an evaluation of net recoverable resources (see Figure 1-2) that may be described as follows:



**Figure 1-2: Resources Evaluation Data Sources**

- The Reservoir (accumulation): Key attributes include the types and quantities of Petroleum Initially-in-Place and the fluid and rock properties that affect petroleum recovery.
- The Project: Each project applied to a specific reservoir development generates a unique production and cash flow schedule. The time integration of these schedules taken to the project's technical, economic, or contractual limit defines the estimated recoverable resources and associated future net cash flow projections for each project. The ratio of EUR to Total Initially-in-Place quantities defines the ultimate recovery efficiency for the development project(s). A project may be defined at various levels and stages of maturity; it may include one or many wells and associated production and processing facilities. One project may develop many reservoirs, or many projects may be applied to one reservoir.
- The Property (lease or licence area): Each property may have unique associated contractual rights and obligations including the fiscal terms. Such information allows definition of each participant's share of produced quantities (entitlement) and share of investments, expenses, and revenues for each recovery project and the reservoir to which it is applied. One property may encompass many reservoirs, or one reservoir may span several different properties. A property may contain both discovered and undiscovered accumulations.

In context of this data relationship, "project" is the primary element considered in this resources classification, and net recoverable resources are the incremental quantities derived from each project. Project represents the link between the petroleum accumulation and the decision-making process. A project may, for example, constitute the development of a single reservoir or field, or an incremental development for a producing field, or the integrated development of several fields and associated facilities with a common ownership. In general, an individual project will represent the level at which a decision is made whether or not to proceed (i.e., spend more money) and there should be an associated range of estimated recoverable quantities for that project.

An accumulation or potential accumulation of petroleum may be subject to several separate and distinct projects that are at different stages of exploration or development. Thus, an accumulation may have recoverable quantities in several resource classes simultaneously.

In order to assign recoverable resources of any class, a development plan needs to be defined consisting of one or more projects. Even for Prospective Resources, the estimates of recoverable quantities must be stated in terms of the sales products derived from a development program assuming successful

discovery and commercial development. Given the major uncertainties involved at this early stage, the development program will not be of the detail expected in later stages of maturity. In most cases, recovery efficiency may be largely based on analogous projects. In-place quantities for which a feasible project cannot be defined using current, or reasonably forecast improvements in, technology are classified as Unrecoverable.

Not all technically feasible development plans will be commercial. The commercial viability of a development project is dependent on a forecast of the conditions that will exist during the time period encompassed by the project's activities. "Conditions" include technological, economic, legal, environmental, social, and governmental factors. While economic factors can be summarized as forecast costs and product prices, the underlying influences include, but are not limited to, market conditions, transportation and processing infrastructure, fiscal terms, and taxes.

The resource quantities being estimated are those volumes producible from a project as measured according to delivery specifications at the point of sale or custody transfer. The cumulative production from the evaluation date forward to cessation of production is the remaining recoverable quantity. The sum of the associated annual net cash flows yields the estimated future net revenue. When the cash flows are discounted according to a defined discount rate and time period, the summation of the discounted cash flows is termed net present value.

## PART IV

### Additional Information

#### 1. Responsibility

- 1.1 The Company and the Directors and the Proposed Directors, whose names are set out on page 3 of this document, accept responsibility, both individually and collectively, for the information contained in this document and confirm that to the best of their knowledge and belief (having 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 and its subsidiaries

- 2.1 The Company is incorporated and trades under the name Silvermere Energy Plc.
- 2.2 The Company is domiciled in the United Kingdom and was incorporated and registered in England and Wales on 18 May 2004 as a private limited company with the name Football Kits Limited and registered number 05131386.
- 2.3 On 23 November 2005, the Company changed its name from Football Kits Limited to Core Business (UK) Limited.
- 2.4 On 25 November 2005, the Company changed its name from Core Business (UK) Limited to The Core Business Limited.
- 2.5 On 13 February 2006, the Company was re-registered as a public company with the name The Core Business plc.
- 2.6 On 24 March 2010, the Company changed its name from The Core Business Plc to Chalkwell Investments plc.
- 2.7 On 14 July 2011, the Company changed its name from Chalkwell Investments plc to Silvermere Energy plc.
- 2.8 The liability of the Company's members is limited.
- 2.9 The Company's securities were created under the Companies Act 1985.
- 2.10 The Company's principal place of business and registered office are located at 42 Brook Street, London, W1K 5DB. The telephone number of the Company's registered address is 0203 008 8212.
- 2.11 The Company has no administrative, management or supervisory bodies other than the Board of Directors, the remuneration committee, and the audit committee, all of whose members are Directors.
- 2.12 On 29 June 2011, the Company incorporated the US Subsidiary in Delaware, USA.
- 2.13 The Company's auditors during the period covered by the Historical Financial Information were Smith and Williamson Limited (from the period 2006 to 2008) and Jeffreys Henry LLP (from 2009 to date), both of whom are members of the Institute of Chartered Accountants.

#### 3. Securities being admitted

- 3.1 The Ordinary Shares are ordinary shares of 0.1 pence each in the capital of the Company and were issued in British Pounds Sterling.
- 3.2 The Ordinary Shares may be held in certificated form or under the CREST system, which is a paperless settlement procedure enabling securities to be evidenced and transferred otherwise than by a written instrument in accordance with the CREST Regulations. The Company's registrars,

Share Registrars Limited of Suite 6, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey, GU9 7LL, are responsible for keeping the Company's register of members.

- 3.3 The dividend and voting rights attaching to the Ordinary Shares are set out in paragraph 7 of this Part IV.
- 3.4 Section 561 of the Companies Act gives the Shareholders pre-emption rights on any issue of shares by the Company to the extent not disapplied by a special resolution passed pursuant to section 570 of the Companies Act. Details of the Company's current disapplication of section 561 of the Companies Act are set out in paragraph 3.9 below.
- 3.5 The Ordinary Shares have no right to share in the profits of the Company other than through a dividend, distribution or return of capital, further details of which are set out in paragraph 7 below.
- 3.6 Each Ordinary Share is entitled on a *pari passu* basis with all other issued Ordinary Shares to share in any surplus on a liquidation of the Company.
- 3.7 The Ordinary Shares have no redemption or conversion provisions.
- 3.8 The Ordinary Shares are freely transferable provided that such shares are fully paid, the Company has no lien over such shares, the instrument of transfer is duly stamped, is in favour of not more than four joint transferees and is in respect of only one class of shares.
- 3.9 Pursuant to the Company's annual general meeting held on 14 July 2011, the Directors are authorised to allot and issue Ordinary Shares in accordance with the following resolutions:
  - 3.9.1 an ordinary resolution authorising the Directors pursuant to section 551 of the Companies Act to allot ordinary shares with an aggregate nominal value representing 7,532,220 new ordinary shares;
  - 3.9.2 a special resolution authorising the Directors pursuant to section 570 of the Companies Act to allot shares up to an aggregate nominal amount of £7,532.22 for cash as if section 561(1) of the Companies Act did not apply to such allotment;

such authorisation to expire at the conclusion of the next Annual General Meeting of the Company (unless previously renewed, varied or revoked by the Company in general meeting). As part of the Resolutions to be considered at the General Meeting, the Company proposes to vary the authorities granted to Directors to issue Ordinary Shares.

- 3.10 The Company will be subject to the Code. Under Rule 9 of the Code ("**Rule 9**"), any person, or group of persons acting in concert, who acquires, whether by a series of transactions over a period of time or not, an interest in shares which taken together with shares in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights of a company which is subject to the Code, or any person who, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of a company but does not hold shares carrying more than 50 per cent. of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested, is normally required by the Panel to make a general offer in cash to acquire the remaining shares in the company to all its shareholders at not less than the highest price paid by him or any persons acting in concert with him within the preceding twelve months. Rule 9 is subject to a number of dispensations.

In addition, in the event an offeror acquires at least nine-tenths in value of the issued share capital of the Company to which the offer relates the offeror may in accordance with the procedure set out in section 979 of the Companies Act require the holders of any shares he has not acquired to sell them subject to the terms of the offer, and such Shareholders may in turn require the offeror to purchase such shares on the same terms.

- 3.11 No person has made a public takeover bid for the Company's issued share capital in the financial period to 31 December 2010 or in the current financial period.
- 3.12 A Shareholder is required, pursuant to Disclosure and Transparency Rule 5 of the Disclosure and Transparency Rules of the Financial Services Authority, to notify the Company when he acquires or disposes of a major proportion of the voting rights of the Company equal to or in excess of 3 per cent. of the nominal value of that share capital.

#### 4. Share capital of the Company

- 4.1 The issued share capital of the Company as at the date of this document, and as it is expected to be immediately following Admission is as follows:

Class	<i>Pre-Admission</i> Issued and fully paid up share capital		<i>Post-Admission</i> Issued and fully paid up share capital	
	Nominal value (£)	Number	Nominal value (£)	Number
Ordinary Shares	7,532.22	7,532,223	<u>16,980.75</u>	<u>16,980,750</u>
Deferred Shares	1,267,367.75	42,247	1,267,367.75	42,247
Total	1,274,899.97		<u>1,284,348.50</u>	

- 4.2 On 23 March 2010 the Company approved a company voluntary arrangement under the terms of which the Company restructured its share capital (the "**Share Capital Reorganisation**") so that:
- 4.2.1 each of the Company's existing 253,482,454 Ordinary Shares of 0.5p were subdivided into 1,267,412,270 new Ordinary Shares of 0.1p each; and
- 4.2.2 following the subdivision referred to above, every 29,999 Ordinary Shares were consolidated into one deferred share of £29.999 credited as fully paid, leaving 42,247 issued new Ordinary Shares of 0.1p.
- 4.3 During the financial year ended 31 May 2010, the Company allotted and issued 79,911 Ordinary Shares.
- 4.4 During the period from 31 May 2010 to 31 December 2010, the Company allotted and issued 2,330,699 Ordinary Shares.
- 4.5 On 4 February 2011, the Company allotted and issued 2,222,223 Ordinary Shares.
- 4.6 On 25 May 2011, the Company allotted and issued 2,857,143 Ordinary Shares.
- 4.7 Prior to 23 March 2010, the Company issued warrants ("**the Pre-CVA Warrants**") to various persons at a subscription price of 1 pence per Ordinary Share. Following the Share Capital Reorganisation, the Pre-CVA Warrants entitle the holder to acquire one Ordinary Share on exercise of their subscription rights for every 6,000 existing Ordinary Shares that would have been acquired on exercise of their subscription rights prior to the Share Capital Reorganisation. The resulting exercise price per Ordinary Share is £60.00.

There are currently 86,872,723 Pre-CVA Warrants in issue, each of which had a 5 year exercise period from the date of issue. The warrants expire on 23 March 2012.

While any subscription rights under the Pre-CVA Warrants remain outstanding, the Company is prohibited from, without each warrant holder's prior written consent, making any distribution of a capital nature, modifying the rights attaching to new shares (as they were then constituted), or creating or issuing any new shares with rights preferential to the existing Ordinary Shares (as they were then constituted), or doing anything which would result in the Company's authorised but unissued share capital being insufficient to satisfy in full all subscription rights remaining exercisable.



- 4.8 On 23 March 2010 the Company issued warrants (“**the CVA Warrants**”) under a warrant instrument dated 23 March 2010 to certain persons (each a “**CVA Warrantholder**”). Each CVA Warrant entitles the CVA Warrantholder to subscribe for one Ordinary Share at a price of 0.1p per Ordinary Share at any time between 23 March 2011 and 23 March 2015.
- 4.9 On 26 May 2011 the Company issued 2,857,143 warrants to subscribers for shares as part of a subscription for the same number of Ordinary Shares in the Company at a price of 35p per share. The warrants were issued on the basis of one warrant per Ordinary Share, and are exercisable at 45p per Ordinary Share for a period of one year from the date of issue. It is proposed to amend the exercise price of the warrants to 30p per Ordinary Share.
- 4.10 On 1 July 2011 the Company issued convertible loan notes (“**Loan Notes**”) in the sum of £750,000 which entitle the holders to convert their loans into shares as follows:
- (a) Tranche ‘A’ representing £375,000 of the Loan Notes is convertible into shares automatically on Admission, at the lower of 25p and a 10 per cent. discount to the Placing Price;
  - (b) Tranche ‘B’ representing the remaining £375,000 of the Loan Notes is convertible into shares at 35p per Ordinary Share at any time from Admission until 1 July 2013 at the option of the Loan Note holders, if not previously repaid.
- The loan agreement creating the Loan Notes is summarised in more detail at paragraph 12.9 below.
- 4.11 The par value of each Ordinary Share is 0.1 pence.
- 4.12 The Company has no issued Ordinary Shares that are not fully paid up.
- 4.13 Save as disclosed in this Part IV:-
- (a) no share or loan capital of the Company has been issued or is proposed to be issued;
  - (b) there are currently no outstanding convertible securities, exchangeable securities or securities with warrants issued by the Company;
  - (c) there are no shares in the Company not representing capital;
  - (d) there are no shares in the Company held by or on behalf of the Company itself or by subsidiaries of the Company;
  - (e) there are no acquisition rights and/or obligations over authorised but unissued share capital of the Company and the Company has made no undertaking to increase its share capital;
  - (f) no person has any preferential or subscription rights for any share capital of the Company; and
  - (g) no share or loan capital of the Company or any member of the Company is under option or agreed conditionally or unconditionally to be put under option.

## **5. The Company**

- 5.1 To the best of the knowledge of the Company, as at the date of this document, there are no persons who directly or indirectly control the Company, where control means owning 30 per cent. or more of the voting rights attaching to the share capital of the Company.
- 5.2 The Company is not aware of any arrangements which may at a subsequent date result in a change in control of the Company.
- 5.3 A subsidiary of the Company, Amirose International Limited (In Liquidation), was put into liquidation on 25 January 2010.
- 5.4 The Company’s only existing subsidiary, Silvermere Energy, LLC, was incorporated on 29 June 2011.



## 6. Memorandum of Association

The Memorandum of Association of the Company provides that its principal object and purpose is to carry on the business of a general commercial company.

## 7. Articles of Association

The Articles include provisions to the following effect:

7.1 Subject to any rights or restrictions as to voting attached to any class of shares, at any general meeting, on a show of hands, every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a duly authorised representative, not being himself a member entitled to vote has one vote and, in the case of a poll, every member present in person or by proxy has one vote for every share of which he is the holder. No member is entitled to vote at a general meeting either personally or by proxy if he or any person appearing to be interested in shares held by him has been duly served with a notice under section 793 of the Companies Act and is in default for the prescribed period in supplying to the Company the information required thereby or, unless the Directors determine otherwise, if any calls in respect of shares held by him have not been paid.

7.2 All general meetings which are not annual general meetings are deemed general meetings. General meetings may be called by directors whenever they think fit or within 28 days of receipt of a requisition of members served in accordance with the Companies Act. If there are insufficient directors in the UK to form a quorum, any director may convene a general meeting. If there are no Directors, any member of the Company may convene a general meeting.

An annual general meeting shall be called by twenty-one clear days' notice at least and all other general meetings shall be called by at least fourteen days' notice.

7.3 The special rights attached to any class of shares may, subject to any applicable law, be altered or cancelled with the sanction of a special resolution passed at a separate general meeting of the holders of shares of that class.

The provisions of the Articles applicable to general meetings apply *mutatis mutandis* to class meetings but the necessary quorum is two persons holding or representing by proxy not less than one third of the issued shares of that class except for an adjourned general meeting or where there is only one holder of the relevant class of shares in which case the quorum shall be that holder.

7.4 The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its shares into shares of a larger amount, cancel any shares not taken or agreed to be taken by any person and sub-divide its shares into shares of a smaller amount.

7.5 Subject to the provisions of the Companies Act, the Company may by special resolution (and, with court approval where required) reduce its authorised or issued share capital or any capital redemption reserve and any share premium account in any way subject to authority required by law. Subject to applicable law, the Company may purchase its own shares.

### 7.6 Directors

(a) A director is not required to hold any qualification shares.

(b) The amount of any fees payable to Directors shall be determined by the Directors provided that they shall not in any year exceed an aggregate amount of £300,000 or such other sum as may from time to time be approved by ordinary resolution. Any such fees shall be divisible among the Directors as they may agree, or failing agreement, equally. The Directors are also entitled to be repaid all expenses properly incurred by them respectively in the performance of their duties. Any director holding an executive office or otherwise performing services which in the opinion of the Directors are outside the scope of his ordinary duties as a director may be paid such remuneration as the Directors may determine.

- (c) The Directors may (by the establishment of, or maintenance of, schemes or otherwise) provide benefits, whether by payment of allowances, gratuities or pensions, or by insurance of death, sickness or disability benefits or otherwise for any director or any former director of the Company or of any body corporate which is or has been a subsidiary of the Company or a predecessor in business of the Company or of any such subsidiary, and for any member of his family (including a spouse or civil partner or a former spouse or former civil partner) or any person who is or was dependent on him and may (before as well as after he ceases to hold such office) contribute to any fund and pay premiums for the purchase or provision of any such benefit.
- (d) The Directors may from time to time appoint one or more of their body to be the holder of any executive office on such terms and for such period as they may determine.
- (e) Subject to the provisions of applicable law and provided that he has disclosed to the Directors the nature and extent of any material interest of his, a director notwithstanding his office:
  - (i) may be a party to, or otherwise interested in, any contract, transaction or arrangement with the Company or in which the Company is otherwise interested;
  - (ii) may be a director or other officer of, or employed by, or a party to, any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested; and
  - (iii) shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such contract, transaction or arrangement or from any interest in any such body corporate, and no such contract, transaction or arrangement shall be liable to be avoided on the grounds of any such interest or benefit.
- (f) Save as specifically provided in the Articles, a director may not vote in respect of any contract, transaction or arrangement or any other proposal whatsoever in which he has any material interest otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company. A director will not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.
- (g) Subject to applicable law, a director is (in the absence of some material interest other than is indicated below) entitled to vote (and will be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
  - (i) the giving of any guarantee, security or indemnity to a third party in respect of money lent or obligations incurred by him at the request or for the benefit of the Company or any of its subsidiary undertakings;
  - (ii) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
  - (iii) any contract, transaction, arrangement or proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting thereof;
  - (iv) any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company;
  - (v) any contract or arrangement in which he is interested directly or indirectly and whether as an officer or shareholder or otherwise, provided that he does not hold an interest (as defined in Part 22 of the Companies Act) in one per cent. or more of the issued shares of any such body corporate;

- (vi) any proposal concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to the directors and employees of the Company or any of its subsidiaries;
  - (vii) any arrangement for the benefit of employees of the Company or of any of its subsidiaries under which the Director benefits in a similar manner to the employees; and
  - (vii) any proposal, contract, transaction or arrangement concerning the purchase or maintenance of insurance for the benefit of directors or persons who include directors.
- (h) Subject to any applicable law, the Company may by ordinary resolution suspend or relax, in relation to any particular matter, any provision prohibiting a director from voting at a meeting of the Directors or of a committee of the Directors.
  - (i) At every annual general meeting all Directors who held office at the time of each of the two preceding annual general meetings, and who did not retire by rotation or pursuant to the Articles, or if more, one third of all directors shall retire by rotation and stand for re-election.
  - (j) The directors have the power to authorise any matter which would or might otherwise constitute or give rise to a breach of duty of a director under section 175 of the Companies Act to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company. Save that such authorisation of the directors may only be effective if the required quorum at the meeting at which the matter is considered is met without counting the interested director and the matter was agreed without such director voting or would have been agreed to if their vote had been counted.
- 7.7 All transfers of shares may be effected by transfer in any usual form or in any other form acceptable to the Directors and shall be executed by or on behalf of the transferor and, if the share is partly paid, the transferee.
- 7.8 There are no fixed dates on which a dividend entitlement arises. The Company may by ordinary resolution from time to time declare dividends to be paid to Shareholders, although the amount of the dividend cannot exceed the amount recommended by the Directors. In addition the Directors may pay interim dividends if justified by the profits of the Company available for distribution.
- The dividend payment to each Shareholder shall be calculated proportionately to the amounts paid up on each issued Ordinary Share.
- Any dividend which remains unclaimed twelve years after the date the dividend becomes due for payment shall, at the option of the Directors, be forfeited and shall revert to the Company.
- There are no dividend restrictions attaching to the Ordinary Shares, provided they are fully paid up. Payments of dividends may be made by any method the Directors consider appropriate and on a cash dividend there are no special arrangements for non-resident Shareholders.
- 7.9 The Ordinary Shares rank *pari passu* as a class in terms of preference, restriction and all other rights.

## 8. Directors', Proposed Directors' and Other Interests

- 8.1 As at 1 August 2011 (being the latest practicable date prior to the publication of this document) and immediately following Admission, the holdings of the Directors and the Proposed Directors and any other applicable employee of the Company (as defined in the AIM Rules), and their families in the share capital of the Company (i) which would have been required to be notified by the Company pursuant to Rule 17 of the AIM Rules; or (ii) which are holdings of a person connected (within the meaning of section 252 of the Companies Act) with a Director or Proposed Directors which would, if the connected person were a Director or Proposed Directors, be required to be disclosed under (i) above and the existence of which is known to or could with reasonable diligence be ascertained by the Director or Proposed Directors are as set out below:

	<i>Pre-Admission</i>			<i>Post-Admission</i>		
	Number of Ordinary Shares	% of the Issued Ordinary Share Capital	Warrants	Number of Ordinary Shares	% of Enlarged Issued Share Capital	Warrants
Bruce Evers	—	—	—	<u>96,000</u>	<u>0.57</u>	<u>96,000</u>
John Roddison	90,068	1.2	900,000	<u>1,030,068</u>	<u>6.07</u>	<u>940,000</u>
Reinhold Heus	—	—	—	—	—	100,000
Frank Moxon*	—	—	—	144,000	<u>0.85</u>	144,000
Andy Morrison**	—	—	—	67,920	<u>0.40</u>	67,920
Stewart Dalby	—	—	—	—	—	—

\* held in the name of Hoyt Moxon Limited, a company wholly owned by Frank Moxon

\*\* 52,000 Ordinary Shares will be held in Andy Morrison's SIPP

- 8.2 Save as disclosed in sub-paragraph 8.1 above and this sub-paragraph 8.2 the Company is not aware of any holding (within the meaning of the AIM Rules) in the Company's ordinary share capital which amounts to 3 per cent. or more of the Company's issued ordinary share capital other than the following:

Name	<i>Pre-Admission</i>			<i>Post-Admission</i>		
	Number of Ordinary Shares	% of the Issued Ordinary Share Capital	Warrants	Number of Ordinary Shares	% of Enlarged Issued Share Capital	Warrants
t1ps Investment Management (IOM) Limited	1,285,476	17.07	1,300,000	<u>2,768,676</u>	<u>16.30</u>	<u>2,783,200</u>
XCAP Nominees Limited	1,256,480	16.68	—	<u>1,956,480</u>	<u>11.52</u>	<u>700,000</u>
JIM Nominees Limited	800,725	10.63	—	800,725	<u>4.72</u>	—
The Bank of New York (Nominees) Limited	554,047	7.36	—	554,047	<u>3.26</u>	—
Vidacos Nominees Limited	534,512	7.10	—	534,512	<u>3.15</u>	—
Redmayne (Nominees) Limited	367,639	4.88	—	367,639	<u>2.17</u>	—
Pershing Nominees Limited	281,595	3.74	—	281,595	<u>1.66</u>	—
L R Nominees Limited	234,261	3.11	—	234,261	<u>1.38</u>	—

The voting rights of the Shareholders set out in paragraphs 8.1 and 9.2 do not differ from the voting rights held by other Shareholders.

- 8.3 There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors or the Proposed Directors, nor are there any outstanding loans or guarantees provided by the Directors or the Proposed Directors to or for the benefit of the Company.
- 8.4 No Director or Proposed 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 the Company during the current or immediately preceding financial year, or during any earlier financial year and which remains in any respect outstanding or unperformed.
- 8.5 Save as otherwise disclosed in this document, none of the Directors or Proposed Directors nor any member of their respective families nor any person connected with the Directors or Proposed Directors (within the meaning of section 252 of the Companies Act) has any holding, whether beneficial or otherwise, in the share capital of the Company.
- 8.6 None of the Directors or the Proposed Directors nor any member of a Director's or a Proposed Director's family is dealing in any related financial product (as defined in the AIM Rules) whose value in whole or in part is determined directly or indirectly by reference to the price of the ordinary shares, including a contract for differences or a fixed odds bet.

## **9. Directors' and Proposed Directors' Service Agreements/Letters of Appointment**

- 9.1 John Roddison and Reinhold Heus will resign as directors of the Company immediately following Admission. Bruce Evers will resign his position as an executive director, and be appointed as a non-executive director on Admission.
- 9.2 The existing executive Directors do not have any written terms of employment.
- 9.3 On 1 December 2010 Reinhold Heus entered into a letter of appointment with the Company under the terms of which Reinhold Heus agreed to act as a non-executive director of the Company for a gross fee of £36,000 per annum. Reinhold Heus is required to provide his services for four days a month. The appointment is for an initial term of three years terminable on one month's written notice on either side at any time.
- 9.4 Details of the appointment letters and service agreement of the members of the New Board are set out below:
  - (a) On 2 August, Andy Morrison agreed a service agreement with the Company under the terms of which, conditional on Admission, he will be employed as Chief Executive Officer of the Company for a salary of £60,000. Under the service agreement Andy Morrison is required to perform his duties no less than two working days per week and is entitled to rate of £1,050 for any days worked in addition to this requirement. Andy Morrison is entitled to a contractual bonus on achievement of targets set by the Remuneration Committee up to an annual maximum bonus of 100 per cent. of his salary. The service agreement is terminable on six months' notice on either side.
  - (b) On 2 August 2011, Frank Moxon agreed a letter of appointment with the Company under the terms of which, conditional on Admission, he has agreed to act as a non-executive director and chairman of the Company for a fee of £36,000 per annum. Frank Moxon is required to provide his services for 36 days per annum and is entitled to a daily rate of £1,050 for any days (*pro-rata* for any part of the day worked) worked in addition to this maximum. The appointment is conditional upon, and effective on, Admission and is for an initial term of 12 months terminable on three months' written notice on either side at any time.

- (c) On 1 August, Bruce Evers agreed a letter of appointment with the Company under the terms of which, conditional on Admission, Bruce Evers agreed to act as a non-executive director of the Company for a fee of £24,000 per annum. Bruce Evers is required to devote such time and attention as is necessary for the proper discharge of his duties, which will normally involve a time commitment of not more than 15 days per annum. The appointment is conditional upon, and effective on, Admission and is for an initial term of 12 months terminable on one month's written notice on either side at any time.
- (d) On 1 August, Stewart Dalby agreed a letter of appointment with the Company under the terms of which, conditional on Admission, Stewart Dalby agreed to act as a non-executive director of the Company for a fee equivalent to £24,000 per annum. In the first 18 months of his appointment, Stewart Dalby has agreed to subscribe for £3,000 worth of Ordinary Shares at market value for each completed three months, of the appointment and the Company is authorised to retain fees to be used for such subscription. Stewart Dalby is required to devote such time and attention as is necessary for the proper discharge of his duties, which will normally involve a time commitment of not more than 15 days per annum. The appointment is conditional upon, and effective on, Admission and is for an initial term of 12 months, terminable on one month's written notice on either side at any time.

9.5 Save as stated above, there are no service contracts, existing or proposed, between any Director or Proposed Director and the Company.

Details of the commencement and expiration of the term of office of each Director who were in office during the Company's last financial year are set out below:

Name	Commencement of Period of Office	Date of expiration of term of Office
Bruce Evers	2 December 2010	Annual General Meeting to be held in March 2013
Reinhold Heus*	2 December 2010	Annual General Meeting to be held in March 2013
John Roddison*	28 October 2010	Annual General Meeting to be held in March 2012

\* Resigning immediately following Admission

## 10. Additional information on the Board

In addition to the Company, the Directors and the Proposed Directors hold or have held the following directorships or are or have been partners in the following partnerships within the five years prior to the date of this document:

### Director

#### Bruce Evers

##### *Current Directorships/Partnerships*

30 Elsham Road London W14 Limited  
BDR Securities Limited

##### *Past Directorships/Partnerships*

None

#### John Roddison

##### *Current Directorships/Partnerships*

10 Past 12 Records Limited  
37 Degrees Limited  
37 Degrees Music & Publishing Limited  
A Fox's Tale Limited  
Alice Coulthard Limited  
Another Daze Limited  
Another Daze LLC

Mark Webber Limited  
Marquee Moon Limited  
Martial Artists Limited  
Matrix Records Limited  
Max Keiser Productions Limited  
McCall Music limited  
McQueen Developments Limited



**John Roddison (continued)*****Current Directorships/Partnerships (continued)***

Arbiz Limited  
Asia-Pacific Foundation Limited  
Asia-Pacific Foundation Research Limited  
Backyard Music Publishing Limited  
Be In The Press Limited  
Beyond Bedlam Limited  
Blackberry Way Limited  
Blanco Music Limited  
Blanco Music Records Limited  
Bringing Music To You Limited  
Bromheads Jacket Limited  
Brown Mcleod Limited  
Bruce Evers Limited  
Cabaret Voltaire Limited  
Caged Butterfly Limited  
Carl Baker Promotions Limited  
Cavemen Limited  
Cavernbeat Limited  
Centennial Asil Arabian Stud Ltd, The  
Chris Wainwright Studios Limited  
Closing The Ring Limited  
Club Fandango Limited  
Crookes Limited, The  
Crystal Ship Limited  
Current Media Limited  
Davenport Capital Limited  
Davies Street Crawley Limited  
Death Valley Auto Brokers Limited  
Diet Rich Merchandise Limited  
Duane Eddy Touring Limited  
Electric Canyon Management Limited  
Elemental Music Limited  
Emmett Carr Riding Stables Limited  
Euro Korea Marketing Limited  
Fandango Music Promotions Limited  
Flagship Films Limited  
Funky Bottom Limited  
Gift of Song Limited  
Good Day Sunshine Limited  
Great Productions (GWET) Limited  
Heisenberg Capital Limited  
Hogg Acting Limited  
Hogg Music Limited  
I Monster Limited  
JC82 Limited  
Jezebels Music Limited, The  
Kills Inc, The  
Kills Limited, The  
Kills Touring Limited, The  
Kinooga Technology Limited  
KORA UK Limited  
Ladytron Limited  
Mega pop Limited  
Musee Des Croix Limited  
No Pain In Pop Limited  
No Xcuse Limited  
Oh! Invented World Limited  
Olafur Arnalds Limited  
Owls Limited, The  
Painted Bird Limited  
Party Horse Limited  
Pen Palz Limited  
Pirate My Film Limited  
Pitchford Hall Limited  
PMP Media Limited  
Pop Adventures Limited  
PSP London Limited  
Pulp Touring LLP  
Punk Rock Blues Records Limited  
Quartet Books Limited  
Quartet Holdings Limited  
Quartet Publications Limited  
Quatermass Limited  
Real Digital Distribution Limited  
Real Holywood Property Limited  
Red lodge Agency Limited  
Red Meat Heart Limited  
Red Owl Investments Limited  
Revolution Nine Limited  
Revolution One Limited  
Ribbon Film Limited, The  
Rockin' Good News Limited  
Rodeo Massacre Limited  
Satanic Mills Limited  
Shake Aletti Limited  
Shamma Economics Limited  
Silver Jay Limited  
Siren at Factory Limited  
Sisu TV Limited  
Snow Leopard Resources Limited  
Sobriety Records Limited  
Soft Cell Limited  
Spinster Limited  
Sporthaven Event Management Limited  
Sporthaven Limited  
Steepgrass Limited  
Stephen Mackey Studio Limited  
Streetwise Productions Limited  
Sun Invention Limited  
Sunday Service Productions Limited  
Syncplus Limited  
Team Network Limited  
Tehmina Limited  
Terrace Four Limited



## **John Roddison (continued)**

### ***Current Directorships/Partnerships (continued)***

Le Sac Du Jour Limited	Third Man Limited
Leisure Systems Limited	Thornmead UK Limited
Les Lovers Limited	Tomcat Management Limited
Let's Ballad Limited	Trace Me Inc Limited
Linernotes Limited	Trashed Creative Limited
Little Lost David Limited	Twins of Evil Limited
Long Blondes Limited, The	Villastar Limited
Lovely Doyle Music Limited	Violet May Music Limited, The
Ludhamgate Limited	Wednesday Limited
Mad Monkey Limited	Whisky Robber Limited
Mad Monkey Music Limited	Whisky Robber Productions Limited
Mad Monkey Records Limited	Wholemeal Systems Limited
Management Construction & Technology Ltd	Wire Magazine Limited (The)
	Wretch 32 Limited
	Xyzee Limited
	Yat-Kha Limited
	Young Man Limited
	Younger Brother Records Limited
	Zoopraxiphone Limited

### ***Past Directorships/Partnerships***

200% Deli Ltd	Lordan Property Management Ltd
3Bean Ltd	Lost Donkey Productions Ltd
A Cass Cable Services Ltd	M H Y G Consulting Ltd
Abgalvin Ltd	Madden Media Consultancy Ltd
Acorn Pre-School Playgroup Ltd	Mak Electrical Services Ltd
Advance Technology Products Ltd	Malpais Ltd
Alice & Erna Ltd	Maple Leaf Joinery & Restoration Ltd
Angular Publishing Ltd	Martin Koen Ltd
Antics Antiques Ltd	Matt Bowman Ltd
Appealing Media Ltd	Matt Henshaw Ltd
ASKD Developments Ltd	Miller Vincenzi Ltd
Aston Vintners Ltd	M J Oldham Ltd
Awalian Holdings Ltd	Modular Ltd
B Booth & Sons Ltd	Modular Projects Ltd
Beck Industries Ltd	Mongrel Music Touring Ltd
Ben Miller Design Ltd	Moore Noise Ltd
Berkeley Square Special Situations Limited	Mortons Yorkshire Ltd
Beuselinck Birrell Media Partners Ltd	Mostly Creative Ltd
Bierton Timber Products Ltd	MPS & Associates Ltd
Big Ears Music & Design Ltd	Mutable Industries Ltd
Big Hand Publishing Ltd	NB Property Developments UK Ltd
Big Hand Recordings Ltd	Neil Osbourne Freelance Ltd
Bikki Marketing Ltd	Next Stage Creative Associates Ltd
Binsky Creative Ltd	Northern Blue Associates Ltd
Biztalkers Ltd	Norton Woodwork Ltd
Breakfast In Bread Ltd	Oddsocks Management Ltd
Budnubac Ltd	Oh Laura Limited
Buxton Yeoman Homes (Apsley) Ltd	Oli Main Ltd
Buzzdeck Ltd	One Bit Limited
Captured Photography Ltd	Otolith Collective Ltd
Cat Litter Co (UK) Ltd, The	Oughtibridge Construction Ltd
CG Global Energy Ltd	P Price Services Ltd

**John Roddison (continued)*****Past Directorships/Partnerships (continued)***

Chapel Jewellers Ltd, The  
Charlie Brooker Consultant Ltd  
Chelsea Pictures Ltd  
Chris Egglestone Ltd  
Civic Promotions Ltd  
Classic American Muscle Ltd  
Cloud Enterprises Ltd  
Coast Technical Services Ltd  
Cobs 2 U Ltd  
Coco Catering Ltd  
Colin Oliver & Company Ltd  
Come Round Ltd  
Complete Install Renewable Energies Ltd  
Concept Systems (Yorkshire) Ltd  
Crackerjaw Ltd  
Dafnc Ltd  
Dambusters Limited  
Dandy Dodo Ltd  
Dash Sound Ltd  
Dave Best Ltd  
David Venn Songs Ltd  
Davies Street Crawley Ltd  
Derwent-Wye Fine Art Auctions Ltd  
Des Brophy Fine Arts Ltd  
Devil PR Ltd  
Dill Investments Ltd  
Dreamfield Ltd  
Dronfield Leisure Ltd  
Dylan Batdorff Services Ltd  
E M R H Services Ltd  
East Stirlingshire Holdings Ltd  
East West Developments International Ltd  
Ebrington 2010 Ltd  
Eden Design & Interiors Ltd  
El Rey Ltd  
Elan Business Consulting Ltd  
Equisport Leisure Vehicles Ltd  
Erin Petson Ltd  
Facial Plastic Surgery Company Ltd  
Fee Gees Coffee Lounge Ltd  
First Press Wines & Spirits Ltd  
Flea Pit Ltd, The  
Food Routes Ltd  
Francis Upritchard Ltd  
Freeholders of 24 Silchester Road  
    St Leonards Ltd, The  
Frontline Electrical Installations Ltd  
Fuse Creative Ltd  
G M Music Consulting Ltd  
Gabriella Everitt Ltd  
Georgina Gunner Ltd  
Gilford Music Ltd  
Paranoia Productions Limited  
Park Social Sports Club Ltd  
Pete Everitt Ltd  
Pete Molinari Ltd  
Petra Joy Ltd  
Pit-Stop Youth Project Ltd  
Powerclene (Domestic) Ltd  
Powerclene Ltd  
Progressions UK Ltd  
Project Velvet Ltd  
Pronto Management Ltd  
Pure Being & Well Being ltd  
Rachel Lewin Ltd  
Rave A.R Limited  
Rave UK Ltd  
Red Door Films Ltd  
Relocate 2 Sheffield Ltd  
Revolution Web Ltd  
Revolver Stock Ltd  
Rob Webb Ltd  
Roma Roofing Ltd  
Run Hide Survive Ltd  
Ryan Andrew Wilson Ltd  
S Jackson Casting Ltd  
S6 Engineering Ltd  
SAM Creative Services Ltd  
Sarahkitchen Ltd  
SB Alliance Services Ltd  
Scribestar Ltd  
Secret Name Management Ltd  
Sector Zero Ltd  
Selectis Trading Ltd  
Serious Interests Agency Ltd  
Seymour Clearly Ltd  
Shopvon Ltd  
Simian Ventures Ltd  
Sirron Ltd  
Skip2it Doncaster Ltd  
Sleven Ltd  
Small Dog Company Ltd  
Soma Publishing Ltd  
Sound & Vision Agency Ltd, The  
Sport Profile Ltd  
Stanford Sound Studios Ltd  
Stereoscopic Solutions Ltd  
Strada Solutions Ltd  
Story of A Limited  
Studio Graphics Ltd  
Studiotheque Ltd  
Sumthink Creative Ltd  
Swinton Installation Services Ltd  
T Cass Cable Services Ltd

**John Roddison (continued)*****Past Directorships/Partnerships (continued)***

GPS Solutions Ltd  
Harrisons Music Limited  
Harvey Arms Ltd  
HDIF Promotions Ltd  
Hellovan Ltd  
Highway Design & Maintenance Ltd  
Honey Bullet Ltd  
House of Hackney Ltd  
Iglu Communications Ltd  
Innerexchange Solutions Ltd  
ITN Corporation Ltd  
J O'Dowd Plant Ops UK Ltd  
James Dicko Ltd  
JB & C Kitchens Ltd  
Jimi Naylor Ltd  
Joel Collins Ltd  
Joel Porter Ltd  
John Ashforth Ltd  
K & PA Ltd  
Kazam Retail Ltd  
KC Records Ltd  
Keen Films Ltd  
Kestral Film Works Ltd  
Kiwi Exchange Ltd  
Knights Property Services Ltd  
Leedar Automotive Ltd  
Lewin Hall Ltd  
Lifeskills Solutions (London) Ltd  
Lilac London Ltd  
Litlun's ltd  
Lodestone Advisors Ltd  
Lola Moda Ltd  
Lone Elk Ltd

T Macdowel Ltd  
Tattersall & Rozycki Ltd  
Taylormade Agency Services Ltd  
Techy Bod Ltd  
Teddy's Cut Ltd  
The River Caves Ltd  
Total Paving Company Ltd  
TPX Logistics Ltd  
Trading Post London Limited, The  
Tramlines Events Ltd  
Tranquility Skincare Health &  
Beauty Salon Ltd  
Triumphant Sound Ltd  
Tutis Int Ltd  
Un Recordings Ltd  
V-Comunico Ltd  
Verde Technologies Ltd  
W K Property Services Ltd  
Ward Studio Ltd  
Waugh Courier Services Ltd  
We Are Brand New Music Ltd  
Whateva Ltd  
Wilk's Language Services Ltd  
Xcelnia Solutions Limited  
Zoe Rooke Ltd

**Reinhold Heus*****Current Directorships/Partnerships***

Faircourt Capital Group Ltd  
Faircourt Capital Limited  
Faircourt Energy Limited

Faircourt Resources Limited  
Faircourt Energy Group Limited  
World Light Group Limited

***Past Directorships/Partnerships***

Faircourt International Ltd  
Faircourt (Asia) Limited  
Faircourt (Benelux) Ltd  
Faircourt (Nordic) Ltd

Faircourt Group Limited  
News Air Lease Limited  
Transvision Resources Plc  
United African Airways Limited

**Andy Morrison*****Current Directorships/Partnerships***

Spinnaker Management Resources Ltd

***Past Directorships/Partnerships***

Xtract Energy plc  
Extract International Limited  
Xtract Energy Holdings Ltd  
Zhibek Resources Ltd  
Zhibek Oil and Gas Ltd

Elko Energy Inc  
Xtract Oil Ltd  
Extract Energy Spain SA  
Extrem Energy AS  
Xtract Energy (Oil Shale) Morocco SA

## **Frank Moxon**

### ***Current Directorships/Partnerships***

Chartered Institute for Securities & Investment	Imperial Minerals plc
Cove Energy plc	Imperial Minerals (UK) Limited
Diabetes UK Services Limited	Reach Volunteering
Hoyt Moxon Ltd	The British Diabetic Association
Hoyt Moxon Capital Ltd	Whetstone Minerals Ltd

### ***Past Directorships/Partnerships***

London Energy Group Ltd	Securities & Investment Institute
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## **Stewart Dalby**

### ***Current Directorships/Partnerships***

Oilbarrel.com Limited

### ***Past Directorships/Partnerships***

None

10.2 The Centennial Asil Arabian Stud Limited, of which John Roddison is a non-executive director, was put into compulsory liquidation pursuant to an order dated 26 November 2008 issued by the Commissioners for HM Revenue & Customs. The order arose out of an assessment for VAT that was claimed on estate agents and legal costs incurred on the sale of a farm. The assessment for VAT was disputed by The Centennial Asil Arabian Stud Limited. Mr Roddison is now in discussions with the Insolvency Service in order to settle the matter. The aggregate sum owed to the HM Revenue & Customs is £16,000.

10.3 Save as disclosed above none of the Directors or Proposed Directors has:

- (a) any unspent convictions in relation to indictable offences;
- (b) had any bankruptcy order made against him or entered into any voluntary arrangements;
- (c) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;
- (d) been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- (e) been the owner of any assets or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- (f) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or
- (g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a Company.

## **11. Employees**

11.1 As at 31 December 2010 and the date of this document, the Company has two employees, being John Roddison and Bruce Evers, who are employed as executive directors.

11.2 As at the latest practicable date prior to the publication of this document, the employees were both employed at the Company's principal place of business.

## 12. Material Contracts

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

- 12.1 Conditional on Admission, the Company entered into a warrant instrument constituting 6,079,120 warrants (“**the Placing Warrant Instrument**”) in relation to the creation and issue of the Placing Warrants. Each warrant entitles the warrant holder to subscribe for one Ordinary Share at any time during two years following the date of Admission at a price of 30p per Ordinary Share. The Company has given certain standard undertakings to the warrant holders in relation to alterations to the share capital of the Company. The warrants are freely transferable.
- 12.2 An agreement (“**the Placing Agreement**”) dated 2 August 2011 between the Company (1), the Directors and the Proposed Directors (2), Merchant Securities Limited (3), Rivington Street Corporate Finance Limited (4), and Old Park Lane Capital plc (5), pursuant to which conditional upon, *inter alia*, Admission and Completion, Merchant Securities, OPL and RSCF have agreed to use reasonable endeavours to procure subscribers for new Ordinary Shares proposed to be issued by the Company at the Placing Price.

The Placing Agreement contains warranties from the Company and the Directors (and certain limited warranties from the Proposed Directors) and indemnities from the Company in favour of Merchant, OPL and RSCF together with provisions which enable Merchant, OPL and/or RSCF to terminate the Placing Agreement in certain circumstances prior to Admission including circumstances where any warranties are found to be untrue or inaccurate in any material respect. The liability of the Directors and the Proposed Directors for breach of warranty is limited. The Company will pay to each of Merchant, OPL, and RSCF a placing commission of 5 per cent. calculated on the basis of the aggregate value, at the placing price, of the new ordinary shares issued by the Company pursuant to the Placing (save that each of Merchant, OPL and RSCF will only be entitled to commission in respect of places placed by them). Merchant will also be entitled to a commission of 1 per cent. of monies from investors introduced by the Company.

- 12.3 Lock-in agreements dated 2 August 2011 between the Company, Merchant Securities and each of the Directors, the Proposed Directors and t1ps Investment Management (IOM) Limited (“t1ps”), pursuant to which each of Directors, the Proposed Directors and t1ps have undertaken to Merchant Securities and the Company (subject to certain limited exceptions including, disposals by way of acceptance of a takeover offer for the entire issued share capital of the Company) that they will not, and they procure that their related parties will not, dispose of any interests in Ordinary Shares until one year from the date of Admission and then for a further 12 months will only dispose of Ordinary Shares in an orderly fashion through Merchant Securities (provided that the price, costs and expenses applicable to the disposal are overall competitive with those charged by other brokers and provided that Merchant Securities is able within a period of 5 days to obtain a price equal to or in excess of the best price reasonably obtainable).
- 12.4 Lock-in agreements dated 2 August 2011 between the Company, Merchant Securities, RSCF and each of Trafalgar Capital Specialised Investment Fund FIS (in liquidation) acting by its general partner Trafalgar Capital SARL, Germiston Limited, Kevin Collins and Tony Mason, pursuant to which each of Trafalgar Capital Specialised Investment Fund FIS (in liquidation) acting by its general partner Trafalgar Capital SARL, Germiston Limited, Kevin Collins and Tony Mason have undertaken to Merchant Securities, RSCF and the Company (subject to certain limited exceptions including, disposals by way of acceptance of a takeover offer for the entire issued share capital of the Company) that they will not, and they procure that their related parties will not, without the consent of either Merchant Securities or RSCF, dispose of any or certain interests in Ordinary Shares until one year from the date of Admission and then for a further 12 months will only dispose of Ordinary Shares in an orderly fashion through Merchant or RSCF (provided that the price, costs and expenses applicable to the disposal are overall competitive with those charged by other brokers and provided that Merchant or RSCF (as applicable) is able within a period of 5 days to obtain a price equal to or in excess of the best price reasonably obtainable).



- 12.5 Orderly market agreements dated 2 August 2011 between the Company, Merchant Securities, RSCF and each of W A Batty, Channel Islands Equity Partners (BVI) Limited, Hamlins LLP and Agneash Soft Commodities plc pursuant to which each of W A Batty, Channel Islands Equity Partners (BVI) Limited, Hamlins LLP and Agneash Soft Commodities plc have undertaken to Merchant Securities and the Company (subject to certain limited exceptions including, disposals by way of acceptance of a takeover offer for the entire issued share capital of the Company) that for a period of 12 months from Admission will only dispose of some or all of their Ordinary Shares and/or Warrants in an orderly fashion through Merchant Securities (provided that the price, costs and expenses applicable to the disposal are overall competitive with those charged by other brokers and provided that Merchant Securities is able within a period of 5 days to obtain a price equal to or in excess of the best price reasonably obtainable).
- 12.6 On 2 August 2011, the Company issued non-transferable warrants to Reinhold Heus to subscribe for 100,000 Ordinary Shares at the Placing Price for a period of three years from Admission.
- 12.7 On 5 July 2011 Hoyt Moxon Ltd entered into a consultancy agreement with the Company to provide its services in connection with Admission for approximately 12 days over a four to five week period leading up to Admission and thereafter as agreed with the Board. Under the consultancy agreement, Hoyt Moxon Ltd provides Frank Moxon to carry out the services at a rate of £150 per hour up to a maximum of £1,050 per calendar day. Under the agreement, fees for the first 12 days of the consultancy services are payable in cash; for any subsequent days or hours, the Company has the right to require Hoyt Moxon Ltd to subscribe up to 60 per cent. of its corresponding invoiced fees for ordinary shares in the Company at Admission at the Placing Price. In addition, Hoyt Moxon Ltd is entitled on Admission to such number of shares in the Company as has a value of £13,000 at the Placing Price. The appointment under the consultancy agreement is deemed to have commenced on 6 June 2011 and is terminable on 30 days' written notice on either side. It is proposed that all fees accrued in the period up to Admission will be paid in cash to Hoyt Moxon Ltd (including where it is specified that such fees may be paid in shares) and that Hoyt Moxon Ltd's entitlement to such number of shares in the Company as has a value of £13,000 (as per the terms of the consultancy agreement) will be satisfied by a cash payment of £13,000 made by the Company to Hoyt Moxon Ltd. As set out in Part I of this document, these fees will be used to subscribe in the Placing.
- 12.8 On 4 July 2011 Spinnaker Management Resources Limited ("Spinnaker") entered into a consultancy agreement with the Company to procure the services of Andy Morrison as an adviser to the Company in connection with Admission for approximately 24 days over the period leading up to Admission and thereafter, as agreed with the Board at a rate of £150 per hour up to a maximum of £1,050 per calendar day. Under the agreement, fees for the first 12 days of the consultancy services are payable in cash; for the subsequent 12 days and any time thereafter, the Company has the right to require Spinnaker to subscribe up to 60 per cent. of its corresponding invoiced fees for shares in the Company at the Placing Price. In addition, Spinnaker, or on Spinnaker's direction, Andy Morrison, is entitled on Admission to such number of shares in the Company as has a value of £13,000 at the Placing Price, issued by the Company to Spinnaker, to Andy Morrison's personal share account or as an employer contribution to Andy Morrison's SIPP. The appointment under the consultancy agreement is deemed to have commenced on 31 May 2011 and is terminable on one month's written notice on either side. It is proposed that all fees accrued in the period up to Admission will be paid in cash to Spinnaker (including where it is specified that such fees may be paid in shares) and that Spinnaker's entitlement to such number of shares in the Company as has a value of £13,000 (as per the terms of the consultancy agreement) will be satisfied by a cash payment of £13,000 made by the Company to Spinnaker. As set out in Part I of this document, these fees will be used to subscribe in the Placing.
- 12.9 On 1 July 2011 the Company created up to £750,000 convertible unsecured loan notes ("**Loan Notes**") by way of a loan agreement ("**the Loan Agreement**"), divided between two Loan Note holders as to 12 per cent. and 88 per cent. of the principal sum of £750,000 loaned to the Company ("**the Loan**"). The Loan is divided into two tranches of £375,000 (being "**Loan A**" and "**Loan B**" respectively), between the Loan Note holders in the same percentage proportions as

the total Loan. Loan A is automatically convertible into Ordinary Shares on Admission at the lower of 25p per share and 10 per cent. less than the Placing Price. Loan B is convertible into Ordinary Shares at 35p per Ordinary Share, at any time between Admission and the date that is 24 months from the date that the Loan Notes are first issued (“**the Final Repayment Date**”), at the option of the Loan Note holders. If either or both of Loan A and/or Loan B is/are not converted into shares in accordance with the terms of the Loan Agreement, that loan (or both, as applicable) will be repayable on the Final Repayment Date at a 100 per cent. premium. Interest attaches to the Loan Notes until they are converted into Ordinary Shares, at a rate of 10 per cent. of all revenue received by the Company in connection with the I-1 Well, after any deductions it is obliged to make, but before any royalty is paid out of that sum to the Core Vendors.

- 12.10 On 30 June 2011 pursuant to an Assignment of Note, Liens and Security Interests the Company purchased the debt of Core to Seadrift Management, L.L.C. (“Seadrift”) for the sum of \$307,347.95 (USD). Under the terms of the assignment, the Company paid the full amount of due and owing from Core to Seadrift and Seadrift assigned to the Company (i) the promissory note in the original principal amount of \$300,000 (USD) from Core payable to the order of Seadrift (“Seadrift Note”) and (ii) the Deed of Trust, Mortgage, Assignment of Production, Security Agreement and Financing Statement from Core for the benefit of Seadrift which is intended to secure Core’s obligations under the Seadrift Note.

On 30 June 2011 pursuant to an Assignment of Note, Liens and Security Interests the Company purchased the debt of Core to Wellmaster Exploration & Production Company, LLC (“Wellmaster”) for the sum of \$874,158.93 (USD). Under the terms of the assignment, the Company paid the full amount of due and owing from Core to Wellmaster and Wellmaster assigned to the Company (i) the promissory note in the original principal amount of \$866,750 (USD) from Core payable to the order of Wellmaster (“Wellmaster Note”) and (ii) the Deed of Trust, Mortgage, Assignment of Production, Security Agreement and Financing Statement from Core for the benefit of Wellmaster which is intended to secure Core’s obligations under the Wellmaster Note.

- 12.11 Concurrent with the assignments listed in paragraph 12.10:

- (a) Core and the Company executed an Amendment to the Seadrift Note whereby Core and the Company extended the maturity date of the Seadrift Note to 31 January 2012 and increased the original principal amount to \$307,347.95 (USD). The Seadrift Note, as amended, is governed by the laws of the State of Texas. An occurrence of an event of default (as defined under the Seadrift Note and including any default under the security documentation entered into in connection with the Seadrift Note) will entitle the Company to declare the entire sum owed under the Seadrift Note to the Company due and payable; and
- (b) Core and the Company executed an Amendment to the Wellmaster Note whereby Core and the Company extended the maturity date of the Wellmaster Note to 31 January 2012 and increased the original principal amount to \$874,158.93 (USD). The Wellmaster Note, as amended, is governed by the laws of the State of Texas. An occurrence of an event of default (as defined under the Wellmaster Note and including any default under the security documentation entered into in connection with the Wellmaster Note) will entitle the Company to declare the entire sum owed under the Wellmaster Note to the Company due and payable.

Pursuant to the assignments listed in paragraph 12.10, both the Seadrift Note and Wellmaster Note are purportedly secured by a lien against the Mustang Asset in favour of the Company.

- 12.12 A Promissory Note (“**June Promissory Note**”) governed by the laws of the State of Texas dated 9 June 2011 between Core and the Company for a total sum of £432,000. Sums payable to the Company under the Promissory Note are to be repaid on 31 January 2012. An occurrence of an event of default (as defined under the Promissory Note and including any default under the



security documentation entered into in connection with the Promissory Note) will entitle the Company to declare the entire sum owed to it due and payable.

- 12.13 On 26 May 2011, the Company entered into a warrant instrument constituting 2,857,143 warrants (“**the May Warrant Instrument**”). Each warrant entitles the warrant holder to subscribe for one Ordinary Share at any time during the year following the date of the May Warrant Instrument at a price of 45p per Ordinary Share. The Company has given certain standard undertakings to the warrant holders in relation to alterations to the share capital of the Company. The warrants are freely transferable. It is the intention of the Company to reduce the subscription price to 30p per share.
- 12.14 Letter of Engagement dated 25 May 2011 between the Company (1) and Rivington Street Corporate Finance Limited (2) pursuant to which the Company appointed RSCF to act as Broker to the Company for the purposes of the AIM Rules. The Company agreed to pay RSCF a fee of £20,000 per annum for its services as Joint Broker under this Agreement. The Company agreed to pay RSCF commission at the rate of 5 per cent of the gross amount of any funds raised by Rivington Street Corporate Finance. The Agreement continues for a fixed period of one year from the date of the Agreement and, thereafter, is subject to termination on the giving of three months’ notice.
- 12.15 A Promissory Note governed by the laws of the State of Texas dated 29 April 2011 between Core and the Company for a total sum of £1,568,000. Sums repayable to the Company under the Promissory Note are to be repaid on 31 January 2012. An occurrence of an event of default (as defined under the Promissory Note and including any default under the security documentation entered into in connection with the Promissory Note) will entitle the Company to declare the entire sum owed to it due and payable.

The Promissory Note states that Core’s payment obligations under the Promissory Note will rank in priority to Core’s other indebtedness, except for indebtedness of Core which ranks in priority to the Promissory Note as disclosed in the Promissory Note.

- 12.16 An Option Agreement (as amended) between Core and the Company dated 29 April 2011 together with a Memorandum of Option Agreement (as amended) dated 4 May 2011 pursuant to which the Company had the right to purchase Core’s interest in the Mustang Asset. Upon exercise of the option the Company shall:
- (a) cancel the indebtedness of the Core evidenced by the loans summarised at paragraphs 12.12, 12.15 and 12.23;
  - (b) reimburse Core for the payment of certain legal fees incurred by Core in respect of the Option Agreement, up to a total of £20,000;
  - (c) pay cash consideration to the Core Vendors up to a total of £169,000 (to be divided equally), such sum to be immediately applied by them in a subscription for shares in the Company at the Placing Price;
  - (d) Payment to Core of an over-riding royalty of 4 per cent. of the annual revenues attributable to the Mustang Asset;
  - (e) Retention by Core of a 16.65 per cent. working interest in the I-1 Well only, with the Company carrying Core’s share of the tie-in costs for the I-1 Well.

Both the Option Agreement and the Memorandum of Option Agreement are governed by the laws of the State of Texas.

- 12.17 Upon exercise of the option summarised in 12.14 above, the Company shall be subject to the JOA, being an agreement between Dominion (as operator) and certain of the interest owners in the Mustang Asset. Pursuant to the JOA, the Company is required to pay to the operator, in proportion to its ownership interest, funds in relation to the completion of the I-1 Well. The Company shall have the right to participate in other exploration, development, and production operations of the Mustang Asset. The JOA is governed by the laws of the State of Texas.

- 12.18 A Deed of Trust, Mortgage, Assignment of Production, Security Agreement, Fixture Filing and Finance Statement (“Deed of Trust”), governed by the laws of the State of Texas, dated 28 April 2011 between Core and the Company pursuant to which the aggregate principal amount borrowed under the Promissory Note summarised at paragraph 12.15 above is secured by a lien on the Mustang Asset. The security granted relates to all indebtedness of Core to the Company arising out of or in connection with the Promissory Note, and any and all present or future indebtedness of Core to the Company. In addition, Core has given certain warranties and covenants in relation to the Mustang Asset.
- 12.19 Letter of Engagement dated 17 February 2011 between the Company (1) and Old Park Lane Capital plc (2) pursuant to which the Company appointed OPL to act as Joint Broker to the Company for the purposes of the AIM Rules. The Company has agreed to pay OPL a fee a 5 per cent. commission on the total amount raised by OPL as part of any fundraising payable immediately upon completion of the fundraising. The Company agreed to pay a retainer of £2,500 per month for OPL’s services as Joint Broker to the Company. The Agreement continues for a fixed period of one year from the date of the Agreement and, thereafter, is subject to termination on the giving of three months’ notice.
- 12.20 A Nominated Adviser and Joint Broker Agreement dated 26 January 2011 between the Company (1), the Directors (2) and Merchant Securities (3) pursuant to which the Company appointed Merchant Securities to act as nominated adviser and joint broker to the Company for the purposes of the AIM Rules. The agreement contains certain undertakings and indemnities given by the Company and the Directors. The appointments are terminable on the giving of at least 3 months’ written notice by either party, such notice not to expire before either (i) the first anniversary of the agreement if the Company does not complete a reverse takeover in accordance with AIM Rule 14, or if earlier, the point at which trading on AIM in the Company’s Ordinary Shares is cancelled, or (ii) the second anniversary of the Admission to trading on AIM of the Ordinary Shares following a reverse takeover in accordance with AIM Rule 14, if such an event occurs.
- 12.21 On 21 December 2010 the Company entered into an engagement letter with Merchant Securities (“**the Merchant Engagement Letter**”), under the terms of which Merchant Securities agreed to act as nominated adviser and broker to the Company (“**the Engagement**”) in relation to a reverse takeover admission to AIM (“**the Transaction**”). Certain fees, commissions, and expenses are payable in respect of the Transaction. The Company agreed to indemnify Merchant Securities for any loss or damage which the Company may suffer by reason of the carrying out by Merchant Securities of its obligations under the Engagement. Merchant Securities is entitled to terminate the Engagement summarily in certain circumstances, including a failure by the Company to pay any sums due, and a material breach by the Company of the Merchant Engagement Letter. The terms of Merchant Securities’ engagement were amended by a separate letter dated 20 May 2011.
- 12.22 An Option Agreement dated 31 October 2010 between Core (Holdings) Limited and the Company pursuant to which the Company was granted an option to purchase the entire issued securities of Core in exchange for the issue of Shares by the Company. The option was exercisable at any time within 180 days from the date of the Option Agreement. This Option Agreement has been replaced and superseded by the agreement summarised at paragraph 12.16 above.
- 12.23 A loan agreement dated 31 October 2010 between the Company and Core pursuant to which the Company agreed to provide a working capital facility to Core by way of an unsecured loan of a maximum amount of £500,000, (the “**Loan**”). The purpose of the Loan was the progression of the acquisition and exploitation of various oil and gas resources. Interest shall accrue on the Loan at a rate of 10 per cent. per annum. The Loan and any accrued interest was repayable on the earlier of 1 October 2012, or the expiry or termination of the Option Agreement summarised at paragraph 12.16 above.

The Loan Agreement was amended by a deed of amendment dated 7 February 2011, pursuant to which the maximum amount of the loan was increased to £800,000.

The Loan Agreement was further amended by a second deed of amendment dated 23 February 2011, pursuant to which the maximum amount of the facility was increased to £1,250,000.

The Loan Agreement has been further amended (but not discharged) by the Deed of Trust (as summarised at paragraph 12.18 above and the Promissory Notes (as summarised in paragraphs 12.12 and 12.15 above)).

12.24 On 23 March 2010 the Company created up to £81,646.71 convertible unsecured loan notes 2015 (“**the Loan Notes**”), by way of a loan note instrument (“**the Loan Note Instrument**”). On the same date, a note in the sum of £41,132.21 was issued to Trafalgar Capital Specialised Investment Fund FIS, acting by its general partner Trafalgar Capital SARL, and a note in the sum of £40,514.50 was issued to Germiston Investments Limited (each being a “**Noteholder**”), in consideration for the loan by each of them of funds in the same sum (each a “**Loaned Sum**”). The principal amount outstanding under the Loan Notes shall be fully and finally repayable on 23 March 2015. The Noteholders are entitled by notice in writing at any time until 23 March 2015 to require the Company to allot fully paid Ordinary Shares (to rank *pari passu* with all other issued Ordinary Shares) in exchange for and in satisfaction of such nominal amount of the Loan Sum as it may specify in the conversion notice at a subscription price of 20p per Ordinary Share (except where to do so would trigger Rule 9 of the City Code on Takeovers and Mergers). The Loan Notes are freely transferable.

12.25 The Company issued the CVA Warrants (further detailed at paragraph 4.8 above) under a warrant instrument dated 23 March 2010. Each Warrant shall entitle the CVA Warrantholder to subscribe in cash, by notice to the Company, for one Ordinary Share at a price of 0.1p per share. The CVA Warrants are exercisable at any time between 23 March 2011 and 23 March 2015.

12.26 Company Voluntary Arrangement (“**CVA**”)

- (a) The Company entered into a CVA on 23 March 2010, under which each creditor of the Company at such date would be offered shares in the Company in full satisfaction of their debt, and in connection with which the Company’s shareholders were asked to pass resolutions to accept the proposals (including the terms of the CVA), and to restructure the capital of the Company so that:
  - (i) each of the Company’s existing 253,482,454 Ordinary Shares of 0.5p be subdivided into 1,267,412,270 new ordinary shares of 0.1p each; and
  - (ii) following (i) above, every 29,999 Ordinary Shares be consolidated into one deferred share of £29.999 credited as fully paid, leaving 42,247 issued new ordinary shares of 0.1p.
- (b) The shareholders and creditors of the Company approved the CVA on 23 March 2010 with the requisite majorities. The CVA, once approved, bound all creditors who were entitled to vote, whether or not they attended the meeting or received notice of the meeting.
- (c) By virtue of accepting the proposals put forward under the CVA, the creditors agreed to compromise or release all their rights against the Company. For the purpose of the CVA, claims were deemed to include all present, future, actual, prospective, and contingent liabilities of the Company, together with any interest thereon, incurred before 23 March 2010, whether or not such liabilities arose out of circumstances which were actually known to the Company and whether or not such claims were yet to arise or were yet capable of being ascertained.
- (d) Secured creditors were not bound under the CVA.
- (e) 126,741 Ordinary Shares were issued to creditors under the CVA. A final report was submitted to the creditors on 27 May 2011.

### 13. Share Option Scheme

The Board has adopted the Share Option Scheme to regulate the grant of Options being the right to acquire Ordinary Shares in the Company. The principal terms are summarised in this section.

The Share Option Scheme is in two parts. Part A is for employees and Part B allows the grant of Options for non-executive directors. Part A will be operated by the Remuneration Committee and Part B by the executive members of the Board. The two parts have substantially the same terms but the differences are noted in this summary. Details of the Options to be granted under the Share Option Scheme conditional on Admission are set out at the end of this paragraph.

#### *Eligibility and Grant of Share Options*

The Board may grant the Options to any director or employee of the Group selected by the Board at any time when there are no restrictions on dealing the Ordinary Shares by law, regulation or applicable guidelines. The grant of the Options will be conditional upon the option holder agreeing to indemnify companies in the Group for the cost of any tax, duties, social security contributions and national insurance applying in the relevant territory.

#### *Option Price*

The price payable to exercise the Options and acquire Ordinary Shares will be determined by the Board and will not be less than the market value of Ordinary Shares at the date of grant and not less than the nominal value. Options granted on or before Admission will be at the Placing Price.

#### *Exercise and lapse of Options and Performance Condition*

The Board will determine at grant the exercise period or periods of Options and any appropriate performance condition. Performance conditions may, however, be varied or waived by the Board (after such consultation with or approval from shareholders as it considers appropriate) if it reasonably considers events have affected the viability of the performance conditions.

Options may be exercised (subject to any performance conditions unless waived or varied) within six months after the employee ceases to be an eligible person under the Share Option Scheme as a result of ill health, injury, disability, redundancy or retirement or the transfer of the business or 12 months after death. The Board has discretion to extend this period for exercise. For any other cessation the Option will lapse but the Board has discretion to permit exercise. Options are exercisable (subject to the performance conditions unless waived or varied) following a change of control of the Company or a trade sale or on commencement of a winding up or on a court sanctioned reconstruction or amalgamation and will thereafter lapse. Exercise immediately before a change of control may be permitted at the discretion of the Board. Options are personal and will lapse on assignment or other transfer by the option holder, except to a personal representative.

#### *Limits*

The maximum number of shares to be made available under the Share Option Scheme by the Company shall not exceed 10 per cent. of the Company's issued ordinary share capital in any 10 year period when added to any other options granted under all group employee share schemes and similar individual share option agreements. Options that have lapsed or were granted before the adoption of the Share Option Scheme are excluded.

#### *Variation of Share Capital*

On an alteration of the ordinary share capital of the Company by capitalisation or rights issue, consolidation, sub-division or reduction or other alteration the number of shares subject to or the option price may be adjusted by the Board in such manner as the auditors or other valuers confirm to be fair and reasonable.

#### *Voting, Dividend and Other Rights*

On exercise Ordinary Shares issued are ranked *pari passu* but, until then, option holders have no voting or dividend rights. The rights under the Scheme Options are not pensionable.

#### *Amendments*

The Board may alter the rules to the Share Option Scheme with the approval of the Company in General Meeting provided no alteration shall adversely affect the rights of the option holder

(without his or her agreement). Minor amendments may be made without such approval or agreement.

The following Options have been granted subject to Admission.

Name	Number of Shares under Option	Exercise Price	Exercise Periods
Frank Moxon	200,000	Placing Price	From Admission until the third anniversary of Admission
Andy Morrison	200,000	Placing Price	From Admission until the third anniversary of Admission
Bruce Evers	200,000	Placing Price	From Admission until the third anniversary of Admission
Stewart Dalby	100,000	Placing Price	From Admission until the third anniversary of Admission

No performance conditions were imposed on these options.

It is anticipated that further Options will be granted to executives following Admission and subject to such performance conditions and at such price, not less than the market value at the date of grant, as the Remuneration Committee consider appropriate.

#### 14. Regulatory and Environmental Matters

Various aspects of the Company's proposed oil and gas operations are subject to regulation by state and federal agencies. All of the jurisdictions in which the Company will own and operate producing crude oil and natural gas properties have adopted laws regulating the exploration for and production of crude oil and natural gas. The Company's proposed operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units, the number of wells which may be drilled in an area, and the pooling of crude oil and natural gas properties. In addition, state conservation laws sometimes establish maximum rates of production from crude oil and natural gas wells, generally prohibit the venting or flaring of natural gas, and impose certain requirements regarding the ratability or fair apportionment of production from fields and individual wells.

##### *Oil and Natural Gas Regulation*

The availability, terms and cost of transportation significantly affect sales of oil, natural gas and natural gas liquids. The interstate transportation of oil, natural gas and natural gas liquids is subject to federal regulation, including regulation of the terms, conditions and rates for interstate transportation, storage and various other matters, primarily by the Federal Energy Regulatory Commission. Intrastate transportation of oil, natural gas and natural gas liquids is primarily regulated by state agencies. Under some circumstances, the Federal Energy Regulatory Commission may regulate as interstate transportation certain transportation that occurs wholly within one state. State regulation of rates for intrastate transportation of natural gas may affect in some circumstances rates for interstate transportation.

Sales of oil, natural gas and natural gas liquids are not currently regulated and are made at market prices. Although oil, natural gas and natural gas liquids prices are currently unregulated, the United States Congress historically has been active in the area of oil and natural gas regulation. The Company cannot predict whether new legislation to regulate oil, natural gas and natural gas liquids prices might be proposed, what proposals, if any, might actually be enacted by Congress or state legislatures, and what effect, if any, the proposals might have on the operations of its properties.



### *Environmental Regulation*

The exploration, development and production of oil, natural gas and natural gas liquids are subject to federal, state and local laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations may, among other things, require permits to conduct drilling, water withdrawal and waste disposal operations; govern the amounts and types of substances that may be disposed or released into the environment; limit or prohibit construction or drilling activities in sensitive areas such as wetlands, wilderness areas or areas inhabited by endangered or threatened species; require investigatory and remedial actions to mitigate pollution conditions arising from the Company's operations or attributable to former operations; and impose obligations to reclaim and abandon well sites and pits. Failure to comply with these laws and regulations may result in the assessment of sanctions, including monetary penalties, the imposition of remedial obligations and the issuance of orders enjoining operations.

The trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment, and thus, any changes in or reinterpretation of environmental laws, regulations or policies that result in more stringent and costly construction, drilling, water management, completion, waste handling, storage, transport, disposal, or remediation requirements or emission or discharge limits could have a material adverse effect on the Company's operations. Moreover, accidental releases or spills may occur in the course of the Company's ownership of the underlying properties, and there can be no assurance that the Company will not incur significant costs and liabilities as a result of such releases or spills, including any third party claims for damage to property and natural resources or personal injury.

The following is a summary of the more significant existing environmental, health and safety laws and regulations applicable to the oil and natural gas industry and for which compliance may have a material adverse impact on the Company's operations.

### *Hazardous Substances and Wastes*

The Comprehensive Environmental Response, Compensation and Liability Act, as amended ("CERCLA"), also known as the Superfund law and comparable state laws impose joint and several liability, without regard to fault or legality of conduct, on certain classes of persons who are considered to be responsible for the release of a "hazardous substance" into the environment. These persons include current and prior owners or operators of the site where the release occurred and entities that disposed or arranged for the disposal of the hazardous substances found at the site. Under CERCLA, these "responsible persons" may be subject to strict joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain environmental and health studies. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances into the environment. CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. Although CERCLA generally exempts "petroleum" from the definition of hazardous substances, Core generates materials in the course of its operations that may be regulated as hazardous substances. Core may also be the owner or operator of sites on which hazardous substances have been released.

The Company's proposed operations will generate wastes that are subject to the requirements of the Resource Conservation and Recovery Act, as amended ("RCRA"), and comparable state statutes. RCRA imposes strict requirements on the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. Drilling fluids, produced waters and most of the other wastes associated with the exploration, production and development of crude oil, natural gas and natural gas liquids are currently exempt from regulation as hazardous wastes under RCRA. However, it is possible that certain oil, natural gas and natural gas liquids exploration and production wastes now classified as non-hazardous could be classified as hazardous wastes in the future. In September 2010, the Natural Resources Defense Council filed

a petition with the EPA requesting them to reconsider the RCRA exemption for exploration, production, and development wastes. To date, the EPA has not taken any action on the petition. In the course of its operations, the Company will generate petroleum hydrocarbon wastes and ordinary industrial wastes that are subject to regulation under the RCRA.

#### *Air Emissions*

The Clean Air Act, as amended, and comparable state laws and regulations restrict the emission of air pollutants from many sources and also impose various monitoring and reporting requirements. These laws and regulations may require the Company to obtain pre-approval for the construction or modification of certain projects or facilities expected to produce or significantly increase air emissions, obtain and strictly comply with air permit requirements or utilize specific equipment or technologies to control emissions. Obtaining permits has the potential to delay the development of oil, natural gas and natural gas liquids projects.

#### *Water Discharges*

The Federal Water Pollution Control Act, as amended (“Clean Water Act”), and analogous state laws impose restrictions and strict controls regarding the discharge of pollutants into navigable waters. Pursuant to the Clean Water Act and analogous state laws, permits must be obtained to discharge produced waters and sand, drilling fluids, drill cuttings and other substances related to the oil and gas industry into onshore, coastal and offshore waters of the United States or state waters. Any such discharge of pollutants into regulated waters must be performed in accordance with the terms of the permit issued by EPA or the analogous state agency. Spill prevention, control and countermeasure requirements under federal law require appropriate containment berms and similar structures to help prevent the contamination of navigable waters in the event of a petroleum hydrocarbon tank spill, rupture or leak. In addition, the Clean Water Act and analogous state laws require individual permits or coverage under general permits for discharges of storm water runoff from certain types of facilities. The Clean Water Act also prohibits the discharge of dredge and fill material in regulated waters, including wetlands, unless authorized by a permit issued by the U.S. Army Corps of Engineers.

The primary federal law related to oil spill liability is the Oil Pollution Act (“OPA”) which amends and augments oil spill provisions of the Clean Water Act and imposes certain duties and liabilities on certain “responsible parties” related to the prevention of oil spills and damages resulting from such spills in or threatening United States waters or adjoining shorelines. A liable “responsible party” includes the owner or operator of a facility, vessel or pipeline that is a source of an oil discharge or that poses the substantial threat of discharge, or in the case of offshore facilities, the lessee or permittee of the area in which a discharging facility is located. OPA assigns joint and several liability, without regard to fault, to each liable party for oil removal costs and a variety of public and private damages. Although defenses exist to the liability imposed by OPA, they are limited. In the event of an oil discharge or substantial threat of discharge, Carmel may be liable for costs and damages.

The Federal Endangered Species Act, the federal Marine Mammal Protection Act, and similar federal and state wildlife protection laws prohibit or restrict activities that could adversely impact protected plant and animal species or habitats. Oil and natural gas exploration and production activities could be prohibited or delayed in areas where such protected species or habitats may be located, or expensive mitigation may be required to accommodate such activities.

#### *Climate Change*

In December 2009, the EPA published its findings that emissions of carbon dioxide, methane and certain other GHGs present an endangerment to public health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the earth’s atmosphere and other climatic changes. These findings allow the EPA to adopt and implement regulations that restrict emissions of GHGs under existing provisions of the federal Clean Air Act. Accordingly, the EPA has adopted regulations that require a reduction in emissions of GHGs



from motor vehicles and also trigger permit requirements for GHG emissions from certain stationary sources. The EPA's rules relating to emissions of GHGs are currently subject to a number of legal challenges, but the federal courts have thus far declined to issue any injunctions to prevent the EPA from implementing the rules. In addition, in October 2009, the EPA published a final rule requiring the reporting of GHG emissions from specified large GHG emission sources in the United States, including sources emitting more than 25,000 tons of GHGs on an annual basis, beginning in 2011 for emissions occurring in 2010. On November 30, 2010, the EPA published a final rule that expands its October 2009 final rule on reporting of GHG emissions to require certain owners and operators of onshore and offshore oil, natural gas and natural gas liquids production, processing, transmission, storage and distribution facilities to monitor greenhouse gas emissions beginning in 2011 and to report those emissions beginning in 2012. The adoption and implementation of any regulations imposing reporting obligations on, or limiting emissions of GHG gases from, the Company's equipment and operations could require the Company to incur costs to reduce emissions of GHGs associated with its operations or could adversely affect demand for the oil, natural gas and natural gas liquids it produces.

In addition, Congress has actively considered legislation to reduce emissions of GHGs and many states have considered or have begun taking actions to control and/or reduce emissions of GHGs, primarily through the planned development of GHG emission inventories and/or regional GHG cap and trade programs.

#### *State Regulation*

Texas regulates the drilling for, and the production and gathering of, oil, natural gas and natural gas liquids, including requirements relating to drilling permits, the location, spacing and density of wells, unitization and pooling of interests, the method of drilling, casing and equipping of wells, the protection of fresh water sources, the orderly development of common sources of supply of oil, natural gas and natural gas liquids, the operation of wells, allowable rates of production, the use of fresh water in oil, natural gas and natural gas liquids operations, saltwater injection and disposal operations, the plugging and abandonment of wells and the restoration of surface properties, the prevention of waste of oil, natural gas and natural gas liquids resources, the protection of the correlative rights of oil, natural gas and natural gas liquids owners and, where necessary to avoid unfair, unjust or discriminatory service, the fees, terms and conditions for the gathering of natural gas. The effect of these regulations may be to limit the number of wells that the Company may drill, impact the locations at which the Company may drill wells, restrict the amounts of oil, natural gas and natural gas liquids that may be produced from the Company's wells and increase the costs of its operations. Realized prices for the sale of oil, natural gas and natural gas liquids are not subject to state regulation in Texas.

#### **15. Dependence on Intellectual Property etc.**

Save for the significance of the Mustang Asset and the JOA, as described in this document, the Company is not dependent on any patents, licences, industrial, commercial or financial contracts or new manufacturing processes which have a material effect on the Company's business or profitability.

#### **16. Related Party Transactions**

During the period covered by the Historical Financial Information, the Company entered into the following related party transactions (all of which relate to former directors or employees at the time the Company was operating a beauty products business):-

##### **16.1 In the financial year ending 31 May 2008;**

16.1.1 Alistair Kennedy, a director of the Company, supplied services to the business through his company, Vacationer Limited, the total value of which was £70,033.

16.1.2 SQC Research (of which Mark Watson Mitchell was a director) was engaged to provide investor relations services to the Company, the total value of which was £250.

- 16.1.3 Corporate Liaison Limited (of which Mark Watson Mitchell was a director) was engaged to provide investor relations services to the Company, the total value of which was £20,000.
- 16.1.4 Addworth plc (of which Mark Watson-Mitchell was a major shareholder) was engaged to provide strategic consultancy services to the Company, the total value of which was £15,004.
- 16.1.5 Melissa Gilmour, a director of the Company, supplied services to the Company through her company Nerve Communications Limited, the total value of which was £5,600.
- 16.1.6 fees for IT services were paid to P Gordon, the son of J Gordon (a director of the Company), the total value of which was £5,520.
- 16.1.7 fees for consultancy were paid to S Gordon, the sister of J Gordon (a director of the Company), the total value of which was £4,400.
- 16.1.8 the Company entered into a services transaction with a group undertaking, the total value of which was £300,000.
- 16.2 In the financial year ending 31 May 2009;
- 16.2.1 Alistair Kennedy, a director of the Company, supplied services to the business through his company, Vacationer Limited, the total value of which was £83,000.
- 16.2.2 Addworth plc (of which Mark Watson-Mitchell was a major shareholder) was engaged to provide strategic consultancy services to the Company, the total value of which was £3,750.
- 16.2.3 Melissa Gilmour, a director of the Company, supplied services to the Company through her company Nerve Communications Limited, the total value of which was £10,600.
- 16.3 The above transactions did not materially impact on the Company's turnover.

## **17. Litigation**

The Company is not involved nor has been involved in any governmental, legal or arbitration proceedings in the previous twelve months which may have or have had in the recent past a significant effect on the Company's financial position or profitability and, so far as the Directors are aware, there are no such proceedings pending or threatened against the Company.

## **18. No Significant Change**

Save as disclosed in this document, there has been no significant change in the financial or trading position of the Company since the end of the last financial period for which audited financial information has been published.

## **19. Working Capital**

The Directors and the Proposed Directors are of the opinion, having made due and careful enquiry and having taken into account the net proceeds of the Placing, that following Admission, the Enlarged Company will have sufficient working capital for at least 12 months from the date of Admission.

## **20. United Kingdom Taxation**

**The following summary, which is intended as a general guide only, outlines certain aspects of current UK tax legislation, and what is understood to be the current practice of HMRC in the United Kingdom regarding the ownership and disposal of shares.**

**This summary is not a complete and exhaustive analysis of all the potential UK tax consequences for holders of Ordinary Shares of the Company. It addresses certain limited aspects of the UK taxation position of UK resident, ordinarily resident and domiciled**

**Shareholders who hold their shares as an investment, as well as the UK tax consequences for those individuals who are non-resident in the UK.**

**This summary does not address the position of certain classes of Shareholders who (together with associates) have a 10 per cent. or greater interest in the Company, or others, such as dealers in securities, market makers, brokers, intermediaries, collective investment schemes, individuals whose shares are held under a personal equity plan or an individual savings account or are “employment related securities” as defined in Section 421B of the Income Tax (Earnings and Pensions) Act 2003.**

**Any person who is in any doubt as to their tax position or who is subject to taxation in a jurisdiction other than the UK should consult their professional advisers immediately as to the taxation consequences of their purchase, ownership and disposition of Ordinary Shares. In particular, all Shareholders, including UK tax resident Shareholders are advised to consider the potential impact of any relevant double tax agreements on their shareholding.**

**This summary is based on current United Kingdom tax legislation. Shareholders should be aware that future legislative, administrative and judicial changes could affect the taxation consequences described below.**

### *The Company*

The profits of the Company will be subject to UK corporation tax to the extent that it does not consist of the dividends received from UK companies or overseas companies subject to a number of conditions. Income arising from overseas investments and trading operations may be subject to overseas taxes, subject to relief which may be available under any relevant double taxation agreement with the UK or UK domestic law.

#### *(a) Taxation of Chargeable Gains*

A disposal of Ordinary Shares by a Shareholder who is (at any time in the relevant UK tax year) resident or ordinarily resident in the UK may give rise to a chargeable gain or allowable loss for the purpose of UK taxation of chargeable gains.

For the purpose of UK tax on chargeable gains, the issue of Ordinary Shares will be regarded as an acquisition of a new holding in the share capital of the Company. The date of issue will be treated as the date of acquisition under the chargeable gains regime.

The amount paid for the Ordinary Shares will constitute the base cost of a Shareholder’s holding. If a Shareholder disposes of all or any of the Ordinary Shares in the Company, he may incur a liability to tax on chargeable gains depending on the Shareholder’s individual circumstances.

For UK individuals and trustees, capital gains are chargeable at a flat rate of 18 per cent. or 28 per cent. depending on the individuals total taxable income and gains subject to certain reliefs and exemptions. For UK corporates, any gain would be taxable at a maximum rate of 26 per cent. Indexation may apply to reduce any such gain (though indexation is no longer available to individuals and trustees).

A Shareholder who is not resident in the UK for tax purposes but who carried on a trade, profession or vocation in the UK through a branch or agency and has used, held or acquired the Ordinary Shares for the purpose of such trade, profession or vocation may also be subject to UK taxation on chargeable gains on a disposal of those Ordinary Shares. Special rules may apply to tax gains on disposals made by individuals at a time when they are temporarily not resident nor ordinarily resident in the UK.

#### *(b) Dividends*

The Company will not be required to withhold UK tax from dividends paid on the Ordinary Shares. Any holder of Ordinary Shares who is resident in the UK, or who carries on a trade, profession or vocation in the UK to which the Ordinary Shares are attributable,

will generally be subject to UK tax on income in respect of any dividends paid on the Ordinary Shares.

UK resident individual Shareholders will generally be taxable on the gross dividend, which will be regarded as the top slice of the Shareholder's income.

An individual Shareholder who is resident in the UK for tax purposes and who is liable to income tax at no more than the basic rate will be subject to income tax at a rate of 10 per cent. on the gross dividend. This liability will however be fully met by the notional tax credit attached to the dividend.

An individual Shareholder who is resident in the UK for tax purposes and who is liable to income tax at the higher rate of 40 per cent. will suffer tax at a rate of 32.5 per cent. on the gross dividend income. This results in an effective tax rate of 25 per cent. on the net cash dividend.

UK shareholders receiving dividends within the 50 per cent. band will suffer tax at a rate of 42.5 per cent. on the gross dividend income. This results in an effective tax rate of approximately 36 per cent. on the net cash dividend.

Non-UK resident Shareholders holding their shares directly should not be liable to UK income tax on dividends received from the Company. In general, the right of non-UK resident Shareholders to reclaim tax credits attaching to dividend payments made by the Company will depend upon the existence and the terms of the applicable double tax treaty between their jurisdiction of residence and the UK. In most cases, the amount of tax credit that can be claimed by non-UK resident Shareholders from HMRC would be nil.

They may also be liable to tax on the dividend income under the tax law of their jurisdiction of residence. Non-UK resident Shareholders should consult their own tax advisers in respect of their liabilities on dividend payments, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so.

A corporate Shareholder resident in the UK (for tax purposes) should generally not be subject to Corporation tax on dividend payments received from the Company. Corporate Shareholders will not, however, be able to claim repayment of tax credits attaching to the dividend payment.

(c) *Inheritance Tax*

Ordinary shares beneficially owned by an individual Shareholder will be subject to UK inheritance tax on the death of the Shareholder (even if the Shareholder is not domiciled or deemed domiciled in the UK), although the availability of exemptions and reliefs may mean that in some circumstances there is no actual tax liability. A lifetime transfer of assets to another individual or trust may also be subject to UK inheritance tax based on the loss of value to the donor, although again exemptions and reliefs may be relevant.

(d) *UK Stamp Duty and Stamp Duty Reserve Tax*

There is generally no liability to UK stamp duty or stamp duty reserve tax ("SDRT") on the issue of Ordinary Shares by the Company. Transfers of Ordinary Shares for value will generally give rise to a liability to pay UK *ad valorem* stamp duty, or SDRT, at the rate in each case of 50 pence per £100 of the amount or value of the consideration (rounded up in the case of stamp duty to the nearest £5).

**The comments set out above are intended only as a general guide to the current tax position in the UK at the date of this document. The rates and basis of taxation can change and will be dependent on a Shareholder's personal circumstances.**

**Neither the Company nor its advisers warrant in any way the position outlined above which, in any event, is subject to changes in the relevant legislation and its interpretation and application.**

## **21. General**

- 21.1 The total costs and expenses relating to Admission are payable by the Company and are estimated to amount to approximately £526,000 (including VAT).
- 21.2 Other than the current application for Admission, and the previous admission of the Ordinary Shares to AIM, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor are there intended to be any other arrangements for dealings in the Ordinary Shares.
- 21.3 Merchant Securities has given and not withdrawn its written consent to the inclusion in this document of reference to its name in the form and context in which it appears.
- 21.4 OPL has given and not withdrawn its written consent to the inclusion in this document of reference to its name in the form and context in which it appears.
- 21.5 RSCF has given and not withdrawn its written consent to the inclusion in this document of reference to its name in the form and context in which it appears.
- 21.6 RPS of 3rd Floor, 20 Abchurch Lane, London EC4N 7BB, is responsible for the preparation of the report included at Part III of this Admission Document. This report was prepared at the request of the Company. RPS has given and not withdrawn its written consent to the inclusion in this document of the report, in the form and context in which it is included. RPS has no material interest in the Company.
- 21.7 Where information has been sourced from a third party this information has been accurately reproduced. So far as the Company and the Directors are aware and are able to ascertain from information provided by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 21.8 The accounting reference date of the Company is 31 December.
- 21.9 Following Admission, the Company's website for the purposes of AIM Rule 26 will be [www.silvermere-energy.com](http://www.silvermere-energy.com).
- 21.10 No person directly or indirectly (other than the Company's professional advisers and trade suppliers or save as disclosed in this document) in the last twelve months received or is contractually entitled to receive, directly or indirectly, from the Company on or after Admission (excluding in either case persons who are professional advisers otherwise than as disclosed in this document and persons who are trade suppliers) any payment or benefit from the Company to the value of £10,000 or more or securities in the Company to such value or any other benefit to such value or entered into any contractual arrangements to receive the same from the Company at the date of Admission.

## **22. Documents**

Copies of this Admission Document are available free of charge from the offices of Memery Crystal LLP, 44 Southampton Buildings, London WC2A 1AP, during normal business hours on any weekday (Saturdays and public holidays excepted) and shall remain available for at least one month after Admission.

## **23. Undertakings to Vote**

The Company has received irrevocable undertakings to vote in favour of the Resolutions from certain Shareholders who hold, in aggregate, 1,285,476 Ordinary Shares, representing 17.07 per cent of the existing share capital of the Company.

The Company has also received irrevocable undertakings to vote in favour of the Resolutions from Directors who hold, in aggregate, 90,068 Ordinary Shares, representing 1.20 per cent of the existing share capital of the Company.

**Dated 2 August 2011**



# SILVERMERE ENERGY plc

(Incorporated in England and Wales with registered number 05131386)

## Notice of General Meeting

NOTICE IS HEREBY GIVEN that a general meeting of the Company will be held at the offices of Memery Crystal LLP, 44 Southampton Buildings, London WC2A 1AP on 18 August 2011, at 10.30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, resolutions 1 and 2 being ordinary resolutions, and resolution 3 being a special resolution:

Terms used in this notice shall be as set out in the in the circular to shareholders of the Company dated 2 August 2011 (“Admission Document”), unless the context requires otherwise.

### Ordinary Resolutions

1. **THAT** subject to the passing of Resolutions 2 and 3, the Acquisition by the Company of the Mustang Asset on the terms and subject to the conditions set out in the Option Agreement dated 29 April 2011 (as amended) between (1) the Company and (2) Core, as summarised in the Admission Document, be and is hereby approved for the purposes of Rule 14 of the AIM Rules for Companies with such minor amendments as the directors of the Company (“**Directors**”) may approve, and the Directors or any duly authorised committee of the Directors be and are hereby authorised to take all steps necessary or desirable to complete the Acquisition.
2. **THAT** the Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act to allot Relevant Securities (as defined in this resolution) up to an aggregate nominal amount of £32,739.65, provided that this authority shall, unless renewed, varied or revoked by the Company in general meeting expire on the date falling 15 months from the date of the passing of this resolution, or if earlier at the annual general meeting of the Company to be held in 2012, save that the Company may at any time before such expiry make an offer or agreement which might require Relevant Securities to be allotted after such expiry and the Directors may allot Relevant Securities to be allotted in pursuance of such offer or agreement notwithstanding that the authority hereby conferred has expired. This authority is in substitution for all previous authorities conferred on the Directors in accordance with section 551 of the Companies Act. In this resolution, “**Relevant Securities**” means any shares in the capital of the Company and the grant of any right to subscribe for, or to convert any security into, shares in the capital of the Company (“**Shares**”) but does not include the allotment of Shares or the grant of a right to subscribe for Shares in pursuance of an employees’ share scheme or the allotment of Shares pursuant to any right to subscribe for, or to convert any security into, Shares.

### Special Resolution

3. **THAT**, the Directors be generally empowered pursuant to section 570 of the Companies Act to allot equity securities (as defined in section 560 of the Companies Act) for cash as if section 561(1) of the Companies Act did not apply to any such allotment pursuant to the general authority conferred on them by Resolution 2 above (as varied from time to time by the Company in general meeting) PROVIDED THAT such power shall be limited to:-
  - (a) the allotment of equity securities in connection with a rights issue or any other offer to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings and to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and
  - (b) the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal amount of £1,698.08 representing 10 per cent. of the issued share capital of the Company.



and the power hereby conferred shall operate in substitution for and to the exclusion of any previous power given to the Directors pursuant to section 95 of the Companies Act 1985 or section 570 of the Companies Act and shall expire on whichever is the earlier of the conclusion of the annual general meeting of the Company held in 2012 or the date falling 15 months from the date of the passing of this resolution (unless renewed varied or revoked by the Company prior to or on that date) save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding that the power conferred by this resolution has expired.

*By order of the Board*

John Roddison  
**Company secretary**

*Registered office*

42 Brook Street, London, W1K 5DB

2 August 2011

## NOTES

### **Entitlement to attend and vote**

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members at:
  - 6.00 p.m. on 16 August 2011; or
  - if this general meeting is adjourned, at 6.00 p.m. on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the general meeting.

### **Appointment of proxies**

2. As a member of the Company, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. If you wish to appoint more than one proxy, please contact the Company's Registrars, Share Registrars on 01252 821390 or if calling from outside the UK, on +44 1252 821390, or write to Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL for additional proxy forms and for assistance.
4. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form or via CREST are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
5. If you do not give your proxy an indication of how to vote on any resolution, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

### **Appointment of proxy using hard copy proxy form**

6. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

To appoint a proxy using the proxy form, the form must be:

- completed and signed;

- sent or delivered to Share Registrars, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL; and
- received by Share Registrars no later than 10.30 a.m. on 16 August 2011.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

### **Appointment of proxy via CREST**

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a “**CREST Proxy Instruction**”) must be properly authenticated in accordance with Euroclear UK & Ireland Limited’s (formerly CRESTCo’s) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must in order to be valid, be transmitted so as to be received by Share Registrars (ID 7RA36) by no later than 10.30 a.m. on 16 August 2011. No such message received through the CREST network after this time will be accepted. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

### **Appointment of proxy by joint members**

8. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company’s register of members in respect of the joint holding (the first-named being the most senior).

### **Changing proxy instructions**

9. To change your proxy instructions simply direct your proxy and submit new instructions using the methods set out above. Note that the cut-off time for proxies will also apply in relation to

amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Share Registrars on 01252 821390 from within the UK or on +44 1252 821390 if calling from outside the UK. Lines are open 9.00 am to 5.00 pm (London time) Monday to Friday (except UK public holidays). Calls to the helpline from outside the UK will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Proposals nor give any financial, legal or tax advice.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

### **Termination of proxy appointments**

10. In order to revoke a proxy appointment (other than a CREST Proxy appointment) you will need to inform your proxy and Share Registrars by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Share Registrars, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey GU9 7LL. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by Share Registrars no later than 10.30 am on 16 August 2011.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the meeting and voting in person.

### **Communication**

11. Except as provided above, members who have general queries about the meeting should contact Share Registrars on 01252 821390 from within the UK or on +44 1252 821390 if calling from outside the UK. Lines are open 9.00 am to 5.00 pm (London time) Monday to Friday (except UK public holidays). Calls to the helpline from outside the UK will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Proposals nor give any financial, legal or tax advice.

You may not use any electronic address provided either:

- this notice of general meeting; or
- any related documents (including the proxy form),

to communicate with the Company for any purposes other than those expressly stated.

