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SELAN EXPLORATION TECHNOLOGY LIMITED

ANNUAL REPORT 2008–2009

ANNUAL REPORT

SELAN

Late Mr. R. N. Kapur
Founder and Former Chairman

BOARD OF DIRECTORS

Mr. R. Kapur *Chairman*

Mr. A. Mahajan • Mr. S. K. Singh

Mr. T. Currimbhoy • Mr. V. B. Mahajan

PRESIDENT & CEO

Dr. M. N. Prasad

COMPANY SECRETARY

Ms. Gunjan Jain

AUDITORS

V. Sankar Aiyar & Company, Chartered Accountants, New Delhi

BANKERS

Corporation Bank • Yes Bank • ING Vysya Bank • State Bank of India

REGISTERED OFFICE

J- 47/1, Shyam Vihar, Dindarpur, Najafgarh, New Delhi – 110 043

REGISTRARS AND SHARE TRANSFER AGENTS

MCS Ltd., F- 65, First Floor, Okhla Industrial Area Phase – I, New Delhi – 110 020

DIRECTORS' REPORT**SELAN**

Your Directors have pleasure in presenting the Annual Report for the year ended 31 March 2009.

At the commencement of FY 2008-09, international crude oil prices witnessed new highs and then gradually, with the onslaught of economic slump, the oil prices crashed towards the second half. Faced with such fluctuations in oil prices as well as in cost of material and services, oil companies across the world scaled down their drilling activities.

FINANCIAL REVIEW

The Company achieved the following results over the past three years :

(Rs. Millions)	2006-07	2007-08	2008-09
Net Sales	262	361	1059
EBIDTA	213	266	839
RoE *	36%	32%	61%
EBIDTA / Sales	81%	77%	84%

*After adding back Deferred Tax

Total Reserves and Surplus of the Company have increased from Rs. 403.26 million to Rs. 833.80 million as on 31 March 2009.

OPERATIONS REVIEW

The Proven and Probable Reserves of Bakrol Oilfield are 73.60 mmbbls after the completion of the current drilling campaign in Bakrol Oilfield.

With the onset of new drilling activities in its oilfield blocks, the Company has been successful in increasing its production to 282,745 barrels cumulatively from its three fields (viz. Bakrol, Indrora and Lohar) as compared to 120,226 barrels produced in the previous year 2007-08.

As per the requirements of the new notification issued by Ministry of Environment and Forests (MoEF), the Company has already obtained the EC's for all of its five (5) fields viz. Bakrol, Indrora, Lohar, Karjisan and Ognaj, so that new drilling activities can commence without further delay.

Mining Lease for Ognaj Oilfield has also been awarded by the Government of Gujarat in August 2008. Subsequently, possession of the oilfield has also been handed over to the Company by ONGC. During the year 2009-10, the company shall undertake identification of prospective well locations in Ognaj oilfield in order to initiate development activities.

FIELD DEVELOPMENT REVIEW

The exceptionally high level of international crude oil prices during the year has led to unusually high profits and has also opened up new avenues for your Company in terms of developing its oilfields, which has so far been undertaken with limited data.

Hence, in addition to the appraisal / drilling activities undertaken, we consider it a prudent opportunity to conduct very high resolution 3D /4D Seismic Surveys due to the nature of our oilfields, at a considerable expense to the Company. We also need to complete our testing programs in our fields on an accelerated basis.

DIRECTORS' REPORT (CONTD...)**SELAN**

These activities alongwith lower crude oil prices and the natural depletion in production from existing wells will temporarily result in somewhat lower levels of production and profits during 2009-10. However, our cash reserves and cash generation have made it possible for us to plan / undertake and generally complete these Seismic and testing activities in a short period of time (of approximately one year).

As a result, we now believe that the Company will shortly be able to establish significant / additional levels of proven and recoverable reserves in our oilfields and hopefully this, in turn, will lead to the realization of your Company emerging with transformational growth within the next one to two years.

LOHAR ARBITRATION/PAYMENT OF PROFIT PETROLEUM

Your Company has invoked Arbitration for one of its oilfields, Lohar, in April 2007. One of the key issues in arbitration is relating to the payment of profit petroleum based on the Investment Multiple (IM) achieved during the previous year. The value of IM exceeded the stipulated threshold level in F.Y. 2005-06 and the Company accordingly paid profit petroleum for the year 2006-07. However, Govt. of India contends that once the IM has exceeded the threshold, we are liable to make profit petroleum payments to GoI in every succeeding financial year irrespective of the value of IM achieved. The management of your Company, based on legal opinion, is of the view that profit petroleum sharing in any specific financial year has to be determined only on the basis of IM value achieved at the end of the previous financial year. Pending decision of the arbitration tribunal, a sum of Rs. 59.85 million (including Rs. 20.99 million pertaining to 2007-08) has been deducted / remitted by SELAN, as profit petroleum to GoI, for the Lohar field, for the period April 2007 to March 2009. This amount of Rs. 59.85 million is a Contingent Asset as at 31 March 2009 as the decision of the Hon'ble Tribunal could be in favour of the Company in which case the GoI would have to refund this entire amount.

FINAL DIVIDEND

The Directors are pleased to inform that the interim dividend of 15% paid during the year 2008-09 is hereby declared as final dividend for the year 2008-09, subject to approval by the shareholders of the Company in the forthcoming AGM.

BOARD OF DIRECTORS

Mr. A. Mahajan and Mr. V. B. Mahajan retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

During the year, Dr. B. K. Barman has resigned from the Board of Directors of SELAN. The Directors wish to acknowledge the contribution made by him to the Company over the years.

DIRECTORS RESPONSIBILITY STATEMENT

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956, the Board of Directors do hereby confirm that in the preparation of the Annual Accounts, the applicable Accounting Standards have been duly followed, that the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period, that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities, and that the Directors have prepared the annual accounts on a going concern basis.

SELAN EXPLORATION TECHNOLOGY LTD.

Regd. Office : J-47/1, Shyam Vihar, Dindarpur, Najafgarh, New Delhi -110 043

NOTICE

NOTICE is hereby given that the Twenty Fourth Annual General Meeting of Selan Exploration Technology Limited will be held at Ashok Country Resort, Rajokri Road, Kapashera, New Delhi - 110 037 on Tuesday, 8 September 2009 at 10 : 00 A.M. to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31 March 2009 and Profit and Loss Account for the year ended on that date along with the Reports of the Directors' and Auditors' thereon.
2. To appoint a Director in place of Mr. Aroon Mahajan, who retires by rotation and being eligible for re-appointment, offers himself for re-appointment.
3. To appoint a Director in place of Mr. V. B. Mahajan, who retires by rotation and being eligible for re-appointment, offers himself for re-appointment.
4. To appoint M/s V. Sankar Aiyar & Co., Chartered Accountants, as Auditors, who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting, on such remuneration as may be fixed by the Board of Directors of the Company.
5. To declare the interim dividend of 15 % paid during the year as final dividend for the year 2008-09.

By Order of the Board
for SELAN EXPLORATION TECHNOLOGY LTD.

6 May 2009
New Delhi

GUNJAN JAIN
Company Secretary

NOTES :

- 1) A member entitled to attend and vote is entitled to appoint a proxy and such proxy need not be a member of the Company. The instrument appointing proxy may be sent in the form enclosed and in order to be effective must reach the Registered Office of the Company at least 48 hours before the Meeting.
- 2) Members are requested to notify change in their address, if any, quoting their folio number to the Registrar and Share Transfer Agents, MCS Ltd., Unit : Selan Exploration Technology Ltd., F-65, First Floor, Okhla Industrial Area Phase -I, New Delhi - 110020.
- 3) Register of Members and Share Transfer Books of the Company will remain closed from 2 September 2009 to 8 September 2009 (both days inclusive).
- 4) At the ensuing Annual General Meeting, Mr. A. Mahajan and Mr. V. B. Mahajan retire by rotation and being eligible offer themselves for re-appointment. The information or details to be provided in respect of aforesaid Directors under Code of Corporate Governance is as under :
 - (a) Mr. A. Mahajan is a distinguished businessman and Non-Resident Indian having extensive business and investment interests in the U.S.A. and the U.A.E.; member of the Board of Directors of SELAN.
 - (b) Mr. V. B. Mahajan has held senior management positions in both the public and private sector. Having started his career at Asea Brown Boveri, he has worked at Richardson Hindustan Ltd. (now Procter and Gamble India Ltd.) and was most recently Managing Director of NAFED; member of Board of Directors of SELAN.
- 5) Memorandum & Articles of Association of the Company and documents related to the Resolutions will be available for inspection at the Registered Office of the Company between 11 : 00 a.m. and 1 : 00 p.m. on all working days except Saturdays and will also be available at the meeting.
- 6) The members are requested to send their queries, if any, on accounts or proposed resolutions at least 48 hours in advance of the meeting to the Company, so that the same may be answered satisfactorily at the meeting.
- 7) Members/ Proxies should bring the Attendance slip duly filled-in for attending the meeting.

By Order of the Board
for SELAN EXPLORATION TECHNOLOGY LTD.

6 May 2009
New Delhi

GUNJAN JAIN
Company Secretary

DIRECTORS' REPORT (CONTD...)**SELAN****AUDITORS AND THEIR REPORT**

The Auditors, M/s V. Sankar Aiyar & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement, Management Discussion and Analysis and a Report on Corporate Governance alongwith certificate from Auditors regarding compliance of conditions of Corporate Governance is annexed to Directors' Report. A declaration by the CEO (Manager) regarding the compliance with the Code of Conduct also forms part of this Annual Report .

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The activities undertaken by your Company do not fall under the purview of disclosure of particulars under Section 217(1)(e) of the Companies Act, 1956, in so far as it relates to the conservation of energy and technology absorption. Particulars with regard to foreign exchange outgo appear as point no. 16 of the Notes forming Part of the Accounts.

PERSONNEL

The Company has only two employees whose name and particulars are required to be disclosed as per the provisions of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended.

Name	Age	Designation	Remuneration Received	Nature of Employment	Qualification	Experience (in years)	Employment Commencement Date	Last Position Held
Mr. Rohit Kapur	54	Whole Time Director	Rs. 37 million	Contractual	MBA	30	1 October 2008	MD, Selan Exploration Technology Ltd.
Dr. M. N. Prasad	59	President & CEO	Rs. 4.89 million	Contractual	Ph.D. (Petroleum Geology), M.Sc, B.Sc.	36	1 April 2008	CEO, Prize Petroleum

Notes : 1. Gross remuneration as above includes salary, taxable allowances, Company's contribution to Provident Fund, Gratuity paid (but excludes Company's contribution to Gratuity Fund), and taxable value of perquisites. 2. Mr. Rohit Kapur was in employment as the Managing Director of the Company for the first 6 months and then as a Whole- Time Director for the remaining 6 months of the financial year 2008-09. Dr. Prasad was in employment for the full year 2008-09. 3. Mr. Rohit Kapur is a Promoter of the Company. 4. Mr. Rohit Kapur holds 1,697,133 shares in the Company. Dr. M. N. Prasad does not hold any shares in the Company.

ACKNOWLEDGEMENTS

The contribution of a dedicated and motivated team of personnel is extremely valuable in the growth of a Company. Your Company is fortunate to have a team whose endeavors have laid a strong foundation for the growth of the organization as a whole. Your Directors acknowledge the exemplary service provided by the employees of the Company.

On behalf of the Company, we wish to convey our thanks to Ministry of Petroleum and Natural Gas (MoPNG), Directorate General of Hydrocarbons (DGH), Ministry of Environment and Forests (MoEF), Government of India and the Bankers of the Company for their continuous cooperation, support and guidance. The Directors value the faith reposed by the shareholders in their ability to manage the Company. We expect that with the continuous support and encouragement of our shareholders, we shall be successful in achieving key milestones in the near future.

For and on Behalf of the Board

6 May 2009
New Delhi

R. KAPUR
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

SELAN

1. Industry Structure and Developments

Government has awarded and signed a number of Production Sharing Contracts with Private Sector Oil Companies for Exploration Blocks under New Exploration Licensing Policy (NELP) and Coal Bed Methane (CBM) Projects. Further, the Government is expected to launch new E & P blocks under NELP – VIII round of bidding. This initiative of the Government towards NELP rounds has been very successful wherein a number of new international and national companies participate and submit bids for new prospects. This activity has expanded the industry and has created a lot of new employment opportunities in the oil industry. The Private Sector with its Joint Ventures has contributed significantly in exploitation of existing oil reserves in the country with the striking of huge discoveries of oil and gas within the Country. As a result, the domestic crude oil production is continuously improving with significant contributions of crude production from private operators, thus reducing foreign exchange outflow on crude imports. Even though oil sector today is one of the most prospective sectors where newer growth avenues for business and employment are opening up, nevertheless import of crude oil represents India's single largest item of import.

2. Outlook

Production Sharing Contracts (PSCs) with the Government of India were signed by SELAN in 1995 for Bakrol, Indrora and Lohar oilfields. Further, the Company was also awarded Contracts for the Ognaj Oilfield and the Karjisan Gasfield with the Ministry of Petroleum and Natural Gas (MoPNG) in 2004. During the year 2008 - 09, the Mining Lease in respect of Ognaj oilfield was also received from the Government of Gujarat.

The Company is executing elaborate plans for the development of its oil and gas fields thereby increasing the production of crude oil / gas by implementation of the new technology coupled with experienced professionals for managing its oil and gas assets.

Further, efforts are being made in terms of seismic data acquisition, workover of existing wells and drilling of new wells to provide accelerated thrust to the crude oil production.

3. Segment-wise performance

Currently, the Company is engaged in only one Business Segment that is Production of Crude Oil.

4. Operations and Financial Review

The operations and financial review is covered in the Directors' Report and is to be read as a part of this report itself.

5. Risks and Concerns

(i) Business Risks

Oil sector is a high risk and high return sector. Data acquired for seismic evaluation of oilfields & reservoir modeling involves interpretation by technologically advanced software and equipment which is capital intensive in nature and are prone to obsolescence and uncertainty in results.

The Drilling Activities are also carried out using advanced drilling rigs and ancillary rig equipments and necessary safety and security measures are employed prior to any drilling activity.

However, the inherent risks of dealing with nature cannot be completely mitigated and that is why drilling activity poses a great challenge and risk. The fluctuation in international oil prices as well as in the dollar value of the rupee is another factor which adds to the uncertainty of profits in the oil industry.

(ii) Project Constraints

There has generally been a shortage of drilling rigs and associated oilfield services in the region where the Company operates. Since there are limited number of service providers, hence, in order to execute its scheduled drilling programmes the Company is required to tie-up with oilfield services suppliers as much as a year in advance.

Besides this, there has been a notification from Ministry of Environment and Forests (MoEF) wherein any new drilling activity requires its prior clearances. The approval process at MoEF also requires considerable time and effort.

Any delay in getting the timely clearances from MoEF and in mobilizing the drilling rig and associated oilfield services is a potential project constraint for the Company.

(iii) Financial, Legal and Contractual Risks

SELAN carries a minimum financial risk. As of now, the Company has the policy of using debt financing only for short term requirements besides using its own internal accruals.

In 2007, the Company had issued an Arbitration Notice to MoPNG, pursuant to which the Arbitrators were appointed in accordance with the provisions of the PSC and the arbitration proceedings are underway.

6. Internal Control Systems and their Adequacy

SELAN has ensured proper and adequate system of Internal Control so that all assets are safeguarded and protected against loss from unauthorised use / disposition and that transactions are authorized, received and reported in a prudent manner. Internal Control System is designed to ensure that financial and other records are reliable for preparing financial statements and for maintaining accountability for assets. The Audit Committee reviews the internal control systems in its quarterly meetings and suggestions are given to strengthen the internal control measures and procedures on an ongoing basis keeping in view the changing business scenario. Efforts are in progress to strengthen the internal control measures and procedures as per the existing business scenario on a continuous basis.

7. Human Resources Development / Industrial Relations

SELAN considers its employees as its key resource and the major driving force behind the performance and success of the Company. SELAN has a flat and lean management structure which results in quick and efficient decision making. The number of employees of the Company are less than 30. People are mostly employed on contractual basis which, in view of the management is the right policy given the nature of the Industry.

Industrial relations have been cordial throughout the year. Operations went on smoothly during the year and there were no material developments that could adversely impact the operations.