



**SELAM
EXPLORATION
TECHNOLOGY LIMITED**

**14th ANNUAL REPORT
1998 - 99**

SELAN EXPLORATION TECHNOLOGY LTD.

ANNUAL REPORT 1998-99

DIRECTORS

Mr. R.N. Kapur
Mr. A. Mahajan
Dr. B.K. Barman
Mr. B.M. Mirza
Mr. N.I. Mehta
Ms. R. Kapur
Mr. Rohit Kapur
Mr. T. Currimbhoy

Chairman

Vice Chairman

PRESIDENT

Mr. C. Ratnam

EXECUTIVE DIRECTOR

Mr. V.B. Mahajan

SENIOR ADVISORS

Mr. A.M. Awasthi - *Seismic*
Mr. P.K. Kulkarni - *Reservoir*
Dr. S. Srinivasan - *Exploration*

COMPANY SECRETARY & VICE PRESIDENT- (Corp. Affairs)

Wg. Cdr. (Retd.) Azad B. Saxena

BANKERS

ABN Amro Bank
Corporation Bank

AUDITORS

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

REGISTERED OFFICE

First Floor, 11 Hauz Khas Village
New Delhi - 110 016

REGISTRARS AND SHARE TRANSFER AGENTS

MCS Ltd.
Sri Venkatesh Bhavan
212A, Shahpurjat
Behind Panchsheel Club
New Delhi - 110 016

- :: 2 :: -

2. Payment of International Price

As per the Production Sharing Contract (PSC), MoPNG is to make payments for crude oil purchases based on the international price. However, nearly 4 years have passed and MoPNG has not mutually arrived at fixation of the international price. Your Company has been receiving an interim price (which is much below the international price). As a result, large overdues are pending / accumulating monthly for crude oil sold to MoPNG's nominee, Indian Oil Corporation (IOC) by SELAN. This is adversely affecting cash flow and hence the development plans. **However IOC has recently paid a provisional international price which has reduced the receivables from IOC by about 50%.**

3. Unilateral Deduction of Handling / Testing / Processing Charges and Non-Payment of Sales Tax

For nearly 4 years now, on the basis of instructions issued by DGH to IOC and ONGC, Handling / Testing / Processing Charges of substantial amount are being unilaterally deducted from SELAN's invoices. As per the PSC, these are not payable by SELAN. In addition, sales tax is being deposited by SELAN for the crude oil sales on behalf of the buyer, IOC, but this is also not being refunded to SELAN.

4. Lack of Adequate Tankage

Government of India is obliged to lift all the crude oil produced by SELAN for which provision of adequate tankage capacities have still not been provided, which is a severe constraint on increasing the production levels at the INDRORA and LOHAR oilfields.

5. Royalty and Cess Rates

As per the provisions of the PSC, Royalty and Cess is payable at Rs. 481/- per mt and Rs. 900 per mt, to the State and Central Government respectively. Although the Central and State Governments are currently engaged in revising their sharing of these fees, the Government of Gujarat has written to SELAN for their increased share/payment of Royalty @ Rs. 578 per mt. SELAN has requested MoPNG / DGH for resolving this matter with the state government at the earliest to prevent this development from having an adverse effect on petroleum operations of your Company.

Although most of these problems are common to other private companies operating in the Oil Sector, the various project constraints / bottlenecks highlighted above have nevertheless affected the development plans of your Company.

SELAN has been making repeated representations to various Government Agencies for speedy resolution of these issues so that the optimal development of BAKROL / INDRORA / LOHAR oilfields could be undertaken. As a result, MoPNG has now directed the buyer refinery, IOC, to directly negotiate with your Company and it is expected that some of the outstanding issues would be resolved in mutual consultations. However, it is difficult to establish a timeframe in this regard.

We hope the above comments help give a better understanding of the opportunities and the problems facing your Company. In conclusion, please accept our appreciation for your continued support and goodwill.

STATUS UPDATE

16 August 1999

In the past few months we have received queries from a number of our esteemed shareholders enquiring about the status of the Company's operations.

We take this opportunity to give you an update on various activities your Company is presently engaged in and also present a brief on the future development plans of the Company.

During the year under review, your Company undertook workover activities at six non-producing wells at BAKROL / INDRORA / LOHAR oilfields. It is hoped that after the successful completion of these workovers, the crude oil production would be enhanced to higher levels by the end of the current year.

Your Company has also drawn up extensive plans for further development of the BAKROL oilfield, where it is estimated that Initial oil in place could be in the range of 100 million barrels. Under Phase I of the Development Plan, your Company has got the necessary approvals from the Directorate General of Hydrocarbons (DGH) for drilling of 4 additional wells (for which land sites have been acquired).

The Company has also signed a Technical Services Agreement with SCHLUMBERGER, an international services firm of repute to carry out the drilling of wells and other field development activities. It is hoped that the successful implementation of drilling activity at the BAKROL oilfield would lead to higher levels of crude oil production thereby resulting in higher revenue realisation. The Company has also been engaged in negotiations to establish Joint Ventures for Operations/ Investments in our oilfields.

The Government of India issued Letters of Intent for award of two more fields viz., Karjisian (a gasfield) and Ognaj (an oilfield) to your Company for which the Production Sharing Contracts could be signed during the current fiscal year.

The Seismic Division of your Company has completed 3D data acquisition of approximately 25 sq. kms. area at the INDRORA oilfield. Seismic survey results would enable your Company to chalk out future development plans for the oilfield and these results are expected to be finalized during the current year.

Developmental Activities, however, are being hampered due to various project bottlenecks on account of outstanding issues with the Ministry of Petroleum and Natural Gas (MoPNG) as follows :-

1. Non Grant of Mining Lease

Nearly 4 years have passed but Mining Leases for the complete Contract Areas have not been granted to SELAN. Petroleum operations as of now are being conducted based on "in principle" approval for partial acreage in the "Contract Area" received by the Company. For want of adequate mining rights, future developmental activities are being delayed. The reason Mining Leases have not been granted in many cases is because of the differences between the Central and the State Government of Gujarat over the reserved area for Coal Bed Methane prospecting. The Central and State Governments are working on how best to resolve the issue.

SELAN EXPLORATION TECHNOLOGY LTD.**EXPLANATORY STATEMENT (Contd.)****Item No. 5 (Contd.)**

that as regards Company's prospects for the year immediately following that date; that having regard to Board's intention with respect to the Management of Company's business during that year and to the amount and character of financial resources which will, in the Board's view, be available to the Company during that year the Company will be able to meet its liabilities as and when they fall due and it will not be rendered insolvent within a period of one year from that date and confirm further that in forming an opinion as aforesaid, the Directors have taken into account the liabilities as if a company were being wound up under the provisions of the Companies Act 1956 (including prospective and contingent liabilities).

The auditors have rendered the necessary report to the Board of Directors as per clause (xi) of Schedule I under regulation 5(1) of the SEBI (Buy Back of Securities) Regulation 1998. The text of the report of the Auditors dated 27 May 1999 is appended below :

1. We have inquired into the state of affairs of the company in relation to audited accounts for the year ended 31 March 1999 and the projection placed before the Board for the financial year 1999-2000 and 2000-2001 ;
2. The amount of permissible capital payment towards buy back of equity shares (including premium) in question, as ascertained below, has been properly determined in accordance with Sec. 77A(2)(c) of the Companies Act, 1956.

	(Rs. in Lakhs)
Share Capital as at 31 st March 1999	1,750.60
Free Reserves (net of miscellaneous expenditure to the extent not written off or adjusted)	(-) 253.27
	1,497.33
Maximum amount permitted for buyback i.e. 25% of the total paid up capital and free reserves.	374.33

3. Based on the information and explanations given to us, which to the best of our knowledge and belief were necessary for this purpose, we report that the Board of Directors in their meeting held on 27th May 1999 have formed their opinion as specified in Clause (x) of Schedule I of SEBI (Buy Back of Securities) Regulations, 1998 on reasonable grounds and that the Company will not, having regard to its state of affairs, be rendered insolvent within a period of one year from the date of the Annual General Meeting proposed to be held on 27 September 1999.

Your Directors commend the resolution for approval.

Item No. 6

The Company is proceeding with the development of the BAKROL, INDRORA AND LOHAR oilfields currently being operated by them as per the terms of the Production Sharing Contract (PSC) in onshore Gujarat.

The Company has now decided to drill several wells in the BAKROL oilfield and cover parts of the INDRORA oilfield with 3D Seismic work. The Company has also reached agreement with the Directorate General of Hydrocarbons (DGH) / Ministry of Petroleum and Natural Gas (MoPNG) on these work programmes and wishes, therefore, to implement them at the earliest.

The resolution authorises the Company to raise the appropriate resources to meet these requirements. The funds would be raised through Prospectus and / or Letter of Offer and / or Circular and / or on Private Placement basis or Preferential Allotment subject to various laws, guidelines and regulations issued by Securities & Exchange Board of India (SEBI), including under the Substantial Acquisition of Shares and Takeover Code 1997, Stock Exchanges or any other statutory authorities, as applicable.

Section 81, 81(1A) of the Companies Act, 1956 provides, inter-alia, that whenever it is proposed to increase

the subscribed capital of a company by allotment of further shares, such further shares shall be offered to the persons who on the date of the offer are holders of the equity shares of the Company in proportion to the capital paid-up on these shares unless the shareholders in a General Meeting decide otherwise. The consent of the shareholders is, therefore, sought to authorise the Board of Directors or a Committee thereof to issue the shares / debentures or other securities in the manner set out in the Resolution.

Part of the proceeds of the allotment may be used for buyback of shares by the Company

Your Directors commend the resolution for approval.

Item No. 7

In view of the size and activities of your Company it has been decided by the Board of Directors to restrict the maximum strength of the Board of your Company to ten in place of fifteen.

Your Directors commend the special resolution for approval.

Memorandum of Interest

None of the Director(s) is interested in the resolution as set out under Item 5 and 7.

The Directors are interested in the resolution as set out under item no. 6 to the extent that the shares that may be allotted to them or their relatives, friends and associates or Companies in which they are interested in the event of the Company coming out with any equity / securities offer.

Inspection

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.

**By Order of the Board
for SELAN EXPLORATION TECHNOLOGY LTD.**

27 May 1999
New Delhi

AZAD SAXENA
Company Secretary

SELAN EXPLORATION TECHNOLOGY LTD.**NOTICE (Contd.)****As Special Resolution :**

7. "RESOLVED THAT the Articles of Association of the Company be altered pursuant to Section 31 of

the Companies Act 1956, in the manner as set out below:
In sub-head "Directors"

(Article 82) replace the words "not more than fifteen" with the words "not more than ten"

By Order of the Board
for SELAN EXPLORATION TECHNOLOGY LTD.

27 May 1999
New Delhi

AZAD SAXENA
Company Secretary

NOTES :

- | | | |
|--|--|--|
| <p>i) Explanatory Statement pursuant to Section 173 of the Companies Act 1956, in respect of resolutions set out under items 5, 6 and 7 above, is annexed.</p> | <p>NEED NOT BE A MEMBER OF THE COMPANY. A PROXY MAY BE SENT IN THE FORM ENCLOSED AND IN ORDER TO BE EFFECTIVE MUST REACH THE REGISTERED OFFICE OF THE COMPANY ATLEAST 48 HOURS BEFORE THE MEETING.</p> | <p>iii) 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., Sri Venkatesh Bhavan, 212-A Shahpurjat, Behind Panchsheel Club, New Delhi - 110 016.</p> |
| <p>ii) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY AND SUCH PROXY</p> | | |

EXPLANATORY STATEMENT**(Under Section 173(2) of the Companies Act, 1956)****ITEM NO. 5**

Your Company is authorised to buy back its own shares in terms of Article 8 A of the Articles of Association of the Company. The Board of Directors in their meeting held on 27 May 1999 considered and approved the proposal of buy back of equity shares of the Company.

The Company considers it necessary to buy back its equity shares as authorised by the amended Section 77 A of the Companies Act 1956 and the SEBI (Buy Back of Securities) Regulations 1998 as it would be in the overall interest of the shareholders of the Company and could enhance shareholder value.

The Company proposes to buyback its equity shares from open market by direct purchases on the Stock Exchanges and/or from the existing shareholders on a proportionate basis through the tender offer and/or any other method permissible by rules/regulations.

The Company is permitted to buy back the shares not exceeding 25% of its paid up equity capital in any one year i.e. 43.75 lakh equity shares.

The buy back of shares shall be financed by cash and bank balances, internal accruals and /or the proceeds received on issue of new shares.

The price of Rs. 20/- per share has been arrived at after taking into account share price quotations, net worth, projected earnings etc., the perception of performance of the Company by the Directors which is subject to review and decision by the Board of Directors at the relevant time and circumstances faced by the Company.

As on the date of AGM, the shareholding of the Directors who are in control of the Company is 29%. The Directors who are in control of the Company have not bought any equity share of the Company in preceding six months

from the date of the General Meeting. The Directors in control of the Company do not intend to tender their shares for buy back. The Company does not have any fixed deposits or preference shares and is not in default of redemption of debentures.

On 14 September 1995 the Company has repaid the outstanding Exchange Rate Administration Scheme (ERAS) Loan to the All India Financial Institutions, including the interest accrued upto that date, which in its opinion based on legal advice is in full and final settlement.

The Board of Directors confirm that they have made a full enquiry into the affairs of the Company and they have formed opinion :

that immediately following the date on which the General Meeting is held there will be no grounds on which the Company could be found unable to pay its debts;