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SELAN EXPLORATION TECHNOLOGY LIMITED

ANNUAL REPORT 2005 – 2006

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

BOARD OF DIRECTORS

Mr. R. Kapur *Chairman*

Mr. A. Mahajan • Dr. B. K. Barman • Mr. R. Mathrani
Mr. S. K. Singh • Mr. T. Currimbhoy • Mr. V. B. Mahajan

CORPORATE ADVISORS

Dr. D. J. Corbishley
Mr. C. Ratnam

COMPANY SECRETARY

Ms. Gunjan Jain

AUDITORS

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

BANKERS

Corporation Bank • HDFC Bank

REGISTERED OFFICE

3, The Green, Rajokri, New Delhi – 110 038

REGISTRARS AND SHARE TRANSFER AGENTS

MCS Ltd., Sri Venkatesh Bhawan, W – 40, Okhla Industrial Area Phase – II, New Delhi – 110 020

DIRECTORS' REPORT**SELAN**

Your Directors have pleasure in presenting the Annual Report for the year ended 31 March 2006.

During the year the crude oil prices witnessed an upward surge worldwide which amongst other things has also resulted in increased drilling and production activities. With significant cash realizations, oil companies across the world increased their drilling activities to take advantage of high crude prices. Keeping in line with this trend your Company has also taken initiatives for increasing oil production significantly.

In this regard, your Company has taken significant steps in terms of further development of its oilfields, especially Bakrol oilfield, where four new wells have been drilled. The production testing of these wells is continuing and it is expected that your Company will be able to enhance the production levels significantly from its oilfields .

FINANCIAL REVIEW

Efforts are in place for finalization of crude oil prices through negotiations with Indian Oil Corporation Ltd. (nominee of the Government of India). During the year, the Company has also been able to receive arrears of Sales Price and Sales Tax, which was being paid by it on behalf of IOCL.

The Company achieved the following results at the provisional international price of crude oil :

(Rs. Millions)	2005-06	% to Total Sales	2004-05	% to Total Sales
a) Sale of Crude Oil	187	86	104	96
b) Other Income	30	14	4	4
TOTAL	217	100	108	100
PROFIT BEFORE TAX	135	NA	19	NA

During the year, the Profit before Income Tax of the Company stood at Rs. 134.90 million as against Rs. 18.75 million during the year 2004 - 05.

Deferred Tax is required to be shown in the accounts as per Accounting Standard 22 – Taxes on Income which is applicable from 1 April 2001. Therefore, net cumulative deferred tax liability of Rs. 95.87 million upto 31 March 2006 has been reduced from brought forward surplus and shown separately in the Balance Sheet.

Total Reserves and Surplus of the Company have increased from Rs 101.95 million to Rs. 194.49 million as on 31 March 2006.

CALL ON SHARES

During the year, the Company had made calls on 1,104,500 shares which had been partly paid – up. The Call money was duly received on these shares. Consequently, the paid – up capital of the Company has increased to Rs. 144.16 million as on 31 March 2006.

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

Crude oil production during the financial year 2005 - 06 was 73,875 barrels cumulatively from its three fields (viz. Bakrol, Indrora and Lohar) as compared to 70,206 barrels produced in the previous year 2004 - 05. The Company has been taking steps to develop its fields in a phased manner (especially the Bakrol oilfield), so that enhanced production from the fields can be achieved. Efforts have also been made towards augmenting crude production from the existing wells. Further prospective drilling locations are also being identified on an ongoing basis for developing the oilfields and enhancing crude oil production.

During the year, the Company has also received the Mining Lease for the Karjisan Gas field. Mining Lease for Ognaj is still awaited from the Government of Gujarat. It is expected that these two fields will further add to the recoverable reserves and crude oil and gas production of your Company.

SETTLEMENT WITH AIFIs

The Company has now settled its dispute with all AIFIs including IFCI Ltd. with respect to the ERAS Loan taken by the Company, and has made a full and final payment of Rs. 3.96 million, as a one time settlement of the dispute.

With this settlement a long standing dispute with AIFIs has ended. It would facilitate negotiations for further long term loans which may be required in the future by the Company for development of its oilfields.

BOARD OF DIRECTORS

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

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Board of Directors do hereby state that in 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.

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.

DIRECTORS' REPORT (CONTD...)**SELAN****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 and a declaration by the CEO (Manager) regarding the compliance with the Code of Conduct is annexed to Directors' 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. 13 of the Notes forming Part of the Accounts.

PERSONNEL

The Company does not have any employee whose name and particulars are required to be included in the report of Directors as per the provisions of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended.

ACKNOWLEDGEMENTS

A dedicated and motivated team of personnel is one of the most important factors in the growth of a Company and your Company has a team whose endeavors have laid a strong foundation for the growth of your Company. Your Directors acknowledge the exemplary service provided by the employees of the Company.

On behalf of the Directors, I also convey our heartfelt thanks to Ministry of Petroleum and Natural Gas, Government of India, Directorate General of Hydrocarbons and the Bankers of the Company for their continued guidance, support and co-operation. Your Directors immensely value the recognition received from the shareholders and expect that with such encouraging support, the Company will achieve many a milestone in the years to come.

For and on Behalf of the Board

31 July 2006
New Delhi

R. KAPUR
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

SELAN

1. Industry Structure and Developments

Continuous efforts are being made by the Government to liberalize the economy and specially the oil sector. In pursuance of this, the 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. Private Companies and Joint Ventures have contributed significantly in exploitation of existing oil reserves in the country with the striking of huge reserves 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. Oil sector is poised to witness yet another round of liberalisation with New Exploration Licensing Policy – VI (NELP – VI). India currently produces about 33.98 million tonnes of crude oil annually against the annual requirement of 129.83 million tonnes. The balance is imported, making crude oil India's single largest item of import.

2. Outlook

Bakrol, Indrora and Lohar oilfields were awarded to SELAN by the Government of India in 1995 under a Production Sharing Contract (PSC). Further, the Company has also signed Contracts for the Ognaj Oilfield and the Karjisan Gasfield with the Ministry of Petroleum and Natural Gas (MoPNG). During the year 2005-06, the Company received the Mining Lease for the Karjisan gasfield. Mining Lease in respect of Ognaj oilfield is still awaited from Government of Gujarat.

The Company has elaborate plans for the development of its oil and gas fields in a phased manner. Preparations are under way for investing in the two new fields for increasing the production of crude oil / gas.

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

3. Segment-wise performance

Currently, the Company is engaged in only one Business Segment that is crude oil production.

4. Operations and Financial Review

The operations and financial review is covered in the Director's Report and is to be construed 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 obtained from Seismic evaluation of oilfields & reservoir modeling involves interpretation by the highly capital intensive and technologically advanced equipment which are prone to obsolescence.

Though interpretation of data is done by highly sophisticated means nevertheless the results may still be quite unpredictable.

The fluctuation in international oil prices is another factor which adds to the uncertainty of profits in this industry, thereby requiring long-term financial planning in a conservative manner.

(ii) Project Constraints

The developmental efforts of the Company are also being delayed / hampered due to certain project constraints. Besides, there are a number of outstanding issues with the Government of India (GOI), its nominees and Government of Gujarat. The major issues relate to lack of adequate tankage, imposition of unilateral charges, non-receipt of final international price in respect of crude sold to GOI's nominee and refund of arrears on account of delayed / part payments for crude supplies etc. Since the aforesaid disputes are not resolved on time, the development plans of the Company are adversely affected.

(iii) Financial, Legal and Contractual Risks

SELAN is a debt free Company, which means to say that the Company carries a minimum financial risk. As of now, the Company has the policy of using debt financing only for short term requirements, if the need be.

During the year, the Company has taken a medium term loan of Rs. 80 million from Yes Bank Ltd.

6. Internal Control System and their Adequacy

SELAN has proper and adequate system of Internal Control to ensure that all assets are safeguarded, and protected against loss from unauthorised use or disposition and that transactions are authorised, recorded and reported in a prudent manner.

The 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 internal control systems of the Company are reviewed by the Audit Committee of the Board periodically and their suggestions for improvement are implemented.

Efforts are being made to strengthen the internal control measures and procedures on a continuous basis keeping in view the changing business scenario.

7. Human Resources Development / Industrial Relations

SELAN has always recognized its people as its key resource and considered them a driving force behind the performance, success and continued efforts to progress. SELAN has a flat and lean management structure which results in faster and efficient decision making on the various issues facing the Company. The number of people on the rolls of the Company are less than 20. SELAN also employs people on contract which, in view of Management is the right practice considering the nature of the Industry.

Industrial relations have been cordial throughout the year and no material development took place during the year which could affect operations.