
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to what action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. Application will be made for the whole of the issued and to be issued ordinary share capital of Forum Energy Plc to be admitted to trading on AIM.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. 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. London Stock Exchange Plc has not itself examined or approved the contents of this document.

The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. At the date of this document the Ordinary Shares are unlisted.

This document, which comprises an AIM admission document, has been drawn up in accordance with the AIM Rules. The whole text of this document should be read. An investment in this Company involves a high degree of risk and prospective investors should also read carefully the section entitled "Risk Factors" in Part 4 of this document before taking any action.

The Directors, whose names and details are set out on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Forum Energy Plc

(Incorporated in England and Wales under the Companies Act 1985 with Registered Number No 5411224)

**Placing of 9,821,450 new Ordinary Shares of 10 pence each at 112 pence per share
and
Admission to trading on AIM
by
Noble & Company Limited
Nominated Adviser and Broker**

EXPECTED SHARE CAPITAL *(immediately following the Placing)*

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Amount</i>	<i>Number</i>		<i>Amount</i>	<i>Number</i>
£10,000,000	100,000,000	Ordinary Shares of 10 pence each	£2,722,145	27,221,450

Noble & Company Limited ("Noble"), which is authorised and regulated by the Financial Services Authority, is acting as the Company's Nominated Adviser and Broker in connection with the proposed admission of the Company's Ordinary Shares to trading on AIM. Its responsibilities as the Company's Nominated Adviser under the AIM Rules are owed solely to London Stock Exchange Plc and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by Noble as to any of the contents of this document (without limitation to the statutory rights of any person to whom this document is issued). Noble will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of the Placing or any acquisition of shares in the Company.

This document does not constitute an offer to sell, or the solicitation of an offer to buy, the Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution in the United States, Canada, Australia, Japan or the Republic of South Africa.

The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or under the registered securities legislation of any state of the United States of America. The relevant clearances have not been, and will not be, obtained from the Securities Commission or any province or territory of Canada. No document in relation to the Admission or the Placing has been, or will be, lodged with, or registered by, the Australian Securities Commission, and no registration statement has been, or will be, filed with the Japanese Ministry of Finance, in relation to the Admission or Placing of the Ordinary Shares. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within the United States, Canada, Australia, Japan or the Republic of South Africa or offered or sold to a person within the United States of America or a resident of Canada, Australia, Japan or the Republic of South Africa.

It is expected that dealings in the Ordinary Shares on AIM will commence on 2 August 2005. No application has been made, or is contemplated, for the Ordinary Shares to be listed on any other recognised investment exchange. Copies of this document will be available free of charge from the offices of Noble & Company Limited, 120 Broad Street, London, EC2N 1AR from the date of this document until one month after Admission.

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DIRECTORS, SECRETARY AND ADVISERS

Directors	Alan Brodie Henderson (<i>Non-Executive Chairman</i>) David Russell Robinson (<i>Chief Executive Officer</i>) David Michael Thompson (<i>Chief Financial Officer</i>) Ian Ronald Baron (<i>Non-Executive Director</i>) Barry Stansfield (<i>Non-Executive Director</i>) Graeme Paul Thomson (<i>Non-Executive Director</i>) Henry George Wilson (<i>Non-Executive Director</i>) all of 6th Floor, One London Wall, London EC2Y 5EB
Company Secretary & Registered Office	David Michael Thompson 6th Floor One London Wall London EC2Y 5EB
Nominated Adviser	Noble & Company Limited 76 George Street Edinburgh EH2 3BU
Broker to the Issue	Noble & Company Limited 120 Old Broad Street London EC2N 1AR
Solicitors to the Company	Osborne Clarke 2 Temple Back East Temple Quay Bristol BS1 6EG
Solicitors to Sterling Energy Plc	Ashurst Broadwalk House 5 Appold Street London EC2A 2HA
Solicitors to Noble	Memery Crystal 44 Southampton Buildings London WC2A 1AP
Auditors and Reporting Accountants	KPMG LLP 191 West George Street Glasgow G2 2LJ
Oil & Gas Competent Person	PGS Reservoir Limited PGS Thames House 17 Marlow Road Maidenhead Berkshire SL6 7AA
Coal Competent Person	CSA Group Limited 9 John Street London WC1N 2ES
Registrars and Receiving Agents	Park Circus Registrars Limited James Sellars House 144-146 West George Street Glasgow G2 2HG

ANTICIPATED TIMETABLE AND PLACING STATISTICS

ANTICIPATED TIMETABLE

Publication of the Admission Document	28 July 2005
Admission and dealings in Ordinary Shares on AIM commence	2 August 2005
CREST accounts credited by	2 August 2005
Despatch of definitive share certificates expected by	12 August 2005

PLACING STATISTICS

Placing Price per Ordinary Share	112 pence
Proceeds of the Pre-IPO Placing after expenses	£3,000,000
Proceeds of the Placing before expenses	£11,000,024
Proceeds of the Placing after expenses	£10,000,000
Number of Ordinary Shares subject to the Placing	9,821,450
Number of Ordinary Shares in issue at Admission	27,221,450
Percentage of enlarged issued share capital represented by the Placing Shares	36 per cent.
Market capitalisation at Admission at the Placing Price	£30,488,024

DEFINITIONS

“Act”	the Companies Act 1985, as amended;
“Admission”	admission of the whole of the Company’s Ordinary Share capital, issued and to be issued, to trading on AIM becoming effective as provided in Rule 6 of the AIM Rules;
“AIM”	the AIM market operated by the London Stock Exchange;
“AIM Rules”	the AIM rules as issued by the London Stock Exchange from time to time*;
“Articles”	the articles of association of the Company adopted on 18 May 2005;
“Basic Consolidated”	Basic Consolidated Inc., a company incorporated in the Philippines, whose registered office is at 7th Floor, Basic Petroleum Building, 104 C. Palanca St., Legaspi Village, Makati City, Philippines;
“Board” or “Directors”	the directors of the Company;
“CEBECO”	Cebu Electric Cooperative, an electric utility in the province of Cebu;
“Coal Competent Person’s Report”	the report prepared by CSA Group, a copy of which is reproduced in Part 6 of this document;
“Central Cebu COC”	COC covering four Coal Blocks on Cebu Island;
“Coal Block”	parcel of land awarded to the operator through a COC to explore for coal within that parcel of land;
“Coal Contract Year”	the 12 month period from the signing of the COC or from the anniversary of signing;
“Coal Delivery Point”	agreed point at which the operator must deliver coal to buyer;
“Coal Development Phase”	secondary phase of COC, awarded for a minimum of ten years, during which the operator must conduct activities to reach and extract coal to Coal Delivery Point;
“Coal Exploration Phase”	minimum one year initial phase of COC during which the operator must examine, investigate and/or explore COC area by detailed surface geologic mapping and other appropriate means to establish presence and extent of coal deposits;
“Coal Reserves in Commercial Quantity”	coal reserves in such quantities as will allow economic development and production of coal, as agreed between the operator and the DOE;
“coal seams”	layers of coal found in the earth that may be economically viable;
“COC” or “Coal Operating Contract”	coal operating contract, consisting of one or more Coal Blocks, being a means by which coal mining is regulated in the Philippines;
“Combined Code”	the Combined Code on Corporate Governance adopted by the UK Financial Reporting Commission;
“CREST”	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by Crest Co Limited for UK, Irish and international securities;
“CSA Group”	CSA Group Limited of 9 John Street, London, WC1N 2ES;
“DENR”	Department of Environment and Natural Resources of the Government of the Philippines;
“DOE”	Department of Energy of the Government of the Philippines;
“EEC”	Environmental Compliance Certificate, available from DENR;

* The AIM Team of the London Stock Exchange has agreed to permit the Company to comply with the AIM Rules as they applied immediately prior to the changes which took effect from 1 July 2005

"ESG"	ESG Dubai, a Dubai registered company;
"Executive Directors"	David Robinson and David Thompson;
"FEC"	FEC Resources Inc, formerly Forum Energy Corporation, a company incorporated in Canada, whose principal office is at Suite 1400, 700 2nd Street, SW Calgary, Alberta, Canada T2B 4V5 and a substantial shareholder in the Company;
"FEI"	Forum Exploration, Inc, a company incorporated in the Philippines of 22F Citibank Tower, 8741 Parso de Roxas, Makati City, Philippines;
"FEI Acquisition Agreements"	those acquisition agreements entered into on 22 April 2005 between FEC, Sterling and certain Group Companies pursuant to which, <i>inter alia</i> , Forum Energy, through its wholly owned subsidiary Forum (FEI), conditionally acquired the FEI Shares, summary details of which are set out in paragraph 9.12.3 of this document;
"FEI Shares"	125,000,000 ordinary shares of PhP 1 each in the capital of FEI;
"Forum Energy" or the "Company"	Forum Energy Plc, registered number 5411224 and having its registered office at 6th Floor, One London Wall, London EC2Y 5EB;
"Forum (FEI)"	Forum (FEI) Limited, Philippines registered number 89850, a wholly owned subsidiary of Forum Holdings, registered in Jersey;
"Forum (GSEC 101)"	Forum (GSEC 101) Limited, Philippines registered number 89851, a wholly owned subsidiary of Forum Holdings, registered in Jersey;
"Forum Philippines Holdings"	Forum Philippines Holdings Limited, registered number 89858, a wholly owned subsidiary of the Company, registered in Jersey;
"Group"	Forum Energy Plc and its subsidiaries and "Group Company" means any of them;
"GSEC"	General Survey and Exploration Contract;
"GSEC 101 (Reed Bank)" or "Reed Bank Licence"	the offshore licence which contains the Sampaguita Gas Field as well as several oil and gas leads, as described more fully in this document;
"Libertad Gas Field"	gas field discovered within SC 40 (Cebu);
"London Stock Exchange"	London Stock Exchange Plc;
"MG Mining"	MG Mining and Energy Corporation, a company incorporated in the Philippines whose registered office is at Unit 101, G/F Westwood Condominium, 23 Eisenhower St., Greenhills, San Juan, Metro Manila;
"NCIP"	National Commission on Indigenous People in the Philippines;
"Noble" or the "Nominated Adviser"	Noble & Company Limited, 76 George Street, Edinburgh, EH2 3NH, authorised and regulated by the Financial Services Authority;
"Oil & Gas Competent Person's Report"	the report prepared by PGS, a copy of which is reproduced in Part 5 of this document;
"Official List"	the official list of the UK Listing Authority;
"Ordinary Shares"	ordinary shares of 10p each in the capital of the Company;
"PGS"	PGS Reservoir Limited, of PSG Court, PGS Thames House, 17 Marlow Road, Maidenhead, Berkshire SL6 7AA;
"Philippines" or the "State"	the Republic of the Philippines;
"PhP"	Philippine Peso;

"Placing"	the conditional placing of the Placing Shares with institutional and certain other investors at the Placing Price, details of which are set out in Part 3 of this document;
"Placing Agreement"	the conditional agreement dated 28 July 2005 between the Company, the Directors, FEC, Sterling and Noble, summary details of which are set out in paragraph 9.12.8 of this document;
"Placing Price"	112 pence, being the price at which each Placing Share is to be issued pursuant to the Placing;
"Placing Shares"	the 9,821,450 new Ordinary Shares to be issued pursuant to the Placing;
"Pre-IPO Placing"	the placing to investors pursuant to which 3,400,000 Ordinary Shares were issued between 18 May 2005 and 31 May 2005 at a price of 100p per share and which raised £3,000,000 net of expenses;
"Recognised Investment Exchange"	has the meaning ascribed thereto in Section 285 of the Financial Services and Markets Act 2000;
"Reed Bank Acquisition Agreements"	those acquisition agreements entered into on 22 April 2005 between Sterling and certain Group Companies pursuant to which, <i>inter alia</i> , Forum Energy, through its wholly owned subsidiary Forum (GSEC 101), acquired the Reed Bank Licence, summary details of such agreements are set out in paragraph 9.12.2 of this document;
"Sampaguita Gas Field"	gas field discovered within GSEC 101 (Reed Bank);
"SC"	Service Contract;
"SC 40 (Cebu)"	the service contract held by FEI covering the northern part of Cebu Island and the surrounding waters;
"Share Option Plans"	the employee share option plans of the Company, referred to in paragraph 9.8 of this document;
"South Cebu COC"	COC covering four Coal Blocks on Cebu Island;
"Sterling"	Sterling Energy Plc, registered number 1757721, a public company incorporated in England whose shares are traded on AIM and a substantial shareholder in the Company;
"Transaction Agreement"	the agreement entered into between Sterling, FEC and the Company dated 22 April 2005 relating to the establishment of the Group and the assets within the ownership of the Group, summary details of which are set out in paragraph 9.12.1 of this document;
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland;
"UK Listing Authority"	the United Kingdom Listing Authority, acting in its capacity as the competent authority for the purposes of the Financial Services and Market Act 2000;
"Uncertificated Securities Regulations"	The Uncertificated Securities Regulations 2001 (SI 2001/3755) including any modification thereof or any regulations in substitution therefore made under Section 207 of the Companies Act 1989 and for the time being in force;
"US" or "United States"	United States of America; and
"US\$" or "\$"	United States Dollars.

GLOSSARY OF TERMS

2D seismic data	data resulting from 2 dimensional seismic acquisition;
3D seismic data	data resulting from 3 dimensional seismic acquisition;
adit	a horizontal or sub horizontal tunnel used to access ore;
aeromagnetic survey	a survey of the earth's magnetic field carried out from a helicopter or airplane;
air photo interpretation	the identification of geology and structures from interpretation and examination of aerial photos;
alluvial	descriptive of sediments, which have been deposited by rivers or streams;
alpine orogeny	descriptive of a major period of tectonism that occurred in phases through Cretaceous to mid-Tertiary;
anomaly	value higher or lower than the expected or norm;
anticline	a fold in rock strata that is convex upward with a core of older rocks;
argillite	a clay-rich sedimentary rock;
AusIMM	JORC Australasian Institute of Mining and Metallurgy Joint Ore Reserves Committee;
ball mill	machine used to crush rock during the processing phase;
basin	a regional depression, which may be structural in origin;
BBL or bbl	barrel of oil;
BCF or bcf	billion cubic feet of gas;
bed/bedding	distinct tabular unit(s) of rock laid down on the earth's surface;
bitumen	naturally occurring tar-like hydrocarbon of indefinite composition;
block model	a 3D array of cells constructed to enable recording of variables of interest such as grade and geology;
BOPD or bopd	barrels of oil produced per day;
breccia	rock fragmented into angular components;
BTU	British Thermal Unit, a unit of heat equal to the amount of heat required to raise one pound of water one degree Fahrenheit at one atmosphere pressure;
BTU/lb	one BTU per pound;
calcareous	said of a rock which contains calcium carbonate;
calcite	calcium carbonate, CaCO ₃ ;
cap-rock	the uppermost chaotic and insoluble portions of a salt diaper which remain after salt has ceased to flow;
carbonaceous	a sedimentary rock containing organic material;
carbonate	a rock, usually of sedimentary origin, composed primarily of calcium, magnesium or iron and CO ₃ . Essential component of limestones and marbles, but may also occur as a product of alteration;
carbonate platform	the shallow margins of a marine basin where carbonates are being deposited;
cenozoic	epoch of Earth's history from 65 million years ago to recent times;
channel sample	sample obtained by cutting a representative channel or groove across a rock face or profile;
collapsed breccias	breccias resulting from the dissolution of part of the rock and the subsequent collapse of the rock structure;

compression	compression occurs when tectonic elements oppose and form a certain type of resulting structures;
core	a tube of rock produced by diamond drilling;
COS	chance of success;
Cretaceous	applied to the third and final period of the Mesozoic era;
decline	an inclined tunnel-like excavation into the ground to allow vehicle and equipment access for the mining of ore bodies;
diamond drilling	method of obtaining cylindrical core of rock by drilling with a diamond set or diamond impregnated bit;
discovery	a discovery of hydrocarbons not previously evidenced by drilling, recoverable at the surface in a flow measurable by conventional petroleum industry testing methods;
dolomite	a rock composed of calcium and magnesium carbonate;
expert	an appropriately qualified person who prepares and is responsible for a report issued under the JORC and/or NI 43-101 Code, who can demonstrate independence and competence in the preparation of a competent person's report, and is a professional having at least ten years of relevant expertise and experience in the general, mining or petroleum industry;
face sampling	sampling of an exposed rock face in underground development fire assay. The assaying of metallic ores, usually gold and silver, by methods requiring a furnace heat;
gas reserves	the reserves of gas as independently assessed by PGS;
geological mapping	the process of identifying and recording the distribution and types of rocks and other geological features;
geophysical	use of electrical techniques or the measure of natural phenomena to assist in determining sub-surface features;
JORC standards	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC);
limestone	sedimentary rock wholly or in large part composed of calcium carbonate (CaCO ₃);
MCF or mcf	thousand cubic feet of gas;
Mmbbl or mmbbl	million barrels of oil;
MMCF or mmcf	million cubic feet of gas;
MW	a unit of electrical power equal to one million watts or one thousand kilowatts;
Neogene	the later of two periods into which the Cenozoic era is divided;
NI 43-101	National Instrument 43-101 (NI 43-101) is a rule developed by the Canadian Securities Administrators and administered by the provincial securities commissions that governs how issuers disclose scientific and technical information about their mineral projects to the public;
oil reserves	the reserves of oil as independently assessed by PGS;
organic carbon	carbon derived from organic processes;
percussion drilling	a drilling method which uses a percussive hammer on a set of drill rods to drill a hole, using compressed air to power the hammer and remove drill cuttings;

petroleum	any crude or mineral oil, hydrocarbon gas, condensate, bitumen, asphalt, mineral gas and all other similar or naturally associated substances with the exception of coal, peat, bituminous shale and other stratified mineral fuel deposits;
potential recoverable reserves	reserves estimated by PGS having applied the COS factor to the reserves;
prospect, lead and play	a play is an exploration concept or idea that is conducive to the identification of leads, which in turn may become prospects when they are ready to be drilled;
Proterozoic	an era of geological time spanning the period from 2,500 million years to 570 million years before present;
proven and probable coal reserves	the reserves of coal as independently assessed by CSA Group;
qualified person	“Qualified person” for the Coal Competent Person’s Report means an individual who is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these; has experience relevant to the subject matter of the mineral project and the technical report; and is a member or licensee in good standing of a professional association;
Reverse Circulation or RC	a drilling method in which the fragmented sample is brought to the surface inside the drill rods, thereby reducing contamination; commonly used with a percussion hammer bit;
risked recoverable reserves	unrisked reserves, which have been reduced in volume as a consequence of applying COS factors to their recoverability;
rock chip sampling	the collection of selective or representative samples of rock fragments within a limited area;
sandstone	a sedimentary rock composed of cemented or compacted detrital minerals, principally quartz grains;
scf	standard cubic feet;
schist	a crystalline metamorphic rock having a foliated or parallel structure due to the recrystallisation of the constituent minerals;
shale	a fine-grained, laminated sedimentary rock formed from clay, mud and silt;
soil sampling	the collection of soil specimens for mineral analysis;
TCF	trillion cubic feet of gas;
TD	total depth of a well;
Tertiary	the subdivision of geological time covering the period from 65 million years to 1.6 million years ago;
thrust	a low angle (shallowly inclined) fault or shear on which the rocks on the top have moved up and over the rocks on the bottom;
TOC	total organic content;
trench sampling	a sampling technique in which a shallow linear excavation is made in the ground surface, which is then methodically sampled, generally along one wall;
TVDSS	true vertical depth sub-sea; and
unrisked recoverable reserves	estimated reserves of hydrocarbons before applying the COS factor as to their recoverability.

PART 1

KEY INFORMATION

The following should be read in conjunction with the full text of this document.

Forum Energy Plc

Forum Energy is a UK-based resources company focused on the development of oil, gas and coal assets in the Philippines.

The Group was established in April 2005 through the consolidation of the Philippines assets of FEC Resources, Inc. of Canada and Sterling Energy Plc of the UK into one corporate entity.

Sterling transferred its GSEC 101 (Reed Bank) licence and FEC transferred its 66.7 per cent interest in Forum Exploration, Inc. into the Company. The Company raised £3,400,000 before expenses at a Pre-IPO Placing which completed in May 2005.

As at the date of this document, Sterling has a 23.0 per cent. interest in the Company and FEC has a 57.4 per cent. interest. On completion of the Placing, their interests will be reduced to 14.7 per cent. and 36.7 per cent. respectively. Your attention is drawn to the summary of relevant provisions of the City Code on Takeovers and Mergers in paragraph 2.10 of this document.

The Group intends to pursue the exploration, development and exploitation of its onshore and offshore hydrocarbon assets and seek to acquire further licences in the Philippines. It has entered into a partnership agreement with Basic Consolidated, a company with Philippines oil and gas assets, giving the Group the exclusive right to negotiate, until 17 November 2005, to acquire the entire share capital of Basic Petroleum Inc., a wholly owned subsidiary of Basic Consolidated. The Group has also entered into a similar arrangement with MG Mining with a view to a possible merger into a joint venture company of the Philippines coal assets of MG Mining and Forum Energy. Further details of these arrangements are set out in paragraphs 9.12.4 and 9.12.6 of this document.

Forum Energy's management team has extensive experience in developing discoveries and prospects to production, and relationships within the Government of the Philippines.

Assets

The Group's assets consist of:

- 100 per cent. interest in GSEC 101 (Reed Bank), an offshore licence which contains the Sampaguita Gas Field as well as several leads.
- an interest of 66.7 per cent. in SC 40 (Cebu), a service contract which contains the onshore Libertad Gas Field and Maya discovery and several other prospects including onshore Jibitnil Island and offshore Central Tañon.
- an interest of 66.7 per cent. in two Coal Operating Contracts on Cebu Island.

Reserves

PGS has produced an Oil & Gas Competent Person's Report covering GSEC 101 (Reed Bank) and SC 40 (Cebu). The report, set out in Part 5 of this document, provides a summary of the discoveries and prospects identified within the two licence areas. A summary of the estimated potential reserves in each licence is included in this report. On a risked basis, estimated potential reserves from the three discoveries total some 2,330 BCF of gas. Estimated risked reserves from prospects within the licences total some 93 mmbbl of oil or in the event that they prove gas bearing 320 BCF of gas. The figures below are the gross reserves of the discoveries, prospects and leads.

<i>Prospect and Discovery Summary</i>						
<i>Prospect</i>	<i>Licence</i>	<i>Target Depth (ft)</i>	<i>Water Depth (ft)</i>	<i>Chance of Discovery¹</i>	<i>Potential Reserves</i>	
					<i>Oil (mmbbl)</i>	<i>Gas (BCF)</i>
Sampaguita ³	GSEC 101 (Reed Bank)	10,300	260	1	—	2,329
Central Tañon	SC 40 (Cebu)	3,700	650	0.115	265	660
Jibitnil Island	SC 40 (Cebu)	4,100	Onshore	0.115	85	450
South Guintacan	SC 40 (Cebu)	6,000	100	0.099	70	330
West Malapascua	SC 40 (Cebu)	2,900	120	0.115	80	185
West Toledo ²	SC 40 (Cebu)	7,500	350	0.113	97	332
Agojo	SC 40 (Cebu)	4,700	250	0.1	60	210
North Bantayan	SC 40 (Cebu)	7,600	300	0.08	250	1,000
Libertad	SC 40 (Cebu)	650	Onshore	1	—	0.5
CMB ⁴	SC 40 (Cebu)	1,500	Onshore	1	0.14	0.64

- 1 Prospect chances of success are not independent. Failure to discover commercial hydrocarbons in one prospect is likely to reduce the chance of success in the others.
- 2 As currently mapped, only a small part of these potential reserves may be under SC 40 (Cebu).
- 3 Potential gas reserves assume a recovery factor of 0.85.
- 4 Potential oil reserves are limited to primary recovery. Recovery factors for oil and gas are assumed to be 0.05 and 0.85 respectively.

CSA Group has produced a Coal Competent Person's Report covering the South and Central Cebu COCs held by FEI in which the Company has an interest of 66.7 per cent. This report, set out in Part 6 of this document, details the reserves within these two COCs. Proven and probable coal reserves for all tenements are estimated to be 1.4 million metric tonnes and 3.5 million metric tonnes respectively. The figures below summarise the gross reserves of the COCs.

<i>Region</i>	<i>Block</i>	<i>Metric Tonnes</i>		
		<i>Proven</i>	<i>Probable</i>	<i>Insitu</i>
Central Cebu	CB 33-I-193	135,887	81,861	2,980,000
	CB 33-I-194	55,879	217,635	310,000
	CB 34-I-68	73,904	287,840	410,000
	CB 34-I-69	234,330	912,664	1,300,000
Subtotal		500,000	1,500,000	5,000,000
South Cebu	CB-179	350,985	683,202	806,453
	CB-180	71,583	171,690	546,773
	CB-219	197,391	473,437	1,507,734
	CB-259	280,041	671,671	2,139,040
Subtotal		900,000	2,000,000	5,000,000
TOTAL		1,400,000	3,500,000	10,000,000

Note that reserves and resources quoted in this coal report have not been re-defined to JORC or NI43-101 standards.

Strategy

Forum Energy intends to explore, appraise and develop existing assets to optimise value and acquire further licences and assets within the Philippines. To fulfil this strategy, in the short term, the Group intends to:

- delineate reserves in the Reed Bank Licence Sampaguita Gas Field through the current acquisition of 3D seismic data;
- develop the SC 40 Libertad Gas Field and commence gas-to-electricity production;
- prove reserves in the Maya structure;
- interpret the 2D seismic data acquired over prospects offshore SC 40 (Cebu);
- develop to production Coal Blocks within the COCs; and
- carry out due diligence on the assets of Basic Petroleum Inc. and MG Mining

In the medium to long-term future the Group intends to:

- explore and, where appropriate, exploit additional prospects;
- commercialise the Sampaguita Gas Field; and
- acquire further licences and assets within the Philippines.

The Directors believe that this strategy is likely to require the development of partnerships with other companies, in particular covering the deep water prospect of Central Tañon. The Group will seek to enter into such arrangements when the Directors believe that they will further the development of its strategy.

Management

The Board of the Company comprises individuals from the UK and Canada who have extensive experience in the energy sector as well as detailed knowledge of the Philippines business environment. The Directors between them have directly relevant experience in sourcing and evaluating hydrocarbon prospects, leads and plays and bringing them into production.

Reasons for the Placing and use of proceeds

The Company raised net proceeds of £3,000,000 through the Pre-IPO Placing primarily to fund the acquisition of seismic data over the Sampaguita Gas Field within the Reed Bank Licence and over certain offshore SC 40 (Cebu) prospects and to meet certain pre-existing liabilities and expenses.

The Company intends to raise through the Placing £10 million net of expenses. This sum is required to carry out the work programme agreed by the Directors to exploit the potential in the assets including the interpretation of seismic data, the exploration of the COCs, the due diligence over the Basic Petroleum Inc. and MG Mining assets and the provision of working capital for other purposes.

The Directors believe that Admission will allow the Group to incentivise its management and employees through the award of options or similar equity incentives. Details of the Share Option Plans and the options proposed to be granted on Admission are set out in paragraph 2.11 of this document and in paragraphs 9.6.1 and 9.8. Admission will also enlarge the existing shareholder base and increase the Group profile in the oil, gas and coal sector. It will also give the Group access to the capital markets to help fund its future development plans, including the possible financing of new licences or service contracts in the region.

Risk Factors

The exploration and development of natural resources is a highly speculative activity that involves a high degree of risk. Your attention is drawn to the risk factors referred to in Part 4 of this document.

PART 2

INFORMATION ON THE GROUP

2.1 INTRODUCTION

Forum Energy is a UK-based resources company focused on the development of oil, gas and coal assets in the Philippines. Established in May 2005, the Group now comprises what was formerly Sterling's Philippines asset, GSEC 101 (Reed Bank), with FEC's 66.7 per cent. interest in FEI, a Philippines company holding an interest in SC 40 (Cebu), and FEC's 66.7 per cent. interest in the South Cebu and Central Cebu COCs. As at the date of this document, Sterling owns 23.0 per cent. of the issued share capital of the Company and FEC owns 57.4 per cent. On completion of the Placing, their interests will be reduced to 14.7 per cent. and 36.7 per cent. respectively. Your attention is drawn to the summary of relevant provisions of the City Code on Takeovers and Mergers set out in paragraph 2.10 of this document.

The Group intends to pursue the exploration, development and exploitation of its assets in the region, utilising the experience of its Directors in the sector and their relationship with the DOE. It is also the intention of the Directors to obtain further hydrocarbon licences in the future should they become available.

The Group has entered into an exclusivity agreement with Basic Consolidated, a company with Philippines oil and gas assets, with a view to a possible merger with the Group of the Philippine petroleum interests of its wholly owned subsidiary, Basic Petroleum. The Group has also entered into a similar arrangement with MG Mining with a view to a possible merger into a joint venture company of the Philippines coal assets of MG Mining and Forum Energy. Further details of these arrangements are set out in paragraphs 9.12.4 and 9.12.6 of this document.

The Group's assets consist of:

- 100 per cent. interest in GSEC 101 (Reed Bank), an offshore licence in the South China Sea to the west of the Philippine island of Palawan covering 10,360 km². Sterling transferred the licence into the Group by way of the Reed Bank Acquisition Agreements. GSEC 101 (Reed Bank) contains the Sampaguita Gas Field as well as several leads. Three wells drilled in the 1970's and 1980's into the Sampaguita structure have tested gas, resulting in estimated potential reserves of 2.3 TCF of gas in the Sampaguita Gas Field;
- an interest of 66.7 per cent. in SC 40 (Cebu), a service contract over land and sea around the northern part of Cebu Island covering 4,580 km². FEC transferred the whole of its 66.7 per cent. interest in FEI into the Group by way of the FEI Acquisition Agreements. FEI itself has a 100 per cent. interest in the SC 40 (Cebu). SC 40 (Cebu) contains the small onshore Libertad Gas Field as well as the modest onshore Maya oil and gas discovery and several larger prospects, including Jibitnil Island (onshore) and Central Tañon (offshore); and
- an interest of 66.7 per cent. in two COCs, situated on Cebu Island. The two contracts cover an area of almost 7,000 hectares and contain proven and probable reserves of 4.9 million tonnes of coal.

Further details of the Reed Bank Acquisition Agreements, the FEI Acquisition Agreements and the Group's oil and gas licences and coal contracts are set out in paragraphs 9.10, 9.11 and 9.12 of this document.

Each of Sterling and FEC has agreed not to compete with the Group's business in the Philippines for a period of three years from Admission.

2.2 THE REPUBLIC OF THE PHILIPPINES

The Philippines, with a population of over 84 million, is situated in southeastern Asia, and is an archipelago located between the Philippine Sea and the South China Sea. The country covers an area of 300,000 km² and is made up of over 7,000 islands. The country's terrain is a mixture of mountains and coastal lowlands, and contains a variety of natural resources including petroleum, coal, timber, nickel, silver and gold.

The GDP of the Philippines grew by 4.5 per cent. in 2003 to US\$ 77 billion and is expected to grow by 5.2 per cent. in 2004 and 4.2 per cent. in 2005. A target GDP growth rate set by the National Economic and Development Authority, if achieved, is forecast to result in a corresponding increase in electricity demand in the country of 7.6 per cent. per year. This growth in GDP, along with a

growth in population that was estimated to be 1.9 per cent. in 2004, has contributed towards the country's increased demand for electricity and future expected demand.

The country's electricity demand has traditionally been met from generators using a variety of fuels, including oil. The Philippines is an importer of oil, producing 25,000 bopd of oil in 2003, whilst consuming 338,000 bopd. The reliance on expensive imported fuel has hindered the fiscal position of the country. In March 2005, the cost of electricity reached a level where the Government felt compelled to order all Government workers to work a four-day week for two months to reduce energy costs and assist the country's economy.

Under the presidency of Gloria Macapagal-Arroyo, re-elected for a six-year term in May 2004, the Government has sought to reduce the country's dependency on oil imports. At the same time it is attempting to achieve 100 per cent. electrification across the country, increasing the demand for electricity. In pursuing this 'switching and growth' policy, the Government is deregulating the energy sector and is offering incentives for foreign investment in the electricity and exploration and production sectors.

Malampaya Gas Field

The discovery of the Malampaya Gas Field in 1992 by a consortium including Shell and its subsequent development to first production in October 2001, provided the impetus for change within the Philippines' natural gas sector, resulting in an increase in investment in the sector. The project has also helped to cut the country's dependence on oil imports by between 20 and 30 per cent. The field is connected to the shore terminal and on-shore gas facility in Tabangoe, Batangas Province on Luzon Island, through which the field fuels three power plants totalling 2,700MW (19 per cent. of the country's total installed capacity). The field is believed to contain more than 4.3 TCF of gas.

Philippine Energy Plan 2004-2013

The DOE developed the Philippine Energy Plan 2004-2013, detailing the steps required within the country's energy sector to achieve the Government's objective of economic growth. A primary part of the plan details the DOE's rural electrification programme, which it believes will provide the impetus for the socio-economic development of rural communities that lack electricity.

One element of the DOE's plan is the active encouragement of private sector investment over the next two decades to help develop its energy resources, including the oil, gas, coal, hydropower and geothermal sectors.

Regulatory Regime covering hydrocarbons

Presidential Decree No. 87 (as amended in 1983), otherwise known as 'The Oil Exploration and Development Act of 1972', provides the legal structure for exploration and development of petroleum in the Philippines. However, it is the individual service contracts which govern the specific terms of exploration, development and production and sale of hydrocarbons from the various fields.

2.3 GSEC 101 (REED BANK)

The Reed Bank concession, GSEC 101 (Reed Bank), is located in the South China Sea west of Palawan Island. The licence is located to the southwest of the Shell-operated Malampaya Gas Field. GSEC 101 (Reed Bank) was awarded to Sterling in June 2002 and covered an initial two-year term.

Exploration in the area began in 1970 and in 1976 gas was discovered in the Sampaguita structure. In total, four wells have been drilled into the structure, all of them located at the south west end of the structure. Two of the wells were tested and flowed gas.

More recently, in 2003 Sterling reprocessed 250 km of 2D seismic data and completed a feasibility study on the gas-to-liquid options for developing the gas field. The seismic work and the gas-to-liquid study fulfilled the initial work commitments on the concession and Sterling was granted a 12 month extension in June 2004. The Group is currently in the process of acquiring and processing high resolution 3D seismic data over the licence area and is awaiting confirmation from the DOE that it has fulfilled its work commitments required under the 12 month extension. Within a period of six months after receiving the final processed seismic data, there is a requirement for the Group either to notify the DOE that it wishes to drill a well or to relinquish the concession. If the Group chooses to drill a well, it has one year in which to spud it.

It is the Directors' intention to interpret the seismic data and, subject to satisfactory results from the seismic survey and should a suitable target for drilling be identified, enter into a service contract over part of the GSEC 101 (Reed Bank) area which will include the drilling of a well either by the Group or through a farm-out to a third party.

PGS estimate the potential recoverable reserves of the Sampaguita Gas Field to be 2.3 TCF. In addition to the Sampaguita Gas Field, a further eight leads have been identified in the GSEC 101 (Reed Bank) area.

2.4 SC 40 (CEBU)

The SC 40 (Cebu) contract area is located in the Visayan Basin in the central part of the Philippines archipelago. The licence area covers the northern area of Cebu Island and the adjacent offshore areas in the Central Tañon Strait and Visayan Sea. Since 1994 a total of 15 wells have been drilled offshore in the Visayan Basin.

FPI acquired an interest in GSEC 69 in the early 1990s. The concession was subsequently converted to a service contract, SC 40 (Cebu), the original term of which was for seven years. In September 1997, FPI transferred its interest in SC 40 (Cebu) to FEI, at that time a wholly owned subsidiary of FPI. FEI subsequently obtained the remaining interest in SC 40 (Cebu), resulting in it now holding 100 per cent. of the service contract.

In September 2003 FEI extended the contract with the DOE for a further three years (being years 8, 9 and 10), with the following work programme commitments:

- drill one well and acquire a minimum of 250 kilometres of seismic in year 8;
- drill two wells in year 9; and
- drill two wells in year 10.

The requirement to acquire the seismic data was deferred by one year by the DOE to not later than the end of year 9 of the contract.

The Group's 2D seismic acquisition over the offshore prospects in the Tañon Strait in the west of SC 40 (Cebu) started on 19 May 2005 and was completed on 22 May 2005. A total of 310 km (275.5 km full-fold) of new data were acquired during the survey.

FEI has the option to declare a field within the contract area commercial and thus relinquish 87.5 per cent. of the licence area and convert the licence into a production contract for a minimum 25 year period and the requirements under the service contract fall away. There are also production bonuses to pay to the DOE as follows:

- US\$250,000 on commencement of production.
- US\$1,000,000 upon production reaching 25,000 bopd.
- US\$2,000,000 upon production reaching 50,000 bopd.
- US\$3,000,000 upon production reaching 75,000 bopd.

Recoverable Costs

In any year FEI can recover from the gross income received under SC 40 (Cebu) all recoverable costs provided that the amount does not exceed 70 per cent. of the total gross income from SC 40 (Cebu) in any year. Operating expenses exceeding 70 per cent. of gross income, including from those years when there was no income, can be recovered in subsequent years. In those years where operating expenses are below 70 per cent. it is possible to allocate the difference between the actual operating expenses and 70 per cent. against the recoverable costs.

FEI is required to remit to the DOE an amount equal to 60 per cent. of the remaining gross income less Filipino participation incentive allowance of 7.5 per cent. The remaining net income is subject to Philippine income tax, which shall be paid by the DOE out of its receipt of funds detailed above.

The Directors expect to declare the Libertad Gas Field commercial in the next 12 months, following which FEI will have to relinquish 87.5 per cent. of the area of SC 40 (Cebu). The Directors have identified the area making up the remaining 12.5 per cent. that includes all the discoveries, prospects and leads which the Directors believe could eventually prove to be commercially viable.

2.4.1 Libertad Gas Field

The Libertad Gas Field is situated in northern Cebu. The field was discovered in the late 1950's but was not developed.

In 1993, a testing programme was completed on two existing wells. During 1994 and 1995 five additional wells were drilled in the Libertad area and one of these wells tested gas and was subsequently completed for production.

In 2004, Forum Energy carried out a feasibility study to determine the most commercially viable option for the development of the field. The results of this work recommended a development plan using three gas-to-electricity generators, with a combined maximum of 3.9 MW.

Negotiations are underway with CEBECO, the local utility company, for the Group to supply power to the local grid. Gas production is currently scheduled for the first half of 2006.

2.4.2 Maya Area Prospect

The Maya area is located north of Libertad on the north eastern tip of Cebu Island. In October 2000 the Group drilled exploration well MST 11A. Although the well encountered oil shows, it was terminated due to mechanical problems.

The Group drilled a further three wells in 2003 one of which, F2-X, encountered multiple oil and gas bearing zones but due to mechanical problems the well was suspended without proper testing.

The Directors believe that the results from the F2-X well signify the presence of a hydrocarbon system in the SC 40 (Cebu) licence area, and they intend to re-enter the well, undertake a work-over and test the flow rate.

2.4.3 Prospects and Leads

In addition to the Libertad Gas Field and the Maya discovery, SC 40 (Cebu) also includes a number of prospects and leads.

The Central Tañon prospect is located within the Tañon sub-basin of the Visayan Basin offshore west Cebu. As detailed further in the Oil & Gas Competent Person's Report in Part 5 of this document, PGS has calculated that this prospect has a total field deterministic value for recoverable reserves of 265 mmbbl of oil, calculated assuming a recovery factor of 20 per cent. and based on an outline of the Group's reserve estimates. If the structure was gas bearing, a deterministic gas recoverable reserve volume would be 660 BCF.

The Jibitnil Island prospect is located in the Central Tañon Strait. PGS has verified the volumes, based on the limited data available to them. These potential recoverable reserves are 85 mmbbl in an oil case and 450 BCF in a gas case.

The key risks associated with these prospects are the integrity of the mapped trap and the presence and effectiveness of the reservoir.

Other prospects and leads within the SC 40 (Cebu) acreage include West Malapascua, South Guintacan, West Toledo, Agojo and North Bantayan.

2.4.4 Seismic Reprocessing and Interpretation

The Group is currently in the process of a review of the prospects and leads within the SC 40 (Cebu) licence and key components of this review are the reprocessing and interpretation of 1,000 km of existing seismic and the interpretation of 310 km of 2D offshore seismic acquired in May 2005 which focused on the Central Tañon and Jibitnil Island prospects.

2.4.5 Farm-out

Once the interpretation of the seismic data has been completed, along with the completion of the testing on the F2-X well, the Directors expect to initiate a farm-out programme over the Central Tañon prospect. The Directors anticipate that this programme will start by the end of 2005.

2.5 COAL ASSETS

FEI was awarded two Coal Operating Contracts on Cebu Island by the DOE on 23 February 2005. CSA Group reports in the Coal Competent Person's Report in Part 6 of this document that the two COCs, located at Balamban-Naga (Central Cebu) and Dalaguete (South Cebu), have estimated proven and probable coal reserves of 4.9 million tonnes of coal.

Central Cebu COC

The Central Cebu COC consists of two sets of two Coal Blocks covering an area of 4,000 hectares. The two sets of Coal Blocks consist of CB 33-I-193, CB 33-I-194, CB 34-I-68 and CB 34-I-69.

South Cebu COC

The South Cebu COC consists of two sets of two Coal Blocks covering an area of almost 2,720 hectares. The two sets of Coal Blocks consist of CB-179, CB-180, CB-219 and CB-259.

2.5.1 Coal Operating Contracts

The COCs have been awarded for one year to allow the Group to undertake exploration within the acreage. The Group has the option to extend the Coal Exploration Phase by one year or declare Coal Reserves in Commercial Quantity and begin the Coal Development Phase, which is for a period of ten years. This phase can be extended for a further period of ten years and thereafter by three year extensions up to a maximum of a further 12 years.

The Group is only able to retain the Coal Blocks within the COCs for which it enters into the Coal Development Phase. All remaining Coal Blocks within the COCs must be relinquished prior to the start of this phase or approved for further exploration. Each COC has the following commitments:

- PhP 600,000 signature bonus;
- Within the first year the Group must secure a Certificate of Non-Coverage and an Environmental Compliance Certificate from DENR and a Precondition Certificate from the NCIP; and
- Implement the work programme detailed in the COC, with a minimum spend of PhP 1,000,000 per block.

In any year the Group is be able to:

- recover from the gross income received under the COC all associated operating expenses provided that the amount does not exceed 90 per cent. of total gross income in any year. Operating expenses exceeding 90 per cent. of gross income, including from those years when there was no income, can be recovered in subsequent years;
- receive a combined fee plus a special allowance of up to 70 per cent. of the net operating income.

The balance of the gross income generated within the COCs is due to the DOE. The Government of the Philippines has granted exemption from all national taxes except income tax to the Group as operator of the contract.

It is the Board's intention to carry out the Coal Exploration Phase over all four blocks in each COC, and subject to results, proceed to the Coal Development Phase on selected Coal Blocks. The Group will either relinquish or extend for a further year the Coal Exploration Phase on the remaining Coal Blocks. It is the Board's intention to proceed to the Coal Development Phase as soon as is reasonably possible.

2.6 STRATEGY AND PARTNERSHIP PROGRAMME

Forum Energy intends to explore, appraise and develop existing assets to optimise value and acquire further licences and assets within the Philippines. To fulfil this strategy, in the short term, the Group intends to:

- delineate reserves in the Reed Bank Licence Sampaguita Gas Field through the current acquisition of 3D seismic data;
- develop the SC 40 (Cebu) Libertad Gas Field and commence gas-to-electricity production;
- prove reserves in the Maya structure;
- interpret the 2D seismic data acquired over prospects offshore SC 40 (Cebu);
- develop to production coal blocks within the COCs; and
- carry out due diligence on the assets of Basic Petroleum Inc. and MG Mining

In the medium to long-term future the Group intends to:

- explore and where appropriate, exploit prospects including Jibitnil Island, Central Tañon, Reed Bank;
- commercialize Sampaguita Gas Field; and
- acquire further licences and assets within the Philippines.

The Directors believe that this strategy is likely to require the development of partnerships with other companies, as is the norm in the sector, and in particular, covering the deep prospect of Central Tañon. The Group will seek to enter into such arrangements when the Directors believe that they will further the development of its strategy. The Directors believe that these arrangements may include:

- joint venture arrangements;
- farm-in agreements; or
- direct participation by partners in the assets;

or a combination of the above.

2.7 REASONS FOR THE PLACING AND USE OF PROCEEDS

The Company raised net proceeds of £3,000,000 through the Pre-IPO Placing primarily to fund the acquisition of seismic data over the Sampaguita Gas Field and to meet certain pre-existing liabilities and expenses. These included the repayment of loans aggregating £200,000 to Sterling and £200,000 to FEC.

The Company intends to raise through the Placing £10 million net of expenses. This sum is required to carry out the work programme agreed by the Directors to exploit the potential in the assets including the interpretation of seismic data, the exploration of the COCs, the due diligence over the Basic Petroleum Inc. and MG Mining assets and the provision of working capital for other purposes.

The Directors believe that Admission will allow the Company to incentivise its management and employees through the award of options or similar equity incentives. Admission will also enlarge the existing shareholder base and increase the Group's profile in the oil, gas and coal sectors. It will also give the Group access to the capital markets to help fund its plans, including the possible financing of licences or service contracts in the region and to implement the development of its assets.

2.8 DIRECTORS

All the Directors have experience of both the oil and gas and the coal exploration and production businesses. The Directors of the Company are:

Alan Brodie Henderson, aged 71, Non-Executive Chairman

Alan Henderson has over 20 years' experience in the oil and gas industry during a career spanning over 40 years. Alan is currently a director of Aberdeen New Thai Investment Trust Plc, Aberdeen New Dawn Investment Trust Plc and Global Energy Development Plc. He has held several non-executive directorships, including Ranger Oil (UK) Ltd between 1972 and 1992 and ADT Limited between 1992 and 1997. He was an executive director of Ranger Oil (UK) Ltd between 1991 and 2000, and chairman between 1995 and 2000.

David Russell Robinson, aged 41, Chief Executive Officer

David Robinson has spent the past 19 years working in both the investment business and petroleum industry. He joined Arakis Energy Corporation in March 1990, leaving in December 1996 and becoming president and chief executive officer of NASDAQ-quoted Odyssey Petroleum Corporation in 1997. In 1999, David Robinson became chief executive officer of Tracer Petroleum Corporation (renamed FEC), resigning on 18 May 2005. In March 2002 he was appointed president and chief executive officer of Toronto Stock Exchange-listed Aurado Energy Inc. He has been responsible for raising over US\$200 million in equity capital for various companies for investment in major international petroleum projects in countries including Sudan, Oman, Papua New Guinea, Indonesia, Ukraine, Kazakhstan, Egypt, Iran, and Turkmenistan. He rejoined FEC in March 2003 as president and chief executive officer. David Robinson has an MBA from Queens University and a

BSc. (Geol) from the University of British Columbia. David Robinson is now employed solely by the Company as Chief Executive Officer. Summary details of his service contract are provided in paragraph 9.7.1.

David Michael Thompson, aged 52, Chief Financial Officer

David Thompson has over 25 years of financial experience. He joined the Larmag Group of Companies in 1988 and established the oil trading company Larmag Energy Trading Limited based in Bermuda with offices in the US and Europe. He was appointed senior vice president when he became the finance director for Larmag Energy operating in Turkmenistan in 1992. David Thompson has helped to raise over US\$100 million in funds for the Larmag Group of Companies and has negotiated a number of farm-outs to reduce Larmag's interest to Odyssey Petroleum Corporation and later Dragon Oil Plc. David Thompson became the chief financial officer of Toronto Stock Exchange-listed Aurado Energy, Inc in 2002 and became the chief financial officer of FEC in 2003 before resigning on 18 May 2005. David Thomson is now employed solely by the Company as Chief Financial Officer. Details of his contract are provided in paragraph 9.7.1.

Ian Ronald Baron, aged 49, Non-Executive Director

Ian Baron is a geology graduate who has worked in the upstream oil and gas industry for 28 years. He has held positions including chief executive officer of Dragon Oil Plc, vice president of business development for Conoco Middle East Ltd in Dubai, and exploration director of two listed oil companies in Australia. He was chief operating officer of Aurado Energy Inc, and is an executive officer of a private company with oil and gas activities in Russia, as well as vice president upstream at ESG.

Barry Stansfield, aged 55, Non-Executive Director

Barry Stansfield is an independent director with broad experience of business spanning over 30 years. He was co-owner and managing director of Stansfield Lake & Company Limited, a London based marketing company until the company was acquired by Communicator Plc. He is chairman of FEC and has been an independent director with them since April 2003. He is also a partner in a private property investment company based in southern England.

Graeme Paul Thomson, aged 48, Non-Executive Director

In 1989 Graeme Thomson co-led a management buy-in of AmBrit International Plc, which was taken over in 1992. He then joined the Kirkland Group, which later became Dragon Oil Plc, where he served as finance director and company secretary until April 1999. A founder partner of Endeavour Oil & Gas Limited Partnership and Sterling, he also assisted unquoted and quoted companies in a variety of areas including corporate finance, accounting, commercial and strategic affairs. Following the listing of Sterling on AIM in 2002 he was appointed finance director of Sterling.

Henry George Wilson, aged 52, Non-Executive Director

Henry Wilson joined BP Plc and worked for 17 years in a variety of exploration and corporate finance roles. In 1987 he left BP Plc to form Kirkland Resources which was listed in London as Dragon Oil Plc in 1993. In 1997, he was the principal founding partner of the Endeavour Oil & Gas Limited Partnership and following its successful sale in 2000 was a founding partner and director of Sterling. Following the listing of Sterling on AIM in 2002 he was appointed chief executive of the Sterling group.

Senior management

The Board considers Peter Bradley to be a key senior member of the Group's management team.

Peter Bradley, General Manager

Peter Bradley has more than 30 years' experience in the international oil and gas industry. During the 1970's, as a petroleum geologist and a petroleum engineer, he worked on upstream projects in many parts of the world. Throughout the 1980's he was operations manager with Pennzoil, managing six joint ventures with 22 exploration and production licences on the Dutch Continental Shelf. In 1990, he became technical manager with Clyde Petroleum Plc and was responsible for the start-up of joint venture programmes for Clyde Petroleum Plc in Yemen and for Lone Star Energy

in Morocco. He has also managed major field development programs in India and Turkmenistan for Command Petroleum and Dragon Oil Plc respectively. Peter Bradley was responsible for the fast tracking of wells in India and Bangladesh as group drilling manager for Cairn Energy Plc. He is also vice president operations at ESG.

Offices and other staff

The Group has offices in Metro Manila and intends to establish a head office in London. The office in the Philippines has six full time support staff.

Related parties' contracts

The Group retains three consultants in Manila who provide geological and geophysical services, and ESG to provide technical management services. It is the intention of the Group to maintain these relationships for the foreseeable future. In addition, Sterling provides consulting services to the Group by way of a services contract signed between the two companies as detailed in paragraph 9.12.5.

The Board intends to outsource certain skilled roles to third party providers, including the acquisition of seismic data and the drilling of offshore wells. FEI owns its own land drilling rig which the Directors' intend to use to drill wells in the Maya area and other selected sites.

2.9 SUMMARY FINANCIAL INFORMATION

Trading Record

Since establishment, the Group has not generated any revenues. The Group operates in the oil, gas and coal exploration sector, within which it is usual for businesses not to generate revenues during the early stages of the life of an asset while the asset is evaluated and developed prior to production. FEI generated no revenue for the year ended 31 December 2004. Further financial information on FEI and the Company is set out in Part 7 of this document.

Recoverable Costs

As at 31 December 2004 the Group had PhP 493,742,914 (approximately US\$9.1 million) of costs recoverable from the DOE in relation to SC 40 (Cebu). Should the Group not generate income from the licence or relinquish it, then these potentially recoverable costs will be forfeited.

Contingent Repayment

FEI was partly financed through an advance from Forum Pacific Inc. ("FPI"), a 33 $\frac{1}{3}$ per cent. shareholder in FEI. As at 31 December 2004, the amount outstanding to FPI totalled PhP 368,804,014 (approximately US\$6.8 million). Any amounts outstanding are only repayable once the DOE permits the recovery of the costs, as detailed in the 'Recoverable Costs' paragraph above, against income. FPI is entitled to receive 50 per cent. of the costs recovered each year as repayment of the advance.

FEC became responsible for funding FEI from the effective date of 1 November 2002. During the period from then to 31 December 2004, costs advanced from FEC to FEI totalled PhP 109,270,611 (approximately US\$2.0 million). The liability of FEI to FEC was assigned from FEC to the Group on 18 May 2005.

FEI Shareholder Agreement

In March 2003, FEC acquired 66.7 per cent. of the share capital of FEI and agreed to meet 100 per cent. of the costs of FEI over the following 18 months. This period has now expired and the Group and FPI are in discussion over a new agreement. Since 18 May 2005 the Company has funded and will continue to fund the administration and operations of FEI from 1 March 2005, up to the point when the COCs generate revenue. The funds provided by the Group are in the form of a non-interest bearing shareholder advance, denominated in US dollars.

The Group shall meet the cash calls from FEI for exploration and development costs on the oil and gas interests of FEI on a *pro rata* basis. Should FPI not be able to meet its share of the cash call, then its share shall be diluted proportionate to the pro-rata share of the cash call and a back-in provision will require the original payment to be made plus a 400 per cent. penalty to maintain its shareholding.

Further financial information on FEI is set out in Part 7 of this document.

Financial controls

The Group's finance function will be headed by the Chief Financial Officer, David Thompson. The key financial controls employed by the Group are summarised below:

- the individual budgets and business plans for each licence or service contract are consolidated to produce a Group budget and business plan which is approved by the Board. The performance of each asset against the budget will be monitored on a monthly basis through monthly management accounts and significant variances against budget will be investigated and appropriate measures taken where necessary;
- all capital expenditure items will be approved at Board level;
- the Board will meet at least every three months to review the financial performance of the Group. The Executive Directors will review performance on a monthly basis and address operational and strategic issues as required; and
- there will exist within the Group appropriate levels of delegated authority covering the key areas of the Group's operations.

The Group does not currently operate an internal audit function as the Directors do not believe that, given the current size and complexity of the Group, the cost would deliver appropriate benefits.

2.10 THE CITY CODE ON TAKEOVERS AND MERGERS

The City Code on Takeovers and Mergers ("City Code") is issued and administered by the Panel on Takeovers and Mergers (the "Panel") and applied to all takeover and merger transactions, however effected, where the offeree company is a public company, whether quoted or unquoted, incorporated and resident in the United Kingdom, the Channel Islands or the Isle of Man. The City Code also applies to certain categories of private limited companies. Forum Energy is a company to which the City Code applies and its shareholders are accordingly entitled to the protections afforded by the City Code.

The City Code and the Panel operate principally to ensure fair and equal treatment of shareholders in relation to takeovers. The City Code also provides an orderly framework within which takeovers are conducted. The City Code is not, and does not seek to have, the force of law. It has, however, been acknowledged by both government and other regulatory authorities that those who seek to take advantage of the facilities of the securities markets in the United Kingdom should conduct themselves in matters relating to takeovers in accordance with best business standards and so according to the City Code.

Except with the consent of the Panel, when any person acquires, whether by a series of transactions over a period of time or not, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30 per cent. or more of the voting rights of a company, such person shall extend offers to the holders of any class of equity share capital whether voting or non-voting and also to the holders of any class of voting non-equity share capital in which such person or persons acting in concert with him hold shares.

Under rule 9 of the City Code, when any person, or persons acting in concert, holds not less than 30 per cent., but not more than 50 per cent., of the voting rights exercisable at general meetings of a company and that person, or any persons acting in concert with him, acquires any additional shares which increases his percentage of the voting rights, then such person would normally be obliged to extend a general offer to all shareholders of that company to purchase their shares for cash.

Under the City Code, persons acting in concert comprise persons who, pursuant to an agreement or understanding (whether formal or informal), actively co-operate, through the acquisition by any of them of shares in a company, to obtain or consolidate control of that company. Control means a holding, or aggregate holdings, of shares carrying 30 per cent. or more of the voting rights of a company, irrespective of whether the holding or holdings give *de facto* control.

Following Admission, FEC will hold approximately 36.7 per cent. of the voting rights exercisable at general meetings of the Company. Accordingly, it (and any persons acting in concert with it for the purposes of the City Code) will be restricted from acquiring additional shares carrying voting rights exercisable at general meetings of the Company without making a general offer under rule 9 of the City Code.

2.11 SHARE OPTIONS

The Directors believe that equity incentives are and will continue to be a means of retaining, attracting and motivating employees. On Admission, the number of Ordinary Shares under option will be 1,218,000 (representing 5.1 per cent. of the Company's enlarged issued share capital). In addition the Board has set aside a pool of 230,000 options for granting to Philippines-based employees which will be allocated as soon as possible after Admission. The Board intends to limit the number of share options available to Directors and employees to a maximum of 8 per cent. of the Company's issued share capital. The grant of further options under the Share Option Plans will be made by the Board based upon recommendations by the remuneration committee.

Further details of options to be granted by the Company on Admission and of the Share Option Plans are set out in paragraphs 9.6 and 9.8 respectively.

2.12 CORPORATE GOVERNANCE

The Board is responsible for establishing the strategic direction of the Group, monitoring the Group's trading performance and appraising and executing development and acquisition opportunities. The Company will hold at least four Board meetings each year.

The Company and the Directors intend to comply with the Combined Code on the Principles of Good Governance and the Code of Best Practice so far as is reasonably practicable for a company of Forum Energy's size. Where full compliance is not appropriate due to the size of the Group, the Directors will refer to guidance issued by the Quoted Companies Alliance.

- The Board has established an audit committee, which consists of Graeme Thomson (chairman), and Alan Henderson and Barry Stansfield. The audit committee is primarily responsible for ensuring that the financial performance of the Company is properly measured and reported on and will review any reports from the management and the auditors regarding the accounts and will consider draft interim and annual accounts. The audit committee will make recommendations concerning the application of the financial reporting and internal control principles, including reviewing the effectiveness of the Company's financial reporting, internal control and risk management procedures and the scope, quality and results of the external audit. It will also make recommendations to the Board on the appointment of the auditors and the audit fee. It will meet at least twice in each year.
- In addition, the Board has established a remuneration committee which consists of Alan Henderson (chairman), and Henry Wilson and Ian Baron. The remuneration committee will be responsible for making recommendations to the Board on remuneration policy for the Executive Directors and the terms of their service contracts, with the aim of ensuring that their remuneration, including awards made under the Share Option Plans, is based both on their own performance and that of the Group generally. The remuneration committee will administer and establish applicable performance targets for the Directors. The Group intends to adopt a policy of regular reviews of option awards and the remuneration committee will meet every six months to ensure the appropriate incentives are in place. In addition, it will advise on the remuneration policy for the Group's employees. In exercising this role, the terms of reference of the remuneration committee will require it to comply with the Code of Best Practice published in the Combined Code. The remuneration committee will also have responsibility for making recommendations on the appointment of additional directors to the Board.

The Company has adopted a code for dealings in its Ordinary Shares by Directors and senior employees which is appropriate for an AIM company and which complies with the AIM dealing rules.

2.13 DIVIDEND POLICY

It is the Directors' present intention not to pay dividends in the near future. The Directors expect to retain any earnings to finance the further growth of the Group's business.

2.14 CREST

CREST is a paperless settlement system enabling securities to be evidenced other than by a physical certificate and transferred other than by written instrument. The Board has resolved that the Ordinary Shares may be held and transferred both in certificated form and in uncertificated form in accordance with the Uncertificated Securities Regulations and the Articles contain provisions

implementing this. The Directors will apply for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant shareholders so wish.

2.15 TAXATION

Information regarding taxation is set out in paragraph 9.9 of this document.

2.16 FURTHER CONSIDERATIONS

Your attention is drawn to the Risk Factors set out in Part 4 of this document and to Part 9 of this document which contains further information on the Group. An investment in the Company may not be suitable for you for several reasons.

PART 3

THE PLACING

3.1 SHARES SUBJECT TO THE PLACING

The Company intends to issue 9,821,450 new Ordinary Shares by way of the Placing in order to raise net proceeds of £10 million. Noble are acting as agent of the Company in respect of the Placing. The Placing is not being underwritten.

3.2 THE PLACING

The Company, the Directors, FEC, Sterling and Noble have today entered into the Placing Agreement pursuant to which Noble has agreed, subject to the fulfilment of certain conditions, to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. All Placing Shares are of the same class and rank *pari passu* with the existing Ordinary Shares.

The terms and conditions relating to the Placing are set out in the Placing Agreement and described in paragraph 9.12.8 of this document. Allotments of Placing Shares are wholly at the discretion of Noble in consultation with the Company.

The Placing is subject to the satisfaction or waiver of conditions set out in the Placing Agreement including the absence of any breach of representations or warranties made by the warrantors and on Admission occurring on or before 2 August 2005 (or such later date as may be agreed between Noble and the Company, being in any event not later than 5 pm on 12 August 2005). Certain conditions are not capable of waiver.

Admission is expected to take place and dealings in the Ordinary Shares are expected to commence on 2 August 2005. CREST accounts are expected to be credited on 2 August 2005 and definitive share certificates (as appropriate) will be despatched as soon as practicable thereafter and, in any event, by 12 August 2005.

The Placing Shares represent 36.1 per cent. of the Company's enlarged issued share capital on Admission.

The Directors' interests immediately following Admission will amount, in aggregate, to 0.8 per cent. of the enlarged issued share capital of the Company on Admission. The interests of FEC and Sterling immediately following Admission will amount to 36.7 per cent. and 14.7 per cent. respectively of the enlarged issued share capital of the Company on Admission.

3.3 LOCK-IN ARRANGEMENTS

Sterling and FEC have undertaken to Noble that they will not, subject to certain limited exceptions (including, for example, by accepting or giving an irrevocable undertaking to accept a takeover offer for the Company or pursuant to any compromise or arrangement for the acquisition by any person or group of persons acting in concert of 50 per cent. or more of the equity share capital of the Company), dispose of any of their Ordinary Shares (other than amounts which in aggregate are up to five per cent. of their individual shareholdings at the date of Admission) for a period of 12 months after Admission without the consent of Noble and for a further six months thereafter only to dispose of such shares in accordance with the orderly marketing requirements of Noble.

PART 4

RISK FACTORS

In addition to the information contained elsewhere in this document, prospective investors should consider carefully the risk factors set out below when evaluating an investment in the Company. The risks associated with subscribing for Placing Shares include, but may not be limited to, the following identifiable risks which, individually or in aggregate, could have a material effect on Forum Energy and on shareholders.

An investment in the Company involves a high degree of risk and is highly speculative due to the short operational history of the Company, the limited scope of its assets and the nature of oil, gas and coal exploration and development.

The following factors do not purport to be a complete list or explanation of all the risk factors involved in investing in Forum Energy. In particular, the Company's performance may be affected by changes in the market and/or economic conditions and in legal, regulatory and tax requirements.

Forum Energy Specific Risks

- The Sampaguita Gas Field may not prove to be commercially attractive for developing the field to production.
- The prospects and leads identified in SC 40 (Cebu) and GSEC 101 (Reed Bank) may not contain hydrocarbons, or may be commercially unattractive to develop.
- An attractive gas or electricity sales price may not be negotiated as part of the Libertad electricity generation resulting in the NPV of the gas sales agreement being of lower value to the Company's shareholders.
- The hydrocarbons associated with prospects identified from the Reed Bank Licence seismic acquisition may prove to be non-recoverable or uneconomic.
- A new 3D or 2D seismic acquisition programme may not improve information on the exploration and development prospects.
- The political situation in the Philippines and Government policy towards inward investors such as the Group may become less stable and/or predictable and thereby reduce the attractiveness of investment in the country for oil, gas and coal projects. The Government of the Philippines may decide unilaterally to rescind the various awards of licences and/or contracts or subject them to more onerous terms.
- The Group's business operations are at an early stage of development and its success will depend largely upon the outcome of the projects that Forum Energy is undertaking and proposes to undertake.
- Following the exploration phase of the COCs, the extraction of the coal may prove to be commercially unattractive. In addition, during the production phase, the mining may incur an increase in costs, unforeseen difficulties in extracting the coal, or lower coal prices which may reduce the NPV of the coal mining operations.

Exploration, Production and General Operational Risks

The Group's operations may be disrupted by a variety of risks and hazards which are beyond its control, including environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, earthquakes, unusual or unexpected geological formations, flooding, earthquake and extended interruptions due to hazardous weather conditions, explosions and other accidents. These risks and hazards could also result in damage to, or destruction of, wells or other production facilities, personal injury, environmental damage, business interruption, monetary losses and possible legal liability.

The nature of reserve quantification studies means that there can be no guarantee that estimates of quantities and quality of oil and gas discovered will be available for extraction. Delays in the construction and commissioning of projects or other technical difficulties may result in the Group's current or future projected target dates for production being delayed or further capital expenditure being required. If the Group fails to meet its work and/or expenditure commitments,

the rights granted therein may be forfeited and the Group may be liable to pay large sums, which could jeopardise its ability to continue operations.

Risks Related to the Oil and Gas and Coal Industries Generally

Oil and Gas Drilling is Speculative

Drilling oil and gas wells is speculative, may be unprofitable and may result in a total loss of investment. The Group may never identify commercially exploitable deposits or successfully drill, complete or develop oil and gas reserves. Completed wells may never produce oil or gas, or may not produce sufficient quantities to be profitable or commercially viable.

Oil and Gas Pricing and Demand

The price of and demand for oil and gas is highly dependent on a number of factors, including worldwide supply and demand levels, energy policies of governments and oil-producing cartels, weather, competitiveness of alternative energy sources, global economic and political developments and the volatile trading patterns of the commodity futures markets. Natural gas prices also continue to be highly volatile. Changes in oil and gas prices can impact on the Group's valuation of reserves. International oil and gas prices have fluctuated widely in recent years and may continue to do so in the future. Lower oil and gas prices will adversely affect the Group's revenues, business or financial condition and its valuation of its reserves. In periods of sharply lower commodity prices, the Group may curtail production and capital spending projects and may defer or delay drilling wells because of lower cash flows. In addition, the demand for and supply of oil and gas in the Philippines and worldwide may affect the Group's level of production.

Volatility of Price of Coal

The market price of coal is volatile and is affected by numerous factors which are beyond the Group's control. These could include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, the cost of freight, global or regional political events and international events as well as a range of other market forces. Sustained downwards movements in coal market prices could render less economic, or uneconomic, some or all of the coal exploration and/or extraction activities undertaken by the Group.

Exploration and Development of Coal Resources

The exploration for, and development of, coal deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. Not all properties which are explored are ultimately developed into producing mines. There can be no guarantee that estimates of quantities and qualities made will be realised or that appropriate consents will be granted. With all mining operations there is uncertainty and therefore risks associated with operating parameters and costs. Coal exploration is speculative in nature and there can be no assurance that any coal discovered will result in any increase in the Group's resource base.

General Exploration, Mining and Processing Risks

The Group's operations will be subject to all of the hazards and risks normally encountered in the exploration, development and production of coal. These could include unusual and unexpected geological formations, geo-technical instability, results of seismic activity, flooding and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other production facilities, damage to life or property, environmental damage and possible legal liability. Although precautions to minimise risks are taken, operations are subject to hazards, which may result in environmental pollution and consequent liability which could have a material adverse impact on the business, operations and financial performance of the Group.

Foreign Country Operations

There are various risks inherent in overseas operations in certain parts of the world including, among other things, loss of revenue, property and equipment as a result of hazards such as expropriation, war, terrorism and other political risks, increases in taxes and governmental royalties, renegotiation of contracts with governmental entities, changes in laws and policies governing operations of foreign-based companies, price controls, environmental protection regulation,

currency restrictions and exchange rate fluctuations and other uncertainties arising from foreign governmental sovereignty over the Group's operations. These risks may adversely affect the Group's business and operations.

Significant Competition

The Group's competitors include the major oil and gas companies and independent oil and gas companies. The oil and gas business is highly competitive in the search for and acquisition of reserves and in the gathering and marketing of oil and gas production and in the recruitment and employment of qualified personnel. In addition, in the Philippines, the Group will compete with oil and gas companies in the bidding for exploration and production licences. Some of the Group's competitors have significantly greater financial, technical and other resources than the Group and are able to devote greater resources to the development of their business. If the Group is unable to successfully compete, its business will suffer.

Increase in Drilling Costs and the Availability of Drilling Equipment

The oil and gas industry historically has experienced periods of rapid cost increases. Increases in the cost of exploration and development would affect the Group's ability to invest in prospects and to purchase or hire equipment, supplies and services. In addition, the availability of drilling rigs and other equipment and services is affected by the level and location of drilling activity around the world. An increase in drilling operations outside of the Philippines or in other areas of the Philippines may reduce the availability of equipment and services to the Group. The reduced availability of equipment and services may delay its ability to exploit reserves and adversely affect the Group's operations and profitability.

Delays in Production, Marketing and Transportation

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

In addition, marketing demands, which tend to be seasonal, may reduce or delay production from wells. The marketability and price of oil and natural gas that may be acquired or discovered by the Group will be affected by numerous factors beyond the control of the Group. The ability of the Group to market its natural gas may depend upon its ability to negotiate a gas supply contract to the proposed gas-to-electricity power plant. The Group is also subject to market fluctuations in the prices of oil and natural gas, deliverability uncertainties related to the proximity of its reserves to adequate pipeline and processing facilities and extensive government regulation relating to price, taxes, royalties, licences, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. Moreover, weather conditions may impede the transportation and delivery of oil by sea.

Decommissioning Costs

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

Need for Additional Capital

The Group is likely to need to raise additional funds in the future in order to fully develop its planned development of its assets and for other aspects of the business. Additional equity

financing will be dilutive to holders of the Group's then-existing Ordinary Shares in order to attract suitable investors at the time and could contain rights and preferences superior to the Ordinary Shares. Debt financing may involve restrictions on the Group's financing and operating activities. In either case, additional financing may not be available to the Group on acceptable terms. If the Group is unable to raise additional funds as needed, the scope of its operations may be reduced and, as a result, the Group may be unable to fulfil its long-term expansion programme, or in certain circumstances the licence may be lost.

The Group may be required to conduct further fundraising exercises in the future in order to develop its business, sustain cash resources and pursue acquisitions.

Limited Diversification

Generally, risk is reduced through diversification. Diversification is maximised by drilling a large number of wells over a large area of prospects having different geological characteristics. The Group anticipates drilling a limited number of wells in the relatively limited area of the SC 40 (Cebu) and GSEC 101 (Reed Bank) licences. The drilling and development programme, therefore, will have only a limited amount of diversification with a correspondingly higher degree of financial risk for investors.

Insurance Coverage

There are significant exploration and operating risks associated with drilling oil and gas wells, including blowouts, cratering, "sour" gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, environmental risks and fire, all of which can result in injury to persons as well as damage to or destruction of oil and gas wells, equipment, formations and reserves, production facilities and other property. In addition, the Group will be subject to liability for environmental risks such as pollution and abuse of the environment. Although the Group will exercise due care in the conduct of its business and will maintain what it believes to be customary insurance coverage for companies engaged in similar operations, the Group is not fully insured against all risks in its business (as to do so would not be commercially viable). The occurrence of a significant event against which the Group is not fully insured could have a material adverse effect on its operations and financial performance. In addition, in the future some or all of the Group's insurance coverage may become unavailable or prohibitively expensive.

Terrorism and War

Terrorism and other acts of violence or war may affect the Group's operations and profitability. The potential near-term and long-term effects that these attacks may have on the Group's business are uncertain. The consequences of any terrorist attacks or any armed conflicts which may result are unpredictable, and the Group may not be able to foresee events that could have an adverse effect on its business.

Governmental Regulation and Control

Philippines governmental, legal and regulatory restrictions may have a negative impact on the Group's profitability. Increased restraints on the ability of the Group to repatriate funds may limit its ability to distribute profits. Changes in tax laws and tax withholding requirements in the Philippines may reduce the availability of funds to the Group. The government may freeze the Group's assets to collect taxes or as a penalty for the excessive repatriation of funds, which would limit the Group's ability to access its working capital and to distribute its profits. Restrictions on payments to intermediaries may make it more difficult to obtain equipment and supplies and to transport and market oil and gas. In addition, uncertainties arising from governmental sovereignty over the Group's operations creates additional risks, including the potential nationalisation of its operations. Regulations relating to labour may increase the Group's costs or otherwise alter the Group's relationships with its employees.

Environmental Regulation in the Philippines

The Group's operations in the Philippines are subject to environmental regulations promulgated by the Government of the Philippines and the World Bank. Should the Group initiate operations in other countries, such operations will be subject to environmental legislation in such jurisdictions. Current environmental legislation in the Philippines provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil, condensate and

natural gas operations. In addition, certain types of operations may require the submission and approval of environmental impact assessments and contributions to rehabilitation funds. The Group's operations will be subject to such environmental policies and legislation. Environmental legislation and policy is periodically amended. Such amendments may result in stricter standards of enforcement and in more stringent fines and penalties for non-compliance. Environmental assessments of existing and proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The timing and costs of compliance associated with compliance with or changes in environmental regulations could require significant expenditure and breaches of such regulations may result in the imposition of material fines and penalties. In an extreme case, such regulations may result in temporary or permanent suspension of production operations. There can be no assurance that these environmental costs or effects will not have a materially adverse effect on the Group's future financial condition or results of operations.

Reliance on Third Parties

The Group may contract with third parties for equipment and services. The failure of a third party to perform its obligations adequately could subject the Group to additional costs and delays. In addition, failure of a subcontractor to pay for its equipment and services could adversely affect the Group's profitability. If a subcontractor fails to pay for equipment and services in a timely manner, the condition of the wells may suffer, the Group's profitability and working capital position could be adversely affected and certain aspects of the Group's business could be subject to liens. As a result, projects could incur excessive costs to prevent adverse effects on the Group's wells or operations, to satisfy such liabilities or to discharge such liens.

Title Matters

The Group has the right to explore its various licences in the Philippines and, to the best of its knowledge, having taken legal advice, that right is in good standing. However, no assurance can be given that the Government of the Philippines will not revoke, refuse to transfer, or significantly alter, the conditions of the exploration and development authorisations and that such exploration and development authorisations will not be challenged or impugned by third parties. There is no certainty that such right or additional rights applied for or re-applied for will be granted or renewed on terms satisfactory to the Group. There can be no assurances that claims by third parties against its various licenses in the Philippines or other rights will not be asserted at a future date.

Requirement for Permits and Licences

The operations of the Group require licences, permits and in some cases renewals of existing licences and permits from various governmental authorities. The Board, having exercised all reasonable care to ensure that such is the case, believes that the Group has the benefit of all necessary licences and permits to carry on the activities which it conducts under applicable laws and regulations and also believes that the Group is complying in all material respects with the terms of such licences and permits. However, the Group's ability to obtain, sustain or renew such licences and permits on acceptable terms is subject to change in regulations and policies and to the discretion of the applicable government authorities.

General Economic Conditions

Changes in the general economic climate in which the Group operates may adversely affect the financial performance of the Group. Factors which may contribute to that general economic climate include the level of direct and indirect competition against the Group, industrial disruption, the rate of growth of the Philippines's gross domestic product, interest rates and the rate of inflation.

Foreign Currency Exchange Rates

As an international operator, the Group's business transactions may not be denominated in the same currencies. To the extent that the Group's business transactions are not denominated in the same currency, the Group is exposed to foreign currency exchange rate risk. In addition, holders of the Group's shares are subject to foreign currency exchange rate risk to the extent its business transactions are denominated in currencies other than the US Dollar. Fluctuations in foreign currency exchange rates may adversely affect the Group's profitability. At this time, the Group does not plan to actively hedge its foreign currency exchange rate risk.

Ability to Hire and Retain Staff

The Company has a small management team, and the loss of the Chairman or Chief Executive or any other key individual or inability to attract suitably qualified staff could materially adversely impact the business. Difficulties may also be experienced in certain jurisdictions in obtaining suitably qualified staff and retaining staff who are willing to work in that jurisdiction. No assurance can be given that individuals with the required skills will continue their association or employment with the Group or that replacement personnel with comparable skills can be found. The Board has sought to and will continue to ensure that Directors and any key employees are appropriately incentivised. However, their services cannot be guaranteed.

Management Skill

The success of the Group depends on the ability of the Directors to interpret market and geological data correctly and to interpret and respond to economic, market and other conditions in order to locate and adopt appropriate investment opportunities, monitor such investments, and ultimately, if required, successfully divest such investments. Further, no assurance can be given that the Group's investment strategies can be successfully implemented in the future.

AIM

The value of the Ordinary Shares may go down as well as up. Investors may therefore realise less than the original amount subscribed pursuant to the Placing and could lose their entire investment. Furthermore, an investment in a share that is traded on AIM is likely to carry a higher risk than an investment in a share listed on the Official List of the UK Listing Authority. The market value of the Ordinary Shares may not necessarily reflect the underlying net asset value of the Group.

Other Risk Factors

The Group is subject to most of or all of the commercial, legal, employment, operational and reputational risks that also affect others in other business sectors.

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

The information in this document is based upon current tax law and practice and other legislation and any changes in the legislation or in the levels and bases of, and reliefs from, taxation may affect the value of an investment in the Group.

AN INVESTMENT IN FORUM ENERGY MAY NOT BE SUITABLE FOR ALL RECIPIENTS OF THIS DOCUMENT. POTENTIAL INVESTORS ARE ACCORDINGLY ADVISED TO CONSULT A PERSON AUTHORISED UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 WHO SPECIALISES IN INVESTMENTS OF THIS KIND BEFORE MAKING A DECISION.

PART 5

OIL & GAS COMPETENT PERSON'S REPORT



PGS Reservoir Limited
PGS Thames House
17 Marlow Road
Maidenhead
Berks
SL6 7AA

The Directors
Forum Energy Plc
6th Floor
One London Wall
London
EC2Y 5EB

and

The Directors
Noble & Company Limited
76 George Street
Edinburgh
EH2 3BU

30 June 2005

Dear Sirs,

Re: The Petroleum Interests of Forum Energy Plc

In response to your request, we have reviewed the proposed petroleum interests of Forum Energy Plc ("Forum"). Following the signing of the Transaction Agreement between Forum Energy Corporation ("FEC") and Sterling Energy Plc ("Sterling") in April 2005 and the passing of the resolutions put to FEC's shareholders at an EGM on 18 May 2005, Forum has an interest in two contract areas in the Philippines. The contract areas encompass undeveloped discoveries and unexplored and untested exploration prospects.

Our evaluation of those interests is based on a review of information provided to PGS by FEC and Sterling during March 2005. PGS has performed an independent review and evaluation of the interpreted data and in preparing this report PGS have used maps, reports and other pertinent data supplied by FEC and Sterling. Where possible, PGS have substantiated the existence of oil and gas resources from well information and other evidence supplied by the Directors of Forum, FEC and Sterling.

Summary of Interests

Following the signing of the Transaction Agreement and the passing of the resolutions, FEC transferred its 66.7 per cent. interest in Forum Exploration, Inc., ("FFI") a Philippine registered company, which has a 100 per cent. interest in the SC 40 (Cebu) contract area, and Sterling contributed its 100 per cent. interest in the GSEC 101 (Reed Bank) contract area offshore Palawan island to a newly incorporated UK Plc, Forum Energy Plc. The contract areas are shown plotted on a map of the Philippine archipelago in Figure 1. GSEC 101 (Reed Bank) covers an offshore area to the west of Palawan Island, known as the Reed Bank.

The FEC contract area is a service contract (SC) area known as SC 40 (Cebu), which covers the northern half of Cebu Island plus part of the Visayan sea offshore to the west of the island. Several exploration prospects and leads have been identified by FEI within the service contract area, both onshore Cebu, and offshore in the Visayan Sea. A small gas field named Libertad has been discovered and appraised onshore Cebu, but its small size has meant that so far it has not been developed. FEI is currently undertaking a feasibility study aimed at developing Libertad to provide gas for on-site electricity generation.

The prospects and fields identified within the two contract areas are summarised in the table below, and discussed in more detail in the following sections.

Prospect and Discovery Summary					
<i>Prospect</i>	<i>Primary Target Formation</i>	<i>Target Depth ft</i>	<i>Water Depth ft</i>	<i>Chance of Discovery¹</i>	<i>Potential Reserves Oil(mmbbl)/ Gas(bscf)</i>
Central Tañon	Barili Limestone	3700	650	0.115	265/660
Jibitnil Island	Maingit Limestone	4100	Onshore	0.115	85/450
South Guintacan	Maingit Limestone	6000	100	0.099	70/330
West Malapascua	Maingit Limestone	2900	120	0.115	80/185
West Toledo ²	Malubog Sand	7500	350	0.113	97/332
Agojo	Maingit Limestone	4700	250	0.1	60/210
North Bantayan	Cebu Limestone	7600	300	0.08	250/1000
Sampaguita ³	Late Paleocene	10300	260	1	- /2329
Libertad	Barili Limestone	650	Onshore	1	- /0.5
CMB ⁴	Malubog Sand	1500	Onshore	1	0.14/0.64

1 Prospect chances of success are not independent. Failure to discover commercial hydrocarbons in one prospect is likely to reduce the chance of success in the others.

2 As currently mapped, only a small part of these potential reserves may be under SC 40 (Cebu).

3 Potential gas reserves assume a recovery factor of 0.85

4 Potential oil reserves are limited to primary recovery. Recovery factors for oil and gas are assumed to be 0.05 and 0.85 respectively.

GSEC 101 (Reed Bank)

The GSEC 101 (Reed Bank) licence is located in the South China Sea to the west of Palawan in the Reed Bank area and covers an area of 4,023 square miles (10,420 km²). This licence contains the Sampaguita gas discovery and a number of leads as illustrated in Figure 2. Sampaguita is located in 250-270 feet (ca. 75-85 metres) of water, approximately 150 miles (250 kilometres) southwest of the Malampaya Gas Field and a similar distance northwest of Palawan. The Malampaya Gas Field produced first gas in October 2001. Figure 3 shows the location of the GSEC (Reed Bank) area in relation to the Malampaya field, and its associated gas export infrastructure, which consists of a 504 kilometer long 24 inch diameter pipeline delivering gas to landfall on Luzon island.

The Reed Bank area consists of two main highs, which are referred to as the 'North Bank' and 'South Bank', separated by a deeper area. The structure is strongly influenced by a series of northwest – southeast orientated faults formed as a result of the opening of the South China Sea. The Sampaguita gas discovery is located at the southwestern end of the smaller 'South Bank'.

Exploration in the GSEC 101 (Reed Bank) area commenced in 1970 with the acquisition of 2D seismic data. At present 340 miles (ca. 550 kilometres) of seismic data are available over the South Bank area, which includes the Sampaguita gas discovery. Exploration drilling during the 1970-80s was focused on exploration for oil, with gas being considered non-commercial at that time. The first well, Sampaguita-1, was drilled in 1976 by Salen. This tested gas in the Late Paleocene sand section. This was followed by well Sampaguita-2 (Salen, 1978; gas shows not tested), Sampaguita 3 (Salen, 1982; failed to reach target, abandoned) and Sampaguita-3A (Denison Mines, 1984; gas tested in Late Paleocene sandstone).

The Sampaguita gas discovery is contained within a large faulted four-way dip closure. This structure is dissected by a series of poorly defined northeast – southwest orientated faults. All wells drilled to date on this structure are located at the southwestern end of the structure, with

Sampaguita-1, -3 and -3A located in crestal positions, whilst Sampaguita-2 is located on the southeastern flank. The current estimate of structural closure is 110 square miles (ca. 290 km²).

The current structural interpretation of the Block is based upon reprocessed 1980 2D seismic data and limited 2D data acquired during the mid-1990s. These data are of moderate to poor quality, particularly at the reservoir level, and provide broad structural control. Data quality and quantity precludes the imaging and interpretation of faults in detail. Modern 3D seismic data would be expected to provide significantly improved imaging and structural detail leading to significantly reduced risk in reserve estimation and potential development planning.

The oldest rocks penetrated by drilling within the Sampaguita gas discovery are Early Cretaceous. These typically consist of terrestrial to shallow marine sandstones, conglomerates and mudstones, overlain by a distinctive limestone horizon. The sandstones and conglomerates of the Early Cretaceous potentially form a secondary reservoir within the Sampaguita gas discovery, but have not been successfully tested. These sandstones have effective porosity values of 10 – 20 per cent. and have significantly lower interbedded shale content. Shows are recorded in most of the sandstones at depths greater than 850 feet (250 metres) below the distinctive limestone horizon. No shows are recorded in the 660 foot (200 metre) or greater thickness of silty shale and sands between the distinctive limestone and the base late Paleocene sandstones, suggesting this interval provides a regional topseal. Whether or not the silt and shale units interbedded with the sandstones provide effective intra-formational seals is unclear.

The early Cretaceous is erosionally overlain by late Paleocene sandstones and mudstones deposited in a deep marine fan system, which forms the principal reservoir horizon within the Sampaguita gas discovery. These sandstones are informally referred to as the 'Main Sandstone' and 'S1 Sandstone'. These sands consist of thinly interbedded sandstones and mudstones which in the Sampaguita-2 well are approximately 100 feet (ca. 30 metres) and approximately 70 feet (ca. 20 metres) thick respectively. These sands are correlatable between the three wells drilled on the structure. The 'Main Sandstone' encountered within the Sampaguita 3A well is only 40 feet (ca. 12 metres) thick, interpreted to be the result of fault truncation. The sandstones have moderate reservoir quality with 12 – 20 per cent. porosity, being reduced by clay matrix material and cementation. The thin-bedded nature of the sands suggests that individual sandstone bodies could be of limited lateral extent. As a result, vertical and horizontal communication within the discovery may be impaired. The wireline log response from the old logging tools provides poor resolution of these thin interbedded sands, leading to some uncertainty in the estimation of the reservoir parameters.

The Late Paleocene sandstones are overlain by early to earliest middle Eocene deep marine mudstones, which will form an effective seal for both the 'S1 Sandstone' and 'Main Sandstone'. These are followed by late Eocene to early Oligocene sandstones and mudstones. The uppermost part of the stratigraphic section consists of late Oligocene to Plio-/Pleistocene limestones.

To date a clearly defined source rock interval has not been identified within the wells on the Sampaguita structure. Geochemical analysis of the Paleocene, Eocene and Early Cretaceous shales in the Sampaguita-1 well indicates that these are unlikely to represent good source beds. The shales are generally organically lean and although containing gas-prone organic material, are unlikely to be a major gas source. Notwithstanding this, testing of the Sampaguita-1 & -3A wells indicates that a gas source is present. It is presumed that this must be located within deeper intervals (?Jurassic – early Cretaceous) located either within the structure or the deeper areas to the northwest and southeast of South Banks.

Wells Sampaguita-1 and -3A successfully tested gas from the Main and S1 sands, respectively, at rates of 3.6 and 3.2 mmscf/d. However, these tests were conducted over short time periods and one showed significant depletion; therefore long term productivity and the effect of compartmentalisation remains uncertain.

The Sampaguita gas discovery demonstrates the presence of an active hydrocarbon system and producible gas. The previous Operator (Sterling) estimated the presence of several TCF of gas in place. PGS estimate the gas initially in place to be approximately 2.7 TCF, which makes Sampaguita comparable in size to the nearby Malampaya Gas Field. The application of modern technology (seismic, logging and testing) is required to confirm the size, productibility and commerciality of this discovery.

Eight additional leads and prospects have been identified by various studies, and these are depicted in Figure 2, although the supporting data for some of these interpretations is no longer

available. The majority of the prospects and leads are located on the 'North Bank', with one located on a small high to the northeast of the 'South Bank'. Three additional wells have been drilled in the Reed Bank area, wells Reed Bank-A1 & -B1 and Kalamansi-1. None of these wells tested the leads/prospects as they are presently mapped.

Seismic Update on GSEC 101 (Reed Bank)

Bathymetry Survey

The bathymetry survey over the Reed Bank Licence commenced at the start of May 2005 using EGS Asia Inc's M/V Gemini 2, and was completed at the beginning of June 2005. It covered approximately 490 sq km of area.

3D Seismic Survey

The Veritas DGC Asia Pacific Limited ("Veritas") boat, M/V Pacific Sword, arrived in the Reed Bank Licence area during June 2005. The Company is acquiring at least 250 sq. km. of 3D seismic data over a 45 to 60 day period. Processing of the new seismic data will be carried out by Veritas.

SC 40 (Cebu)

The SC 40 (Cebu) area was originally awarded as a GSEC to a consortium including one of FEC's predecessor companies in February 1994. In February 1995, the contract was upgraded to a service contract, and part of the original GSEC area was relinquished to leave the area now shown in Figure 4. As of 1st January 2003, the title to SC 40 (Cebu) rests 100 per cent. with FEI, the other co-venturers in the original consortium having relinquished their interests.

The terms of a service contract allow for extensions from the original 7 years to 10 years if required, and in the case of SC 40 (Cebu) an extension has been granted, on condition that the work commitments for the contract are fulfilled. FEI has received an extension to the term of SC 40 (Cebu) until the end of September 2006, subject to a specified work programme being adhered to. This work programme includes the acquisition of 250 kilometres of seismic data, plus the drilling of two wells in 2005 and a further two in 2006.

FEI is in the process of investigating development options for the small Libertad gas field, and for development to proceed, the field will first have to be declared commercial. Such a declaration triggers a requirement to relinquish all but 12.5 per cent of the current SC 40 (Cebu) area. This can be achieved without relinquishing any of the prospect areas discussed below.

Geological Setting

The SC 40 (Cebu) contract area is located in the Visayan Basin, in the central part of the Philippines archipelago. It is an intra-arc basin characterised by a series of north to northeast trending troughs and ridges. The basin comprises five main depocentres, the Tañon, Bantayan, Cadiz graben, Northwest Leyete thrust belt and Asid Gulf basins. Numerous narrow and elongate ridges separate the basins and are exposed in part on the present islands. The key basin that underlies the SC 40 (Cebu) licence is the Tañon sub-basin, a narrow northeast trending asymmetric trough filled with a thick Tertiary section (up to 8 kilometres).

Exploration in the Visayan Basin began over 100 years ago and since then approximately 130 wells have been drilled. The majority of the wells were very shallow tests and drilled outside of structural closure. Oil and gas shows have been encountered in a number of wells with oil and gas discoveries made onshore Cebu Island. Since 1994 fifteen wells have been drilled in the offshore Visayan Basin, thirteen of which lie within the SC 40 (Cebu) licence. Of these thirteen wells, nine targeted Miocene reef plays defined on 2D seismic data and good reservoir quality was established by 9 wells. Hydrocarbon seeps are also common in the area indicating an active and mature petroleum system. The most likely source rock intervals are the carbonaceous shales of the Oligocene to Lower Miocene Malubog Formation and the Cretaceous Pandan formation, they contain TOC values of 1 to 5.9 per cent.

The majority of the wells are interpreted to have failed due to the integrity of the trap, although recent results also point to uncertainty in the extent of reservoir quality sands. Poor top seals, leaky faults and poorly defined closures are believed to be the main reasons for failure. Drilling results to date demonstrate the carbonates of the Middle to Upper Miocene Maingit and Upper Miocene to Pliocene Barili Formations have excellent reservoir characteristics. The Maingit Formation has been found to have good porosities averaging between 15 per cent. and 20 per cent, and

frequently mud losses have been reported during the drilling of the Maingit, which may be indicative the presence of natural fractures. The underlying lower to middle Miocene Malubog formation provides an additional target in the Central Maya Bulge ("CMB") area.

The Barili Limestone has excellent reservoir qualities with porosities typically exceeding 20 per cent., with vuggy porosity often developed. The reservoir for the Libertad gas field onshore Cebu is the Barili limestone. Other potential reservoirs include the Middle Miocene Uling Limestone and the Upper Oligocene to Lower Miocene Cebu Limestone. These secondary targets are generally tight although occasional patch reefs may provide areas of improved reservoir quality.

A brief description of each of the main prospects and leads within the SC 40 (Cebu) area is given below, and their location is shown on the map included as Figure 4.

Libertad Gas Field

The Libertad Gas Field lies to the southeast of Bogotown in northern Cebu, approximately 100 kilometres north of Cebu City. It was discovered in the late 1950s during an exploration drilling campaign by the Acoje Oil and Mineral Development Corporation of Manila, ("Acoje"), but it has never been developed, due to its very modest size, and the fact that exploration effort has historically been concentrated on discovering oil, not gas. Of the twenty-two wells drilled in the Libertad area by Acoje during their exploration campaign, two were completed as gas wells, but apart from some tapping of minor amounts of gas for cooking purposes in a nearby elementary school, there has never been any commercial production. Acoje subsequently relinquished their interests in Cebu in the 1970s.

During the 1990s, there was renewed interest in Libertad as a potential source of gas for power generation, and a testing programme was performed on the two available gas wells in 1993. Five additional wells were drilled in the Libertad field area during 1994/95 by the Cophil Exploration Corporation (Cophil – later to become FEI), one of which tested gas, and it was subsequently completed as a gas well.

The gas bearing horizon in the Libertad Gas Field is the Upper Miocene Barili Limestone, which is encountered at shallow depth, approximately 600 – 700 feet below ground level, or around 300 feet below mean sea level. The gas is predominantly (> 95 per cent.) methane, with some nitrogen and carbon dioxide, plus around 400 ppm of hydrogen sulphide. This latter contaminant represents a health and safety risk, due to its toxicity. Reservoir pressure is approximately 150 psia, which is low, due to the shallow reservoir depth. Nevertheless, two of the three currently completed gas wells in the field are each capable of flowing in excess of 1.2 mmscfd, the highest recorded rate being almost 2 mmscfd. The third well has a tendency to produce water if the gas production rate exceeds more than a few hundred mscfd.

A top Barili Limestone structure map in depth is included as Figure 5. It can be seen that the field is divided by a south-west to north-east trending fault. The division of the field into two parts is reinforced by the results of an interference test carried out by FEI in 2000. There appeared to be no response detectable in pressure gauges set in the one accessible well in the northern fault block to a protracted production period of several days from one of the two completed wells in the southern block. There was, however, an overall pressure drop of approximately 1.5 psia in the southern fault block in response to a produced gas volume of just over 5.5 mmscf. This pressure drop suggests that the initial gas in place in the southern fault block is of the order of 550 mmscf, although volumetrically derived estimates are almost twice this value.

Old well records report several occurrences of lost circulation whilst drilling through the Barili Limestone, which suggests that the formation is probably fractured. The high gas deliverabilities observed on well tests would lend support to this conclusion.

Maya Area

The Maya area lies at the northern tip of Cebu Island (Figure 4), and it has been the subject of sporadic exploration activity since the late 1920's when oil shows were encountered during the drilling of a shallow water well. Several exploration wells were drilled in the 1960s and early 1970s by the American Asiatic Oil Company, and by the Chinese Petroleum Company in the area known as the Central Maya Bulge ("CMB"). Some of these wells were reported to have flowed oil on test, but sustained production at commercial rates was never established, and interest in the area waned. Nevertheless, there is anecdotal evidence that residents local to the Maya area harvested

up to 80,000 litres of oil from one of the old Maya wells before the authorities put a stop to the practice.

The oil-bearing horizon encountered by the Maya wells was the late Miocene Maingit sandstone trapped within a domal closure. As part of its work commitment under the service contract, FEI drilled an exploration well (MST 11A) at Maya in October 2000, but although oil shows were detected in the Maingit sandstones, the well was terminated at a relatively shallow depth, (300 feet) and only limited data was gathered from the well. The only data available for the discovery well is that the well flowed 540 barrels of 44 deg. API oil in a 203 hour test.

A second prospect on the Maya anticline is the deeper lower Miocene Malubog sandstone, which was oil and gas bearing in a well drilled by the Chinese Petroleum Corporation in the early 1970s. Well CMB-2 was drilled on the west flank of the structure and tested 70-100 mscf/d and 106 bopd from a middle Miocene sandstone. The extent of the sand is poorly constrained with few wells penetrating this deeper reservoir. CMB-3 was subsequently drilled down-dip and was dry. The up-dip Well CMB-4 was drilled to target the CMB-2 reservoir but found the sand to be tight or absent with oil shows.

During 2003 FEI renewed its drilling activity in the CMB area, and drilled a further three wells to test the anticlinal structure identified from the drilling of the MST-11A well. The locations of the three wells, Forum-1XA, -2X and -3X are shown on the map included as Figure 6, and a synopsis of the results from these wells is included below.

Well Forum-1XA was drilled approximately 400 metres northwest of CMB-2 to test the crestal portion of the CMB. The primary target was the 480 metre (Malubog) sand encountered in CMB-2, although secondary objectives occurred in the Maingit sands and limestones of the Lower Maingit. The well suffered a series of gas kicks whilst operating resulting in loss of the drill string and a fish in the hole, and as a result the well could not be tested.

Well Forum-2X was drilled 15 metres to the southeast of the Forum-1XA well to establish the presence of hydrocarbons in the crest of the structure. Well Forum-2X did encounter numerous oil and gas shows whilst drilling; gas shows were recorded at a depth of 900 feet in a limestone of the Maingit formation, and further oil and gas shows were recorded between the depths of 1,576 and 1,606 feet in sands of the Malubog formation. However, the level of shows was less than in the Forum-1XA well, probably due to the higher mud weights employed as a precaution against the kicks suffered during the drilling of the earlier well. The Forum-2X well confirmed the existence of an active hydrocarbon system in the SC 40 (Cebu) permit, but unfortunately various operational difficulties and equipment shortcomings conspired to frustrate attempts to determine definitively the nature of the hydrocarbons present in the prospective zones, and also to determine the ability these zones to produce hydrocarbons at sustained commercial rates.

Figure 7 shows a display of the wireline logs from the Malubog sand interval encountered in the Forum-2X well over the interval 1,576 ft to 1,606 ft. The calliper log confirms the presence of mud cake over this interval, which is a positive indicator of permeable formation. FEI interpret that the neutron-density cross over evident across the interval is indicative of the presence of gas, and that the interval between 1,603 ft and 1,606 ft at the base of the section may be oil bearing. PGS agree with the former interpretation, but consider that overall there is insufficient information to be able to confirm the latter.

Nevertheless, the presence of oil was noted in the drilling mud whilst drilling. This oil was reported to be waxy, with a high pour point, and it is unclear how this description fits with the 44 deg. API oil described as being produced from the test of the MST-11A well.

An attempt to perform a drill stem test (DST) on the well produced small quantities of gas and a trace of oil, but there was also evidence that the formation collapsed. This problem has been recognised in other test attempts in the area, and any future developments focussed on the Malubog should take this into consideration.

Well Forum-3X was drilled approximately 265 metres to the southwest of the 2X well as a downflank appraisal of the CMB structure. The well encountered only minor gas shows in the interval from 900 feet down to 1,600 feet, and consequently the well was not tested. The Malubog reservoir sand appears to be only poorly developed at this location, and although present, it was thinner and of much poorer quality than the same interval encountered in the 2X well. Wireline log data from Forum-3X confirms that the interval has a high shale content and virtually no

effective porosity. This indicates that there is a lateral facies change in this direction away from the crest of the structure, which causes the unit to thin and grade to shale.

Taken together with the results of the CMB-2 well (200m to the northwest of Forum-3X) which tested 105 bopd, and other hydrocarbon indications from the thirty years of exploration activity in the CMB area, PGS conclude that the oil initially in place of 6.0 mmbbl estimated to be contained in the CMB structure by FEI is at the upper end of any likely range of outcomes. PGS estimate a most likely volume of oil initially in place of the order of 2.8 mmbbl, or approximately 750 mmscf of gas if the zone were to be gas-bearing. This would represent a development opportunity of similar size to the Libertad Gas Field.

It should be noted that oil recoveries from shallow onshore fields could be very low if they are exploited by simple pressure depletion, as reservoir pressures are low in shallow reservoirs, and consequently so are the volumes of gas dissolved in the oil. Without pressure support, either by water injection or natural water influx, the production characteristics of the field would involve a short-lived rush of oil production, which would decline very rapidly, and be accompanied by increasing volumes of associated gas. Illustrative scoping calculations suggest simple depletion of a shallow oil reservoir at 1,500 feet would only recover between 2 and 6 per cent. of the oil initially in place.

By contrast, waterflood recoveries could be much higher, potentially above 30 per cent., but at the expense of additional wells and equipment. Also, the reservoirs need to be homogeneous and continuous for such methods to be effective. Fractured carbonates can present particular challenges to the implementation of successful secondary recovery techniques, and in general recovery factors tend to be lower than they are in sandstone reservoirs.

There remain many uncertainties regarding the potential of the CMB area, both in terms of volumes and nature of the hydrocarbons present, and the ability of the hydrocarbon bearing zones to produce at sustained commercial rates. FEI plan to re-enter the Forum-2X well during 2005, in order to evaluate and test the Malubog sand interval. Nevertheless, significant uncertainties will still remain in the formation characteristics at large, and the lateral controls on formation properties, and these make evaluation of the Maya area problematic. However, looked at from another perspective, since the expected drilling costs are very modest, the volumes of oil needed to repay the cost of the wells are also very modest. At current oil prices, less than 10,000 barrels of oil production will yield enough gross revenue to pay for a well, plus the additional costs of some oil storage capacity and a gas disposal system.

Central Tañon Prospect

The Central Tañon prospect is located within the Tañon sub-basin of the Visayan Basin offshore west Cebu. It is an elongate anticlinal structure trending approximately north-south with three culminations mapped on a sparse grid of 2D seismic data. The structure has been mapped at the Upper Miocene to Lower Pliocene Top Barili / Dingle carbonate level, the postulated reservoir horizon. The structure lies up-dip of Well Tuburan A-1X which encountered moderate to good oil shows in the Maingit Limestone. The Barili Limestone has been mapped as on-lapping the Maingit to the east of Tuburan A-1X enabling a possible migration pathway to the Central Tañon prospect. The structure also lies to the east and up-dip of Well Bangus-1 which had oil and gas shows in the Barili Limestone. Evidence for charge to the Barili Formation at the Central Tañon prospect is therefore encouraging. The top seal for the Barili Limestone is the Barili marl, a claystone interval composed predominantly of greenish grey calcareous and foraminiferal mudstones which are extensive over the region.

The reservoir at the Central Tañon prospect is the Barili/Dingle Limestone, bedded platform carbonates. The prognosed top reservoir depth is 3,700 ft with a total depth below the Maingit Limestone to assess this secondary objective. Reservoir quality at Well Bangus-1 was generally good with porosities of 15 to 25 per cent. Local enhancement of porosity by fracturing and dolomitization may improve reservoir properties. Potential source rocks in the Tañon sub-basin are believed to be the carbonaceous shales of the oligocene to Lower Miocene Malubog Formation and the Cretaceous Pandan Formation. Uncertainty concerning the effectiveness of the source rock is because these intervals have not been penetrated in the Tañon Strait. They are however believed to exist and in the central parts of the basin are expected to be buried sufficiently as to be mature.

Very limited technical data was available to make an assessment of reserves. A time map of the Top Barili Limestone and an outline of the Operator's reserves calculation provided sufficient data to calculate a deterministic value. The area of closure is over 9,000 acres with a vertical closure mapped of 820 feet. A total field deterministic value for recoverable reserves of 265 mmbbls of oil was calculated assuming a recovery factor of 20 per cent. If the structure was gas bearing, a deterministic gas reserve volume would be 660 bscf. The key risks associated with the prospect are the integrity of the mapped trap and the presence and effectiveness of the Barili/Dingle Limestone reservoir. PGS have assigned a chance of success of 11.5 per cent. to the Central Tañon prospect.

A seismic survey will be performed over the Central Tañon prospect area during 2005, in fulfilment of the work programme obligations associated with the contract area. A total of 250 line kilometres of 2D seismic will be acquired, and it is planned that part of the survey will cover the area around Jibitnil Island.

Jibitnil Island Prospect

The Jibitnil Island prospect as its name implies lies beneath the island of Jibitnil in the Central Tañon Strait, flanking the western side of the Daanbantayan Island, northern Cebu. The prospect is a complicated positive flower structure between two approximately north-northwest trending wrench faults. A small domal closure underlies the island with an areal closure of 925 acres and a vertical closure of 650 feet mapped on sparse 2D data around the island. The primary target at the Jibitnil Island prospect is the Maingit Limestone which was penetrated by Well Bakyad-1 2.5 kilometres to the west. At Bakyad-1 a tilted Maingit carbonate build-up was penetrated with no structural closure. Reservoir properties were good with porosities up to 28 per cent. Secondary targets include the Upper Miocene to Pliocene Barili Formation, the Maingit sands, Middle Miocene Uling limestone and the Upper Oligocene to Lower Miocene Cebu Limestone and Malubog sands. Well Jibitnil-1 was drilled 4 kilometres to the east of the island and encountered gas shows in the sandstone and limestone units of the Middle to Upper Miocene section, and oil shows in the Lower Miocene Malubog Formation. The well targeted a valid structure mapped at the Top Maingit Limestone interval but failed due to a lack of reservoir and charge.

At the Jibitnil Island prospect the primary reservoir objective, the Maingit Limestone is prognosed at 4,100 feet TVD SS. At Bakyad-1 the interval was chalky with occasional vuggy porosity, and is developed to a thickness of approximately 1,200 feet. Volumes have been calculated by the operator and with the limited data available verified. The potential recoverable reserves are 85 mm bbls in an oil case and 450 Bscf in a gas case. The key risks associated with the prospect are the presence of a working trap and the presence and effectiveness of the Maingit Limestone reservoir. PGS have assigned a chance of success of 11.5 per cent. to the Jibitnil Island prospect.

During 2005, 5 seismic lines will be acquired around Jibitnil Island as part of the proposed Central Tañon seismic survey.

West Malapascua Prospect

The West Malapascua prospect is located approximately 10 kilometres north of Cebu Island. It is a wrench induced fault and dip closed structure mapped at Top Middle Miocene Maingit Limestone. The structure has 1,950 acres of areal closure and 600 feet of vertical closure. The primary objective is the Middle Miocene Maingit Limestone penetrated elsewhere in the Visayan Basin and established as a viable reservoir. As with other prospects located in the Visayan Basin the most probable source beds are within the Lower Miocene and older. The top of the Maingit Limestone is prognosed to be at a depth of 2,900 ft TVDSS.

Volumes have been calculated by the Operator but with the limited data available cannot be verified. The potential recoverable reserves are reported to be 80 mm bbls in an oil case and 185 Bscf in a gas case. The key risks associated with the prospect are the presence of a working trap and the presence and effectiveness of the Maingit Limestone reservoir. PGS have assigned a chance of success of 11.5 per cent. to the West Malapascua prospect.

South Guintacan Prospect

The South Guintacan prospect is located to the southwest of Guintacan Island along the northwestern flank of the Tañon Strait sub-basin. The prospect is a faulted anticline trending northeast-southwest. The domal structure has been mapped at Top Maingit Limestone and has an areal closure of 1,700 acres and a vertical closure of 475 feet. Wells drilled in the vicinity for example Guintacan-1 and Guintacan-2 have had shows in the shallower Barili Limestone. As with

other prospects located in the Visayan Basin the most probable source beds are within the Lower Miocene and older. The top of the Maingit Limestone is prognosed to be at a depth of 6,000 ft TVDSS.

Volumes have been calculated by the Operator but with the limited data available cannot be verified. The potential recoverable reserves are reported to be 70 mm bbls in an oil case and 330 Bscf in a gas case. The key risks associated with the prospect are the presence of a working trap and the presence and effectiveness of the Maingit Limestone reservoir. PGS have assigned a chance of success of 9.9 per cent. to the South Guintacan prospect.

West Toledo Prospect

The West Toledo prospect lies in the offshore Tañon Strait approximately 15 kilometres southwest of Toledo City, Cebu. The prospect is defined by only three seismic lines and lies in shallow water, approximately 300 feet at a potential well location. The structure has been mapped at an Early Miocene seismic event interpreted to approximate to the Top Malubog Formation. Closure is the result of reverse and strike-slip movement on a north east trending splay off a major north-south wrench system. The prospect is further bisected by two normal faults and closure also exists at the shallower Upper Miocene Maingit and Toledo clastic units providing a secondary target.

Onshore Cebu two oil discoveries were made by Wells Reina Regente-1AX and Villalon-4. The former produced 250 bbls per day in 1959 and currently produces 30 gallons a day from the Malubog sands. Well Villalon-4 also produced oil on test from the Malubog sands. It encountered approximately 150 feet of net sand with porosities in the range from 18 to 30 per cent. Work done in 1994 postulated that improved sand quality may be expected offshore where Late Oligocene to Early Miocene palaeogeography indicates that sand provenance was from the west and the East Panay platform. As a result sand quality and permeabilities might be improved to the west where they are more proximal.

Secondary targets include the sands of the Maingit and Toledo Formations, these intervals are more speculative but do have reservoir quality and hydrocarbon indications elsewhere in the basin. Thick shale sections throughout the Miocene are believed to provide adequate intra-formational seals for the Malubog and the secondary targets. The critical risk concerns the sealing capacity on the bounding fault to the east. As yet there is no evidence to support sealing faults in the basin but the low net to gross section through the Miocene and presence of considerable argillaceous sections may enable a membrane seal to develop. The source for the prospect is the same as discussed for the Central Tañon prospect. Thermal maturity modelling carried out in 1994 indicates that the West Toledo prospect may be expected to be in communication with mature source rocks.

The areal closure is in excess of 3,700 acres and has a vertical closure of 3,000 feet. Volumetric estimates were performed during 1994 and have been verified with the limited data available. The deterministic recoverable reserves are 97 mm bbls for the oil case and 332 Bscf for the gas case. However, as can be seen from Figure 4, a relatively small part of the prospect lies within SC 40, and FEI's interest in any successful development of a discovery on this prospect would most likely be as a participant in a unit operated by another party.

PGS consider that the critical risk factors for the West Toledo prospect are the presence of a sealing fault to control closure and the reservoir effectiveness of the Malubog sands, in particular the validity of the paleo-geographic model to predict sand quality. The overall chance of success for the West Toledo prospect is 11.3 per cent. A number analogous leads have been identified in the vicinity of the West Toledo prospect which would become interesting given success.

The Agojo Prospect

The Agojo prospect lies in the northern part of the Central Tañon Strait, to the northeast of Cebu Island. The trap is a 4-way dip closed structure developed due to wrench movements on a series of approximately north-south trending faults. Closure is defined by five sparse 2D lines and is a north-south elongate dome. The structure has been mapped on the Middle to Upper Miocene Maingit Limestone horizon and has an areal closure of 1,400 acres with a vertical closure of 650 feet. The top of the Maingit Limestone is prognosed to be at a depth of 4,700 ft TVDSS.

The Maingit reservoir in the area has been established by nearby Bakyad-1 drilled in 1978 which encountered excellent reservoir quality and gas shows. As with other prospects located in the Visayan Basin the most probable source beds are within the Lower Miocene and older.

Volumes have been calculated by the Operator but with the limited data available cannot be verified. The potential recoverable reserves are reported to be 60 mm bbls in an oil case and 210 Bscf in a gas case. The key risks associated with the prospect are the presence of a working trap and the presence and effectiveness of the Maingit Limestone reservoir. PGS have assigned a chance of success of 10 per cent. to the Agojo prospect.

The North Bantayan Prospect

The North Bantayan prospect lies in the Bantayan sub-basin of the Visayan Sea. The trap is a fault and dip closed structure located in the footwall of an extensional fault down-throwing to the east. A sparse grid of 2D lines define the north-south striking structure. The structure has been mapped on the near top early Miocene approximating to the Cebu Limestone horizon and has an areal closure of 5,000 acres with a vertical closure of 1,800 feet. The top of the Cebu Limestone is prognosed to be at a depth of 7,600 ft TVDSS.

The Cebu Limestone reservoir in the area has been established by nearby Philipino-1. The well encountered a unit believed to be equivalent to the onshore Cebu Limestone. The unit was a thin-bedded fine to medium grained dolomitized limestone. It was generally tight but in places had porosity developed to 10 per cent.

As with other prospects located in the Visayan Basin the most probable source beds are within the Lower Miocene and older.

Volumes have been calculated by the Operator but with the limited data available cannot be verified. The potential recoverable reserves are reported to be 250 mm bbls in an oil case and 1 TCF in a gas case. The key risks associated with the prospect are the presence of a working trap and the presence and effectiveness of the Cebu Limestone reservoir. PGS have assigned a chance of success of 8 per cent. to the North Bantayan prospect.

Seismic Update on SC 40 (Cebu)

Seismic Program

Forum's 2D seismic acquisition over the Tañon Strait in SC 40 (Cebu) commenced on 19 May 2005 using Veritas' R/V Searcher and was completed on 22 May 2005. A total of 310 km (275.5 km full-fold) of new data were acquired during the survey. Similar amounts of magnetic and gravity data were also acquired at that time and Ark Geophysics Limited is currently processing the data in the US.

Prior to Forum's survey, Veritas also shot 752 km of seismic data over the neighbouring SC 46 (Southern Tañon Strait), which is being operated by Japan Petroleum Exploration Company Limited ("Japex"). Forum has shared with Japex the cost of mobilization and demobilization of the seismic vessel, along with the use of chase boats and onboard supervisor Geocon International Limited.

Spectrum Energy and Information Technology Limited will be processing the newly acquired data as well as about 1,000 km of previously acquired seismic data over the area.

Conclusions

Both the GSEC-101 (Reed Bank) area offshore Palawan Island previously operated by Sterling, and the SC 40 (Cebu) contract area covering northern Cebu and part of the Visayan Sea each contain confirmed petroleum discoveries, plus an inventory of prospects and leads which are estimated to have a finite chance of containing commercial volumes of hydrocarbons.

The GSEC 101 (Reed Bank) area contains two wells which have successfully tested gas, although at rates which are not sufficiently high to be economic in an offshore environment. When interpreted, a 3-D seismic survey over the Sampaguita gas discovery area, planned to be accomplished during 2005, should provide much improved structural information which can be used as input to future appraisal drilling efforts, and should also assist in the estimation of gas initially in place volumes. The existence of the producing Malampaya Gas Field in the area could provide access to existing gas export infrastructure should commercial volumes of reserves be proved.

The SC 40 (Cebu) contract area also contains proven active hydrocarbon systems. The onshore discoveries are modest in size, and PGS consider that the Libertad Gas Field is marginally economic to develop at the lower reserves estimate assumed by FEI. However, its development should safeguard the other prospects and leads in SC 40 (Cebu) from relinquishment in 2006.

The Central Maya Bulge area requires additional data to be gathered to confirm the nature and extent of the hydrocarbon accumulations encountered by the wells to date, and the proposed re-entry and testing of the Forum-2X well should clarify whether or not sustained production at commercial rates is possible from the Maingit and/or Malubog reservoir horizons. From the limited information available, it is likely that the size of any hydrocarbon accumulations in these reservoirs will be modest, and recoveries will be similarly modest. However, onshore operations are relatively inexpensive compared to offshore activities, and the development of small accumulations can be economic at current oil prices.

The prospects within the SC 40 (Cebu) area are predominantly offshore, but of potentially much larger size than the discoveries onshore. Seismic acquisition and exploration drilling costs will be high for such prospects. The chances of success for the best two prospects have been estimated to be around 11 per cent. The chances of success for the identified prospects in SC 40 (Cebu) are not independent of one another. Failure to discover commercial hydrocarbons in one prospect is likely to reduce the chance of success in the others.

The following table summarises the prospects and discoveries within the two contract areas.

Prospect and Discovery Summary					
<i>Prospect</i>	<i>Primary Target Formation</i>	<i>Target Depth ft</i>	<i>Water Depth ft</i>	<i>Chance of Discovery¹</i>	<i>Potential Reserves Oil(mmbbl)/ Gas(bscf)</i>
Central Tañon	Barili Limestone	3700	650	0.115	265/660
Jibitnil Island	Maingit Limestone	4100	Onshore	0.115	85/450
South Guintacan	Maingit Limestone	6000	100	0.099	70/330
West Malapascua	Maingit Limestone	2900	120	0.115	80/185
West Toledo ²	Malubog Sand	7500	350	0.113	97/332
Agojo	Maingit Limestone	4700	250	0.1	60/210
North Bantayan	Cebu Limestone	7600	300	0.08	250/1000
Sampaguita ³	Late Paleocene	10300	260	1	- /2329
Libertad	Barili Limestone	650	Onshore	1	- /0.5
CMB ⁴	Malubog Sand	1500	Onshore	1	0.14/0.64

1 Prospect chances of success are not independent. Failure to discover commercial hydrocarbons in one prospect is likely to reduce the chance of success in the others.

2 As currently mapped, only a small part of these potential reserves may be under SC 40 (Cebu).

3 Potential gas reserves assume a recovery factor of 0.85

4 Potential oil reserves are limited to primary recovery. Recovery factors for oil and gas are assumed to be 0.05 and 0.85 respectively.

Property Title and Participating Interest

PGS is not in a position to attest to property title, financial interest relationships or encumbrances related to the properties reviewed in the evaluation.

A full summary of the properties examined in the course of the review is included in the table above. The chances of success estimated for these prospects are not mutually independent; chances for remaining prospects will be impacted by the results from earlier exploration activities.

Professional Qualifications

PGS Reservoir Limited ("PGS") is an independent consultancy specialising in petroleum reservoir evaluation and economic analysis. Except for the provision of professional services on a fee basis, PGS does not have a commercial arrangement with any other person or company involved in the interests that are the subject of this letter.

This evaluation has been supervised by Mr. J. R. Thompson, Manager of Reserves Evaluations at PGS Reservoir Limited. Mr. Thompson has 31 years of varied petroleum and reservoir engineering experience. He has an MA in Natural Sciences, and is a Chartered Engineer, and a member of the Society of Petroleum Engineers. Other PGS employees involved in this work hold at least a bachelor degree (or its equivalent) in geology, geophysics, petroleum engineering or a related subject and have at least five years' relevant experience in the practice of geology, geophysics or petroleum engineering.

Basis of Opinion

The evaluation presented in this letter reflects our informed judgements 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 the effects of petroleum legislation, taxation, and other regulations that currently apply to the Forum Energy's proposed interests in the Philippines.

It should be understood that any evaluation of hydrocarbon resources is subject to government policies and market conditions prevailing at the time of the evaluation. Future changes can cause the total quantities of petroleum recovered to vary from those endorsed in this letter.

This letter has been written for the Directors of Forum Energy plc and its financial advisers, Noble & Company Limited. Information contained in this letter should not be disclosed in part or in whole to third parties without the approval of PGS. Such permission shall not be unreasonably withheld.

Yours faithfully

For PGS Reservoir Limited.

Jeremy R. Thompson M.A., C.Eng., M.I.M.M.
Manager of Evaluations

Definitions

"Petroleum" means oil and/or gas.

"Barrel" or "bbl" refers to a volume of 42 US gallons, or 5.615 cubic feet.

"TD" refers to total depth (of a well).

"TVDS" refers to true vertical depth sub-sea.

"TOC" means Total Organic Content

"scf" refers to standard cubic feet.

"BThU" refers to British Thermal Units.

The prefixes "m" and "mm" refer to thousands and millions respectively.

The prefix "b" as in "Bscf" refers to billions, one billion being 1,000 million (10⁹).

The prefix "T" as in "Tscf" refers to trillions, one trillion being 1,000,000 million (10¹²).

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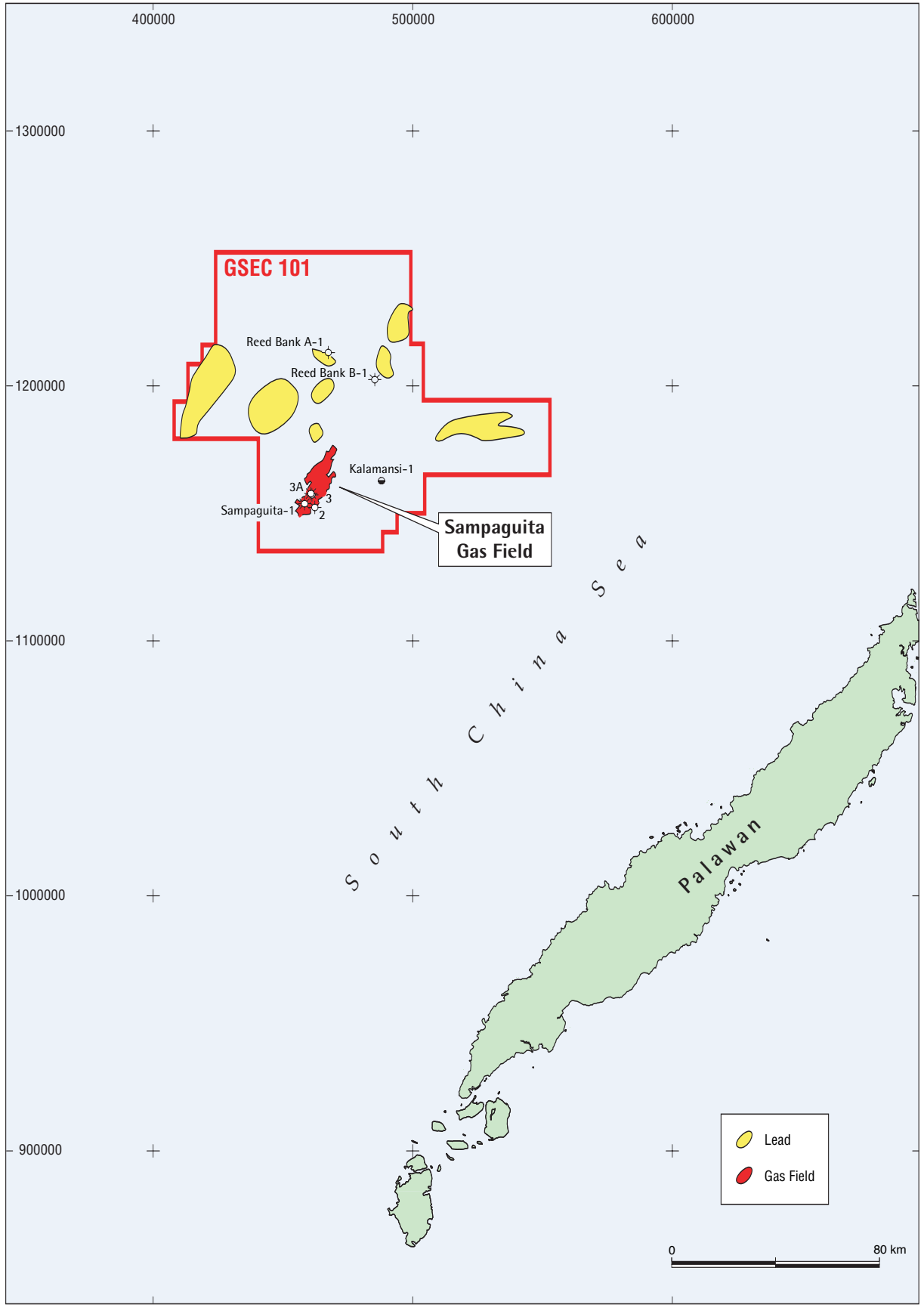
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PGSRRes/05.1621/Mar. 2005

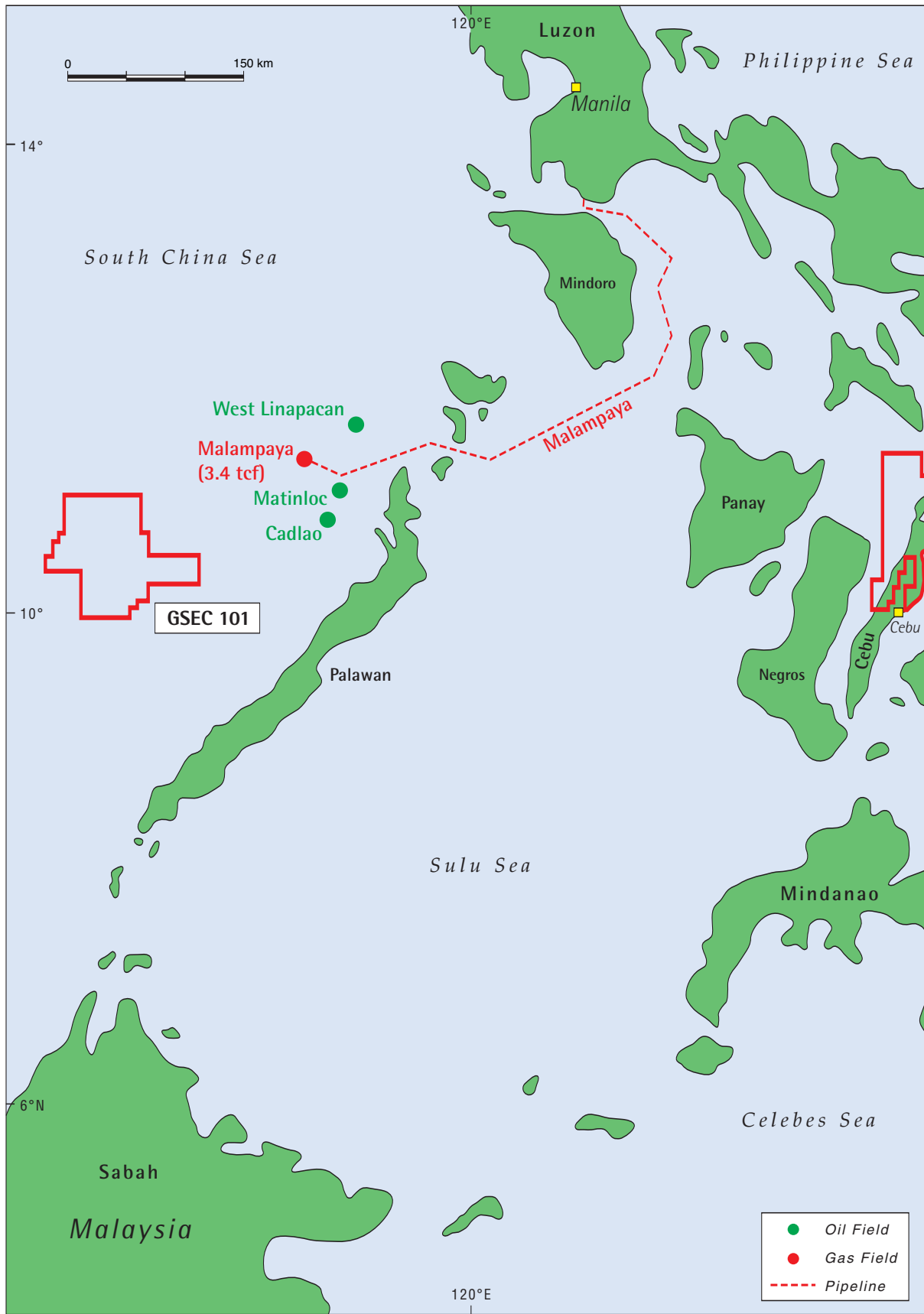
**Petroleum Interests of Forum Energy Corporation
Location Map of Forum's Interests in the Philippines**

PGSRes/05.1621/Mar. 2005



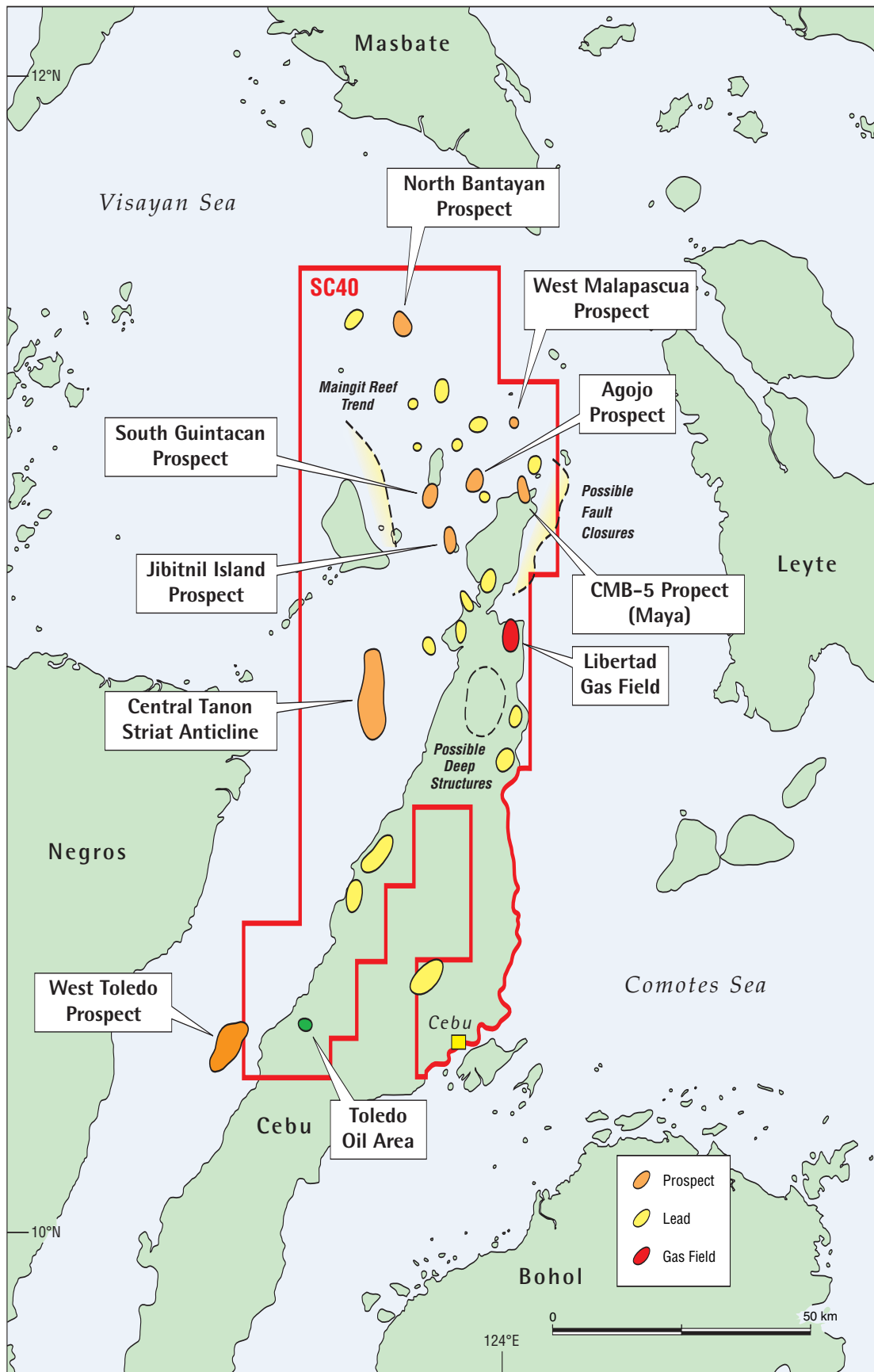
Petroleum Interests of Forum Energy Corporation
Lead Location Map - GSEC 101

Figure 2



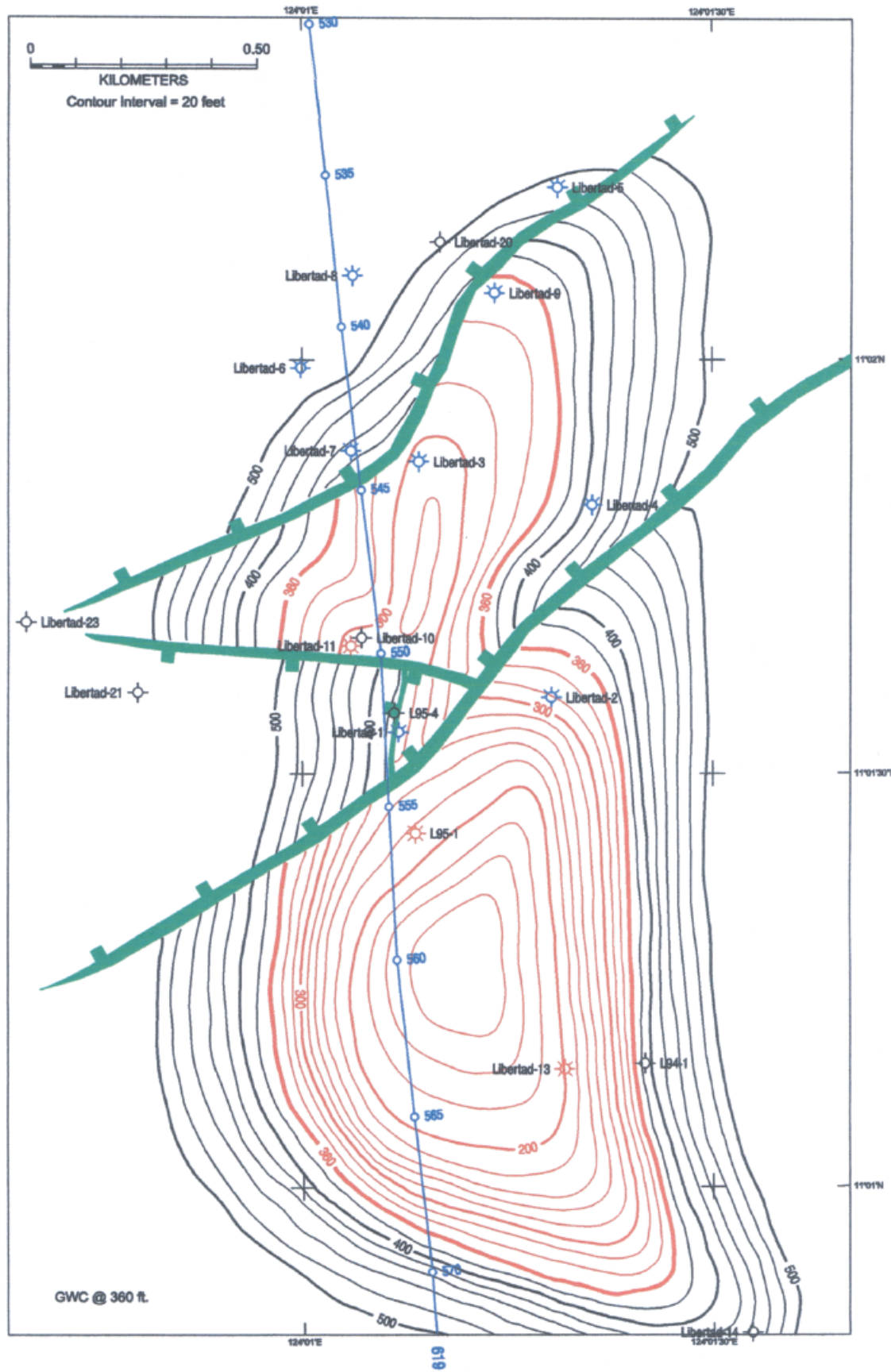
PGSRes/05.1621/Mar. 2005

**Petroleum Interests of Forum Energy Corporation
Location Map of GSEC 101 and Malampaya Field Gas Export Pipeline**



PGSRes/05.1621/Mar. 2005

**Petroleum Interests of Forum Energy Corporation
Prospect Location Map - Service Contract 40 Area**



Petroleum Interests of Forum Energy Corporation
 Structure Map in Depth to Top Barili Limestone, Libertad Gas Field

PGSRes/05.1621/Mar. 2005



Legend:

	Alluvium
	Carcar limestone
	Barili marl
	Barili sandy, marl & limestone
	Itom shale (Maingit formation)
	Fault
	Anticline axis

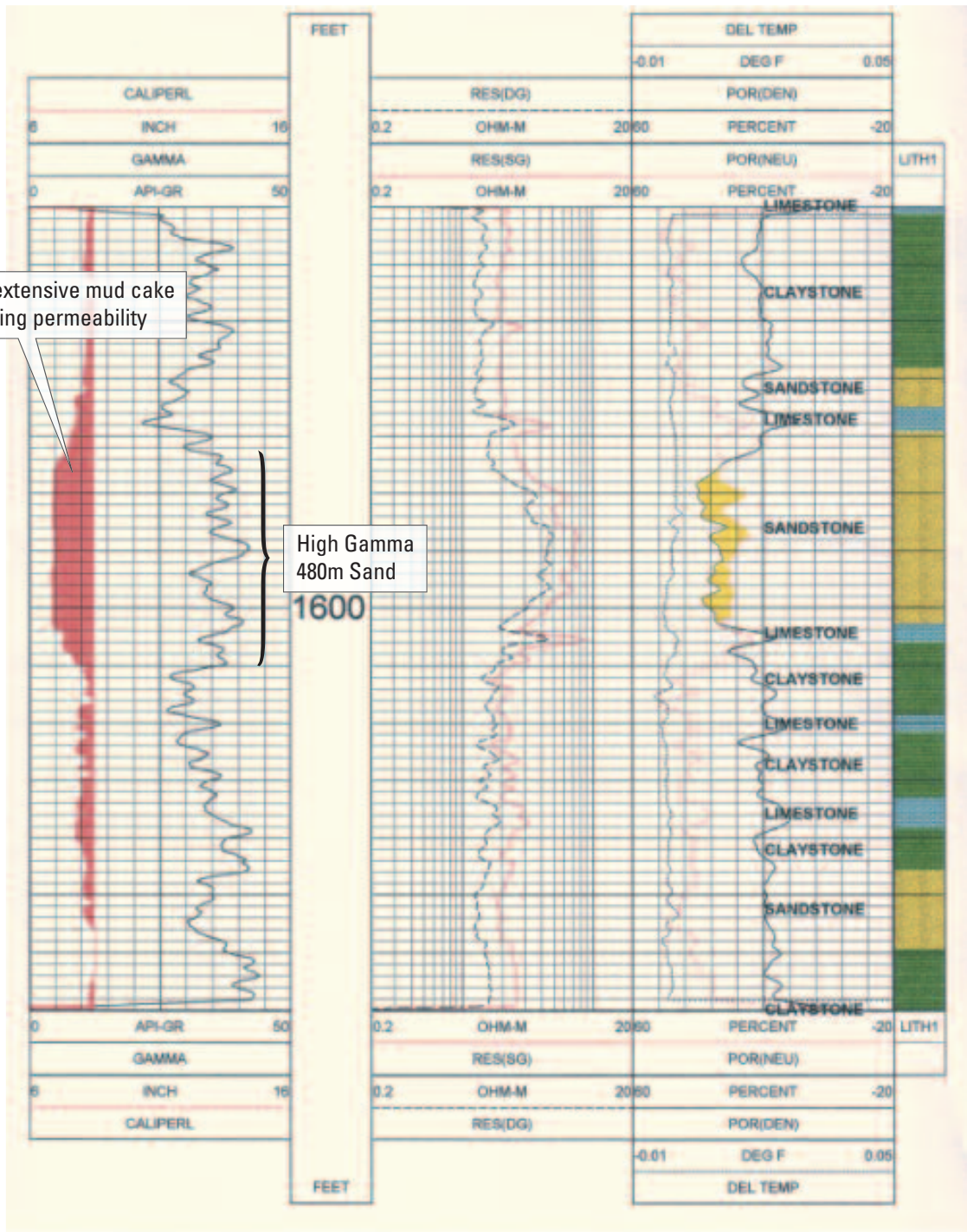
Geologic Map Maya Area

Chinese Petroleum <small>*AUTHOR</small>	November 2003 <small>DATE</small>	FEBS <small>DRAFTED BY</small>
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PGSRes/05.1621/Mar. 2005

**Petroleum Interests of Forum Energy Corporation
Geological Map - Maya Area**

Figure 6



Note: extensive mud cake indicating permeability

High Gamma
480m Sand

1600

PART 6

COAL COMPETENT PERSON'S REPORT

The Directors
Forum Energy Plc
6th Floor
One London Wall
London EC2Y 5EB



and

The Directors
Noble & Company Limited
76 George Street
Edinburgh EH2 3BU

30 June 2005

Dear Sirs,

Forum Energy Plc – Independent Expert Report

The CSA Group ('CSA') has prepared this independent report ('The CSA Report') at the request of Forum Energy Plc ('Forum'). The CSA Report has been prepared to provide an independent geological and mining assessment of Forum's projects in the Philippines, in preparation for the listing of the company on AIM in the UK.

The CSA Report was prepared by Mr Dexter Ferreira, B.Sc. (Geology), B.Eng. (Mining), MBA. Mr Ferreira is a member of SACNASP and has 18 years experience as an exploration geologist and geostatistician, and has worked since 2003 with LQS, now part of CSA Group, specialising in mineral deposit modelling, due diligence work for the acquisition/merger/purchase of deposits and ensuring full disclosure/compliance with NI43-101/Samerc/JORC codes. Amongst other assignments, he has worked on appraisals and evaluations of mineral deposits, including coal, in Africa, Latin and North America and Asia. He is responsible for the reserving process and disclosure to regulatory requirements for mine operations in South Africa.

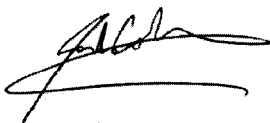
The CSA Report is signed on behalf of CSA by Mr. John Cole-Baker, Director. Mr Cole-Baker is a Chartered Engineer. He has over 35 years experience in the international infrastructure and mineral industry, including posts as Managing Director of an exploration company and Director of international consulting firms. Since joining CSA in 2001, he has played a major role in management of the international mining business and has been responsible for the CSA Group UK based operations.

The CSA Report is based on 1) geological reports and information supplied by Forum, 2) site visits to all the coal concessions in the Philippines held by Forum. All data available to Forum was released to CSA for review. CSA reviewed source data where possible but has relied on the accuracy of data as reported by Forum, and by previous operators in the preparation of The CSA Report. Some of these reports were written by current employees of Forum while in previous capacities or as independent consultants. All requests for information to the employees of Forum were addressed immediately where possible and a candid approach to all queries was in evidence throughout the review.

CSA checked the current status of the mineral licences based on the documents provided. Philippine legal opinion has been sought regarding the verification of the company's interests in the licences. At no time during the course of preparation of the CSA Report did CSA become aware of either withholding of information or of the changing of records to influence the conclusion of The CSA Report. CSA has endeavoured to ensure that no error of fact is contained within the CSA Report. Any such error is not intentional and is not a deliberate effort to mislead. Other than for the purposes of completing The CSA Report described in this document, neither

CSA nor any CSA staff involved in its preparation has any commercial interest in Forum or any associated companies. Neither CSA nor any CSA staff will receive any interest in Forum or any associated companies as a result of undertaking The CSA Report. CSA will be paid normal professional rates for completing The CSA Report for Forum.

Yours faithfully,



John Cole-Baker
Director

Competent Person's Report on the Coal Assets of Forum Energy PLC
Prepared by Dexter S. Ferreira on behalf of:
The CSA Group Limited

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SUMMARY

The Forum coal properties consists of two main separate project areas; Cebu Central (North Central and South Central) and Cebu South, collectively comprising eight granted exploration and mining tenements covering an aggregate area of approximately 7,000 hectares located on Cebu Island in the Philippines.

The Central Cebu tenements are located in the main coal-bearing formation known as the Luca Formation of Middle Miocene age. There are three coal seams bearing an average thickness of 1.2 to 1.5 m, all dipping gently within a range of 15 to 25°. Coal in Luca has been ranked as bituminous with an average calorific value over 11,300 BTU/lb when washed. The inherent moisture is 8 per cent., sulphur content is 2.75 per cent., ash is 7 per cent. and volatile matter is 42 per cent..

The South Cebu tenements are located in the main coal-bearing formations, which are known as Calagasan and Linut-od Formations. In one tenement block (CB-179), only Seam B has been mined by the previous operators; a seam bearing an average thickness of 0.6 to 1.5 m. On average, the coal seams dip at 30° to 40° along a general strike characterized by a NNE-SSW trending elongated antiform. This geological behaviour is further evidenced by the mining operation immediately south of the concession. Coal in South Cebu has been ranked as bituminous coal with a calorific value of over 11,000 BTU/lb. The inherent moisture is less than 5 per cent., sulphur content is less than 1 per cent., ash content of clean coal is less than 5 per cent. and volatile matter of 40 per cent..

The coal blocks held by Forum Exploration Inc. have a history of mining and one of the largest former owners has drilled well over 100 surface drillholes – successfully delineating the various coal seams for considerable lengths. A summary of the known seam(s) continuation and coal quality in each area is included in this report. Proven and probable coal reserves for all tenements are estimated to be 1.4 million metric tonnes and 3.5 million metric tonnes respectively, whereas resources total over 10 million metric tonnes; a summary is provided below.

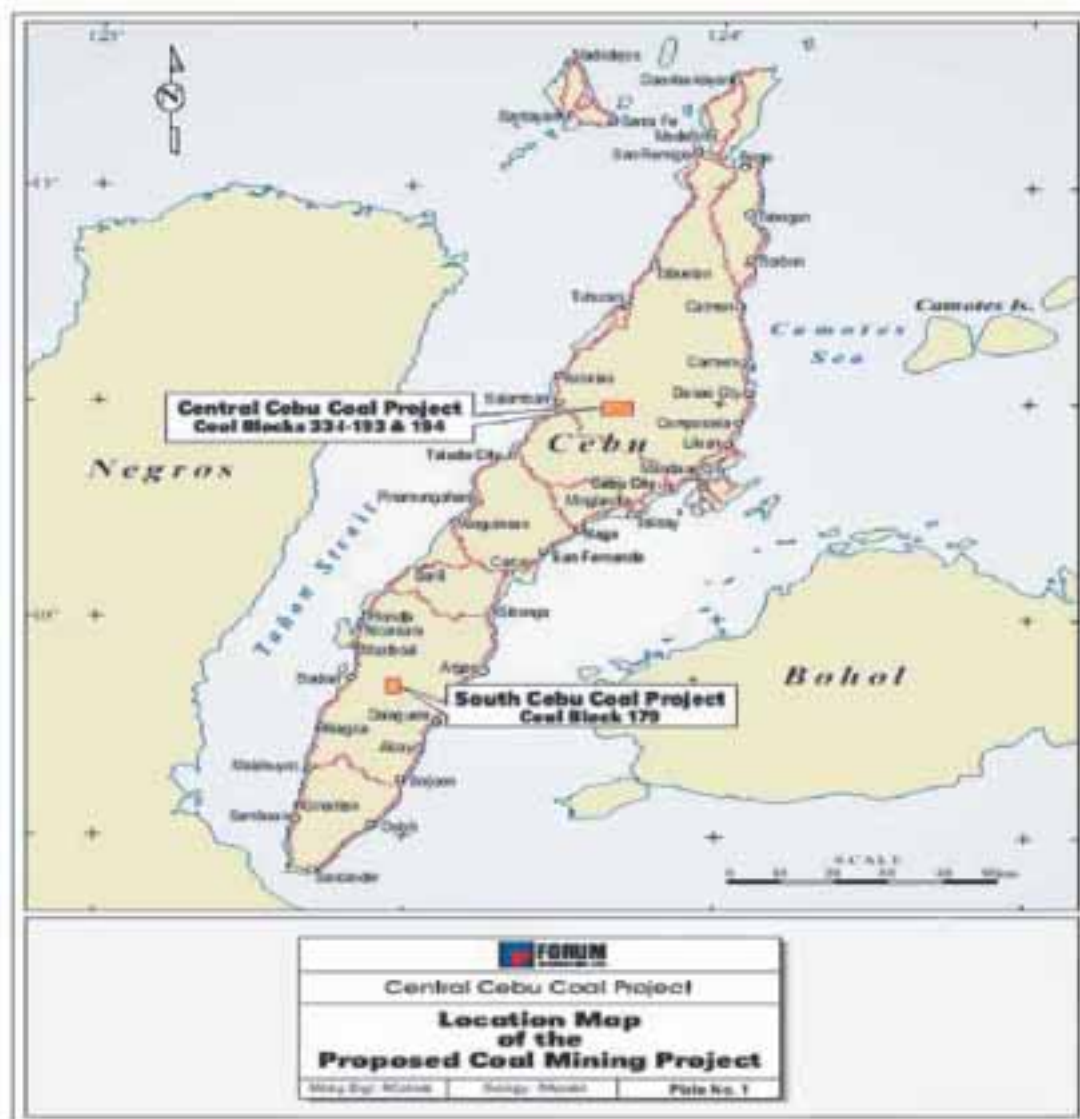
Note that reserves and resources quoted in this report have not yet been re-defined to JORC or NI43-101 standards.

Region	Block	Metric Tonnes		
		Proven	Probable	In situ
Central Cebu	CB 33-I-193	135,887	81,861	2,980,000
	CB 33-I-194	55,879	217,635	310,000
	CB 34-I-68	73,904	287,840	410,000
	CB 34-I-69	234,330	912,664	1,300,000
Subtotal		500,000	1,500,000	5,000,000
South Cebu	CB-179	350,985	683,202	806,453
	CB-180	71,583	171,690	546,773
	CB-219	197,391	473,437	1,507,734
	CB-259	280,041	671,671	2,139,040
Subtotal		900,000	2,000,000	5,000,000
TOTAL		1,400,000	3,500,000	10,000,000

6.1 INTRODUCTION

The CSA Group ('CSA') was requested by Forum Exploration Inc. ('FEI') to prepare an independent report on the two main project areas on Cebu Island in the Philippines. Mr. Dexter Ferreira, a senior geostatistician and mining engineer from the CSA GROUP, carried out work on the project. All tenements considered in this report are held in the name of FEI, a Philippines registered company. The project areas cover a total of 7,000 hectares and are located at Balamban and Toledo, Cebu Province for Central Cebu, and Dalaguete, also in the Cebu Province for South Cebu (Figure 1).

Figure 1.0 Project Location Map



6.2 REVIEW PROCEDURE

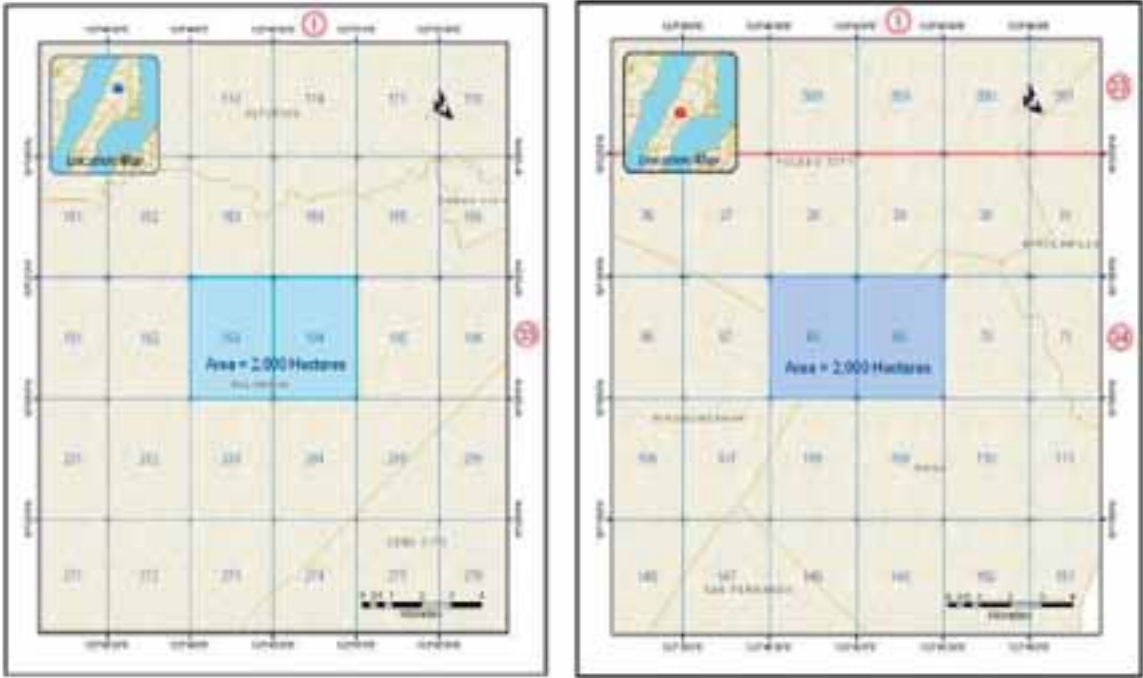
The chief geologist, Mr. Ray Apostol of FEI, presented an overview of the tenements and the project specifics at FEI's head office in Manila, Philippines. This review was followed by field visits to the various project areas held by the company, led by Mr. Apostol and the author accompanied by two field guides.

The material reviewed by CSA included reports, geological plans and administrative documents made possible by FEI staff. Drill hole sections and logs were reviewed in detail by the author at the field but had to be returned to the holder due to administrative issues. Much of the following information has been extracted directly from these geological and feasibility reports after verification of the original data by CSA. The proposed exploration programmes included here for each of the areas reviewed are summarized from reports, and discussions with Mr. Apostol and are considered by CSA as the logical, next steps for each of the areas.

6.3 COAL OPERATING CONTRACTS

The Department of Energy ("DOE"), through a service contract system known as the Coal Operating Contract (COC), regulates coal-mining operations in the Philippines. This was introduced when legislation (Presidential Decree PD 972) was enacted to accelerate the exploration and exploitation of coal resources. As proposed in the COCs, should commercial quantities of coal be discovered, the term will be for a total period of twenty years, renewable for a series of three years thereafter but not to exceed twelve years. A consulting firm, Careminer, were commissioned by FEI to prepare the COC applications.

Figure 2.0 Central Cebu Concessions



Balamban (North Central)

Uling (South Central)

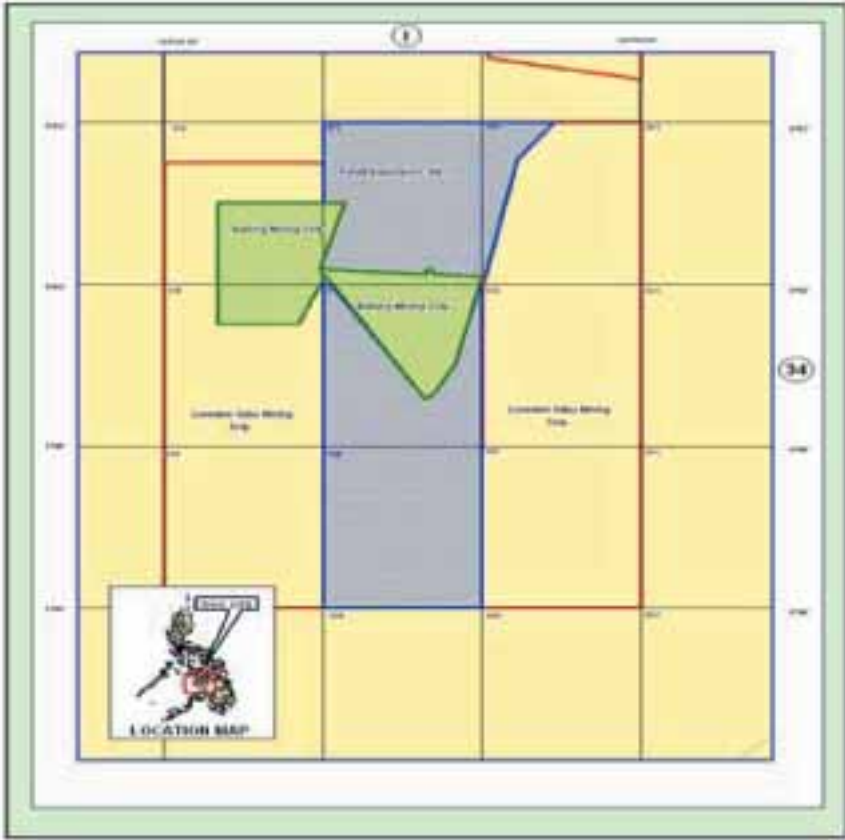
Central Cebu

In Central Cebu, Forum has applied for and received a COC for blocks CB 33-I-193 and 194 located in Luca, Balamban, Cebu and CB 34-I-68 and 69 located in the boundaries of Naga and Toledo City (Figure 2). This COC awarded has an aggregate area of about 4,000 hectares.

South Cebu

In South Cebu, FEI applied for and received a COC for the former blocks operated by Jeston Mining Corporation and Kinway Mining Corporation; both COCs had already been cancelled by the DOE. The locality stretches from Barangay Mantalongon to Maloray in Dalaguete, Cebu. These are portions of blocks CB-179, 180, 219 and 259 (Figure 3). The awarded COC has an aggregate of about 3,000 hectares.

Figure 3.0 South Cebu Concessions



6.4 PROPERTY DESCRIPTION

Tenement Conditions – Central and South Cebu Programmes

Exploration is to take place within the first year, leading to subsequent development and production. Once coal reserves in commercial quantity are measured, the COC will proceed to the development and production Phase. This will take place immediately once the coal development / production work program and feasibility study submitted by FEI is approved by the Department of Energy, and shall remain in force during the balance of the exploration Phase or any extension thereof for an additional period of ten years. Once FEI demonstrates that it has substantiated a reserve base and will apply an efficient mining method, FEI has the option to begin with production/development on any of the blocks in both COCs. FEI can proceed with this option even before the end of Year 1.

Thereafter, the Department of Energy may extend the term of the COC for another ten years, provided that FEI does not default its obligations. Thereafter, FEI may again request an extension of the COC term for a series of three-year periods, not exceeding twelve years, provided that the term may be reduced if a shorter period of time is required to continue and maintain economic coal development and production as jointly determined by FEI and the Department of Energy. The work program, as required by the DOE, per COC for Year 1 is detailed below:

Activity	Amount
Geological Mapping	1,000 hectares
Boundary Survey	1,000 hectares
Trenching/Test Pitting	100 m
Number of Drillholes (=100m /ea)	4

The operator is obliged to spend not less than one million Philippine Pesos (PhP 1,000,000.00) per block or PhP 4.0 million per COC per year. The work proposed by FEI, for both Central and South Cebu, on all owned blocks includes geological and technical work such as gathering of related data and literature, geologic investigation, mapping (recon/semi-detailed/detailed), drilling/test pitting/

trenching and related sampling. Schematic Gantt charts of the DOE-required work programmes as proposed by FEI, for Central and South Cebu are presented in Figures 4 and 5 below.

Figure 4.0 Proposed Work Program for Central Cebu

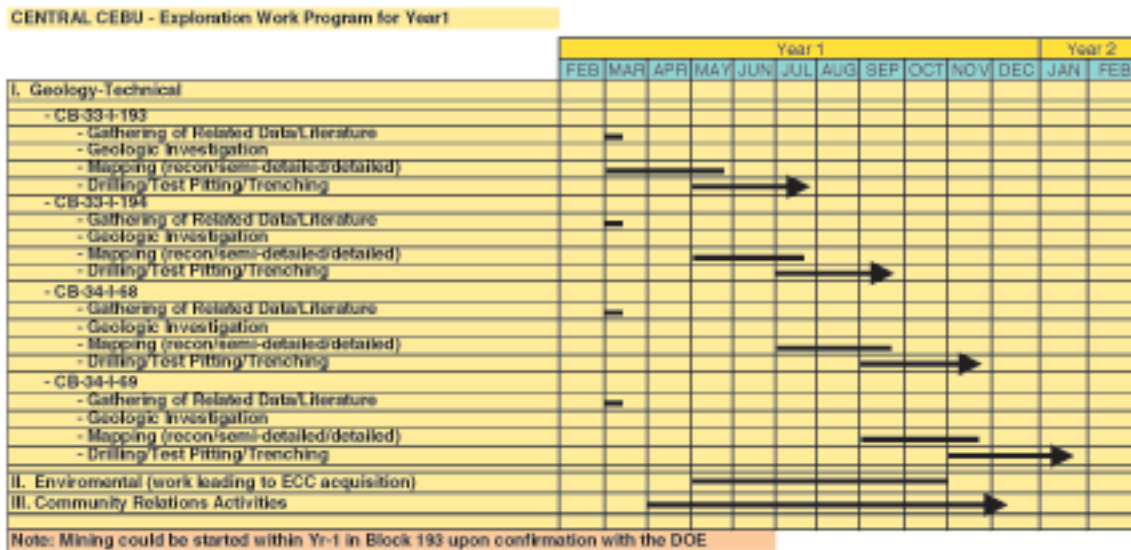
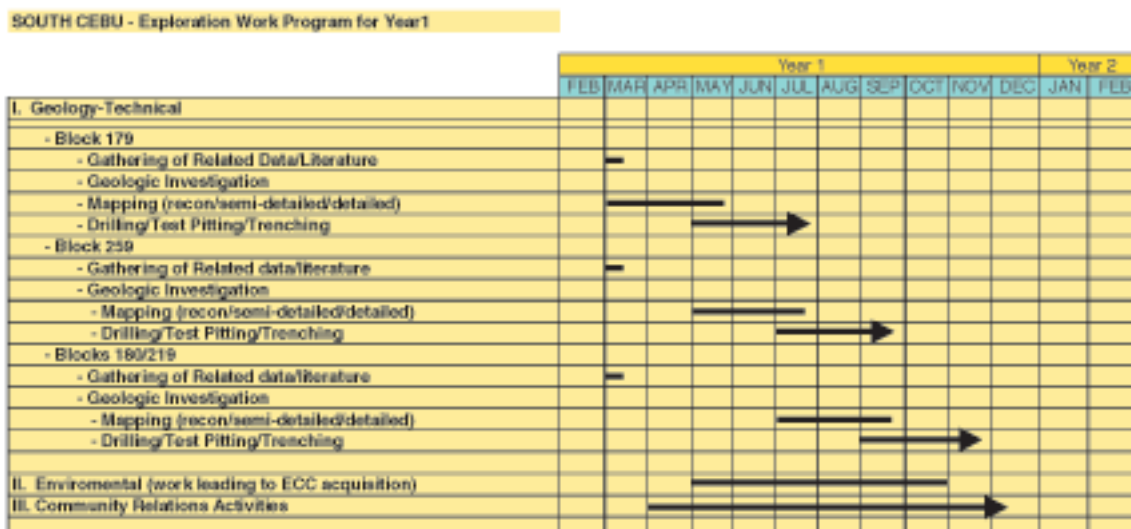


Figure 5.0 Proposed Work Program for South Cebu



6.5 REGIONAL GEOLOGY – CENTRAL CEBU

The stratigraphy of the Luca coal measure is similar to the other coal areas in Cebu being unconformably underlain by the economic basement Mananga Formation and overlain by Uling and Toledo Formation. The Toledo Formation consists of a thick sequence of fine tuffaceous clastics and calcirudites. The formation grades from dark brown mudstones and siltstones at the base to light grey sandstone at the top. The rock unit is well exposed at Barangay Kabagdalan in the northeastern part of the coal area.

The Uling limestone is basically coralline limestone with minor calcirudite facies. The thickness of the unit varies from insignificant to hundreds of metres. The unit is marked by its distinctive landforms such as sinkholes and limestone cliff. The unit separates the younger Toledo Formation marine sediments from the Luca Formation coal measures.

The Luca Formation predominantly consists of interbedded sandstones, siltstones, mudstones, carbonaceous shale and coal. Marine fossils are common especially near the top of the formation signifying frequent and longer periods of marine transgressions toward the end of the deposition of the formation. The most significant coal seam in the area, Seam S-2 has a consistent fossiliferous mudstone roof indicating a short-lived but extensive shoreface sedimentation right after peat formation.

Pyroclastic beds have also been observed within the section although not in the area being applied for. Their presence would indicate periods of volcanism during deposition of the formation. The Luca Formation is equivalent to the Malubog Formation identified by Santos-Inigo, et al, and elsewhere in Cebu.

The Mananga Formation consists primarily of basaltic lava flows intercalated with pyroclastic rocks of similar composition. The lavas are primarily amygdaloidal with vesicles and fractures filled with zeolites, carbonates, quartz, chloride and epidote. The pyroclastic facies consist of siltstones have also been noted in some sections. Secondary alterations such chloritization, silification, and oxidation are common. The unit exhibits sharp contacts with all the younger clastic units.

Geologic Structures

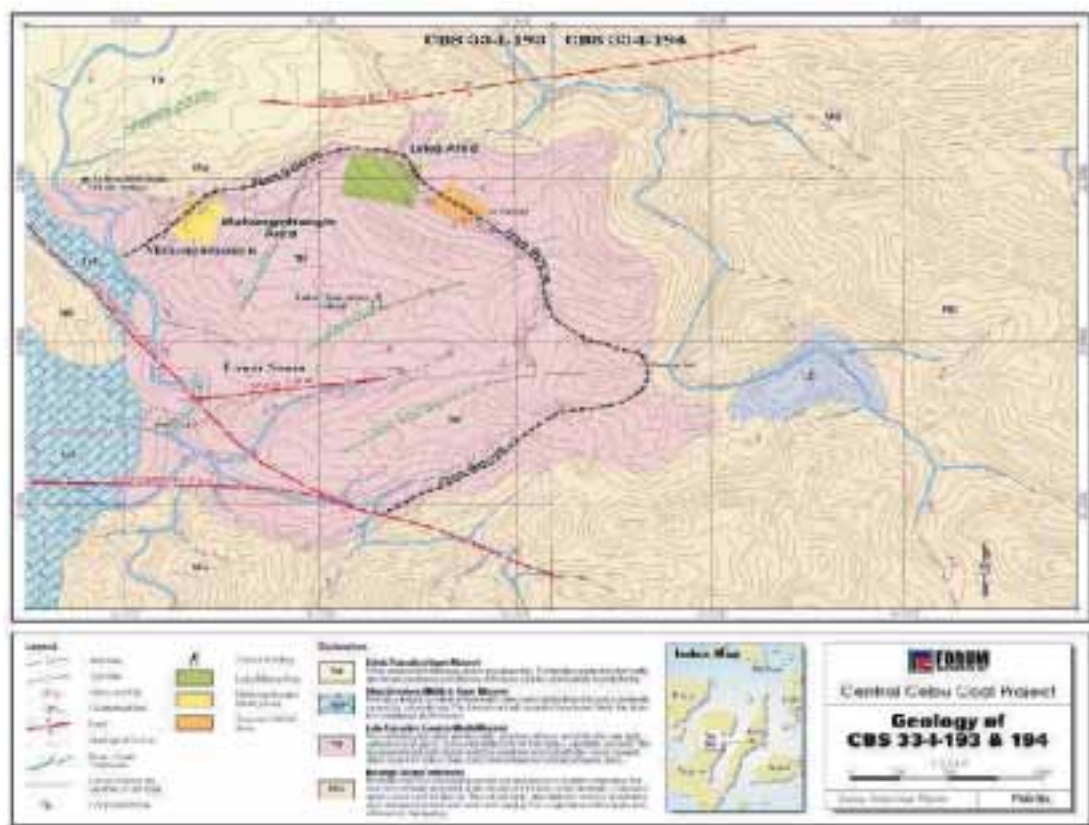
The Luca coal measures occur within a structural half-basin, which abuts against the inferred northwest trending Kabagdalan Splay Fault. At least three coal seams outcrop or subcrop along the periphery of the half basin as traced by both collapsed and active mine workings. The up thrown western half of the basin has been completely eroded out.

At least three major folds, namely, the Luca Syncline, Luca Anticline and Suom Syncline are inferred to occur within the half-basin. Another major fold structure mapped is the northeast trending Kabagdalan Anticline. This fold structure does not affect the Luca reserves but is particularly significant in exploring for coal on the northern blocks of CBS-152 and 153.

Aside from the Kabagdalan Splay Fault, other major fault structures mapped or inferred include the northeast trending Luca Fault, the east-northeast trending Amatuga Fault, Suom Fault and the west-northwest trending Kabagdalan Fault. Except for the Luca Fault, which was mapped in the mine workings, all the other major faults were inferred from topographic lineaments and sharp contact between rock units.

Slumps and rolls have been observed near the portal of mine openings. However, as to be expected, they decrease in intensity as the mines go deeper. Bedding dips on sediments as well as coal are generally low to moderate, averaging about 25° (Figure 6).

Figure 6.0 Regional Geology of Blocks CBS-I-193 and 194 – Central Cebu



Coal Geology

At least three seams appear to have developed to a mineable thickness. The seams named in this report as S-1, S-2 and S-3 vary in thickness from insignificant (< 0.30 m) to 1.50 m. Interburden between seams averages about 50 m in Mahangin-Hangin where all three seams occur in mineable thickness. However, at Luca and Suom, interburden between Seams S-2 and S-3 is only 10-20 m. Dips range from 15° to 50°, averaging about 25°.

Seam S-1 was mapped in the Mahangin-hangin area from the numerous small mines. Coal thickness reportedly varied from 0.75 m up to 1.50 m averaging about 1.0 m.

Seam S-2 was mapped in all three areas. Coal thickness ranged from 0.75 m to 1.40 m averaging about 1.20 m. The coal is generally free of partings but has a consistent 0.20m fossiliferous mudstone roof, which, although useful as a marker bed, forms a very weak roof and thus will have to be mined together with the coal. Thus, the run-of-mine generally contains high ash and therefore coal washing is necessary.

Seam S-3 was also mapped in all the three areas. Coal thicknesses ranged from 0.60 m to 1.50 m, also averaging about 1.20 m in Mahangin-Hangin and Suom but only 0.70 m in Luca. However, the seam generally includes mudstone partings, which comprise up to 40 per cent. of the total coal thickness. Thus, run-of-mine also contains high ash and needs to be washed. Both back and floor generally consist of mudstone. However, the immediate floor is highly plastic when wet and therefore heaves. A periodic re-grading of the tunnel floors has to be anticipated when mining the seam. Providing the timber supports with sills and maintaining good drainage will be necessary.

As noted, numerous undocumented small-scale mining operations have been ongoing in the area for the last 15 years, however such operations were only down to a depth of 20 to 30 m from the outcrop zone.

Coal Quality

The DOE conducted extensive sampling and washability tests to various coals in the country in 1997. Only the washed coal had been sampled and analysed in Luca area but sink-float test of the raw coal has not been conducted; results are presented in Table 1 below.

Table 1.0 Coal Quality Analysis of the Luca Coal Seam (DOE-ERL)

ITEMS		<i>As Received</i>	<i>Air Dried</i>
Air Drying Loss, %		—	2.23
Moisture, %		10.31	8.26
Ash Content, %		7.53	7.70
Volatile Matter, %		41.13	42.07
Fixed Carbon, %		41.03	41.97
Calorific Value	Kcal/kg	6,142	6,282
	BTU/lb	11,055	11,308
Total Sulphur		2.69	2.75
Ash Fusion			
Temperature,			
softening		1,234	1,252
HGI			51

Source: Establishment of Quality Database and Washability Potentials, DOE 1997

Geo-Hydrology

Limestone occurs above and below the coal, measure and these are of the cavity solution type. However, since the structures are monoclinial and the surface topography permits easy water runoff there is no perceived problem on underground water.

6.6 REGIONAL GEOLOGY – SOUTH CEBU

The Carcar-Barili Formation is the youngest stratigraphic group in the district. It consists mainly of limestone, limy tuff and limestone conglomerates. The area overlain by this type of rock usually exhibits karstic topography with numerous sinkholes and vertical cliffs. The Argao Group is

composed of Linut-od Formation (upper portion), Butong Limestone (middle portion) and the Calagasan Formation.

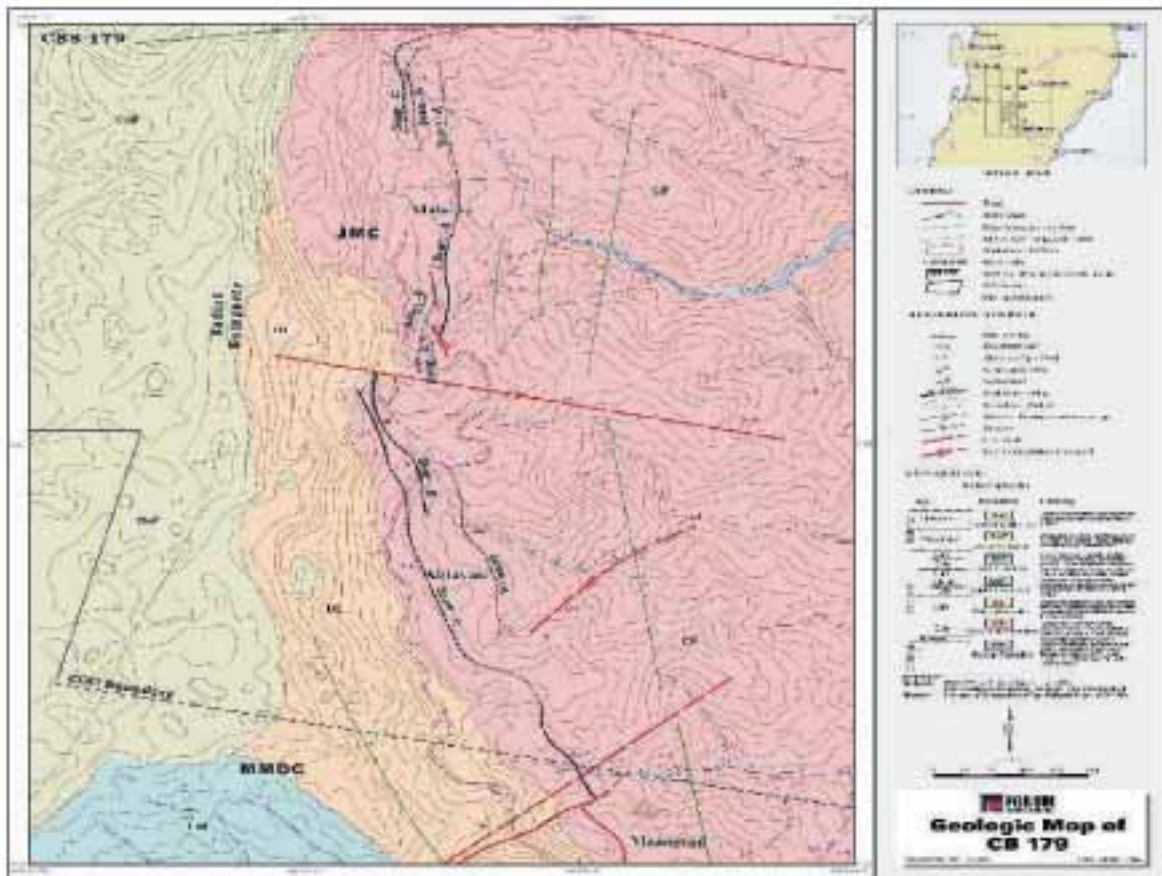
The Linut-od Formation consists mainly of thick beds of shale, siltstone, mudstone and sandstone though thin lenses of limestone are also observed. Furthermore, it is known to bear two mineable coal seams, locally known respectively as upper and lower seam. The distance between the two seams varies from 6 to 10 m.

Butong Limestone is dense, fine to medium grained, shaley to sandy, in section. It is massive to thin bedded in sections with colour ranging from yellowish grey to light brown. This kind of limestone deposit separated the Linut-od and Calagasan Formations.

Calagasan Formation is the lowest and the oldest formation of the Argao Group. It is typically made up of limestone and conglomerates. The lower part is chiefly conglomerate, sandstone and interbeds of shale and mudstone while occurrences of coal seams and lenses of limestone mark the upper portion. Figure 7 shows the regional geology covering the blocks applied for mining.

The basement, Pandan Formation, possibly of Late Cretaceous age is the oldest rock in the region. It is unconformably underlying the Argao Group and no local occurrence of coal had been reported or observed in this formation.

Figure 7.0 Regional Geology of Block CB-179 – South Cebu



Regionally, the southern section of Cebu is characterized by a NNE-SSW trending elongated antiform (DOE report, 1995) wherein the older formations like the Argao Group have been exposed while the younger ones like the Barili and Carcar Formations have been exposed along the coastal flanks. This has been interpreted by early geological work as due to a huge anticline on a NNE-SSW orientation.

Geologic Structures

The coalfield has been affected by one major fault and several minor faults. At the southern boundary of CB-179, the Maangtud fault striking NW has cut across the Butong limestone and dissected the coal seams. Displacement has been measured at about 60 m in a predominantly lateral direction. Noticeably, the coal seams dip at opposite directions after this fault. Minor faults

have also cut and caused some displacements to the coal seams identified from Maangtud to Maloray areas (Figure 7).

Coal Geology

The coal seams of the area occur as part of the NNW erosional window about 15 to 20 km long and 7 km wide. Calagasan and Linut-od Formations are the main coal-bearing formations and are exposed in the blocks applied for COC.

Calagasan Formation is widely exposed in CB-179 and 180 and at least 3 seams dipping steeply to the west have been identified and being mined by the small-scale miners. The seams are traceable from Manguerra mines located south of CB-179 where a very thick seam dipping steeply to the east is the main object of present mining activities. The coal seams persist northward up to the blocks operated by INIMACO and LUVIMIN to a distance of more than 10 km. The coal seams in CB-179 strike NNW in the southern part then NNE in the northern part and generally dip from 50° to 70° to the west; however the average dip in the area is 30° to 40°. Some minor faults have cut across the coal seam where in some instances they have caused displacement.

Linut-od Formation is also exposed in the western portion of CB-179 but this has not been explored and there is no mining activity in that area. However, the coal seams previously worked out by Kinway Mining in the block south of Manguerra belongs to the Linut-od Formation

Coal Quality

The DOE ERL group conducted sampling and testing of all coals nationwide and established a database of the coal quality and washability of most coals. Based on their report, the following coal analyses, as presented in Table 2, have been taken from the Maloray area; one of the areas to be mined.

Table 2.0 Coal Quality Analysis of Maloray Coal

ITEMS	As received	Air Dried
Air Drying Loss, %	—	3.97
Moisture, %	10.28	6.57
Ash Content, %	3.17	3.30
Volatile Matter, %	40.35	42.02
Fixed Carbon, %	46.20	48.11
Heating Value, BTU/lb	11,800	12,200
Total Sulphur	0.52	0.54
IT/ST, C	1276	1336
HT/FT, C	1472	1472
HGI		52

6.7 COAL RESERVES

Based on the DOE accepted standards, the following parameters have been followed for coal reserve estimation:

- *Proven Reserves*: in this category, the spacing between points of measurements and projections is 100 m considering a more persistent occurrence of the coal seams as had manifested by previous workings. Points of measurements have been based on actual coal seam thickness and attitude from underground workings such as shafts, levels, raises, winzes and adits aside from drillholes,
- *Probable Reserves*: in this category, the points of measurements are generally projections of influence that forms the next 200 m extension beyond that of proven reserves.

A summary of the reserves for all the blocks in the COCs is presented in Table 3 below.

Table 3.0 Reserves Summary for Cebu Projects

Region	Block	Metric Tonnes		
		Proven	Probable	Insitu
Central Cebu	CB 33-I-193	135,887	81,861	2,980,000
	CB 33-I-194	55,879	217,635	310,000
	CB 34-I-68	73,904	287,840	410,000
	CB 34-I-69	234,330	912,664	1,300,000
Subtotal		500,000	1,500,000	5,000,000
South Cebu	CB-179	350,985	683,202	806,453
	CB-180	71,583	171,690	546,773
	CB-219	197,391	473,437	1,507,734
	CB-259	280,041	671,671	2,139,040
Subtotal		900,000	2,000,000	5,000,000
TOTAL		1,400,000	3,500,000	10,000,000

The proven and probable reserve figures for blocks CB 33-I-193 and CB-179 presented above are the volumetric figures taken from the feasibility studies conducted by Careminer (Consultants to FEI). In those studies, only one block (as specified) from each COC was addressed for particular emphasis on mine development and volumetric reserve purposes.

The proven reserves shown for the remaining blocks were derived from ensuring a persistent occurrence of the coal seam of no more than 100 m between outcrops, old mine workings and examined drillhole data and related sections. Probable reserves were determined similarly with the exception that the distance was increased to 200 m. Insitu reserves were determined by delineating coal seam occurrence at distances greater than 200 m. These figures come from all available data, field observations and detailed discussions with previous miners.

All drillhole logs and cross sections available for both Central (North and South Central) and South Cebu, were observed in detail by the primary author of this report. The database comprises over 110 surface drillholes at various spacings ranging from 100 m to well over 1 km. In all cases, the data confirms a consistency in both coal seam continuity and coal seam intersection thicknesses over the entire strike length within each COC. This data is further substantiated by physical field evidence (seam outcrops), combined with old and current mine workings.

The figures in Table 3 are, in the authors' (of this report) opinion, very conservative. At Central Cebu in Uling, for instance, field and drillhole evidence confirms the existence of 5 additional seams in addition to the 3 (S-1, S-2 and S-3) already detailed. These additional seams have thicknesses ranging from 0.5 m to over 1.5 m thereby substantiating that coal resources are much larger than previously thought.

Central Cebu

Previous small-scale operations have not mined out of CB 33-I-193 since these small-scale miners can only mine up to a limited depth. More coal reserves exist in the other three blocks but further exploration and geological studies have to be conducted since the data is currently being withheld by the previous operators.

Seams S-1 and S-3 reserves were excluded in the reserve estimation as mine design hinges only on the more consistent S-2 seam. Additional seams (as noted earlier) were also excluded.

The parameters used in the determination of mineable reserves were:

- Average true thickness of seam S-2 is 1.20 m,
- Average dip is 25°,
- Specific gravity was based on the USBM/USGS scheme or 1.3 metric tonnes/m³,

-
- Area of influence limit for proven reserves is 100 m from the last observation point,
 - For probable reserves, lateral and down dip extension of the coal seam is 50 m from the proven reserve limit.

For the purpose of mining, the panels and other necessary mine structures are laid on each seam to define the mining plan. Explicitly, mining reserves based on what will actually be extracted is calculated after deciding things like protective pillars in between panels, faults, abandoned underground workings, seam outcrop, main and ventilation shaft, etc. The coal contained inside the panels/blocks is calculated and classified as recoverable reserves including the pillars in between panels as these will also be mined with the longwalls.

Based on actual parameters obtained from previous mines with the same mining operation, a 90 per cent. factor for mining recovery has been applied. Losses during mining and transporting the coal are also considered. Layouts of the proposed panels have already been planned out. The mining reserve is the coal contained in the longwall panels of the approved mine plan. This includes all safety and protective pillars. Recoverable reserves are obtained by multiplying the mining reserve with the 90 per cent. mining recovery.

All the reserves were either proven or probable considering the persistency of the seams as proven by the old DGSCM mines and the deeper small-scale mines in the areas. Significant additional reserves exist in the Suom area below the level of mining of the small mines and at CB 33-I-194 as indicated by the small mines and the HMDC drain adits but are not included in Table 3.

South Cebu

At block 179, only Seam B has been mined by the previous operators and this seam has a thickness of 0.6 – 1.5 m. The seams dip steeply at 50° to 70° at the general strike changing from north-northeast to south-southwest, but the average dip is much shallower ranging 30° to 40° as evidenced by the existing mining operation of neighbour competitor.

All available data and information obtained by IEVI (from its mining operations) have been taken as the basis of the initial coal panel reserves calculations.

6.8 MINING – CENTRAL CEBU

A preliminary feasibility was conducted on the Central Cebu coal project. It proposes a mining method(s), complete with rates and costs including cash flow diagrams. What follows is a brief description of the suggested mining methodology.

Mini-longwall (MLW) panels and other mine structures necessary in mining the coal are laid on mine plans separately for the seams. All the mine designs, production plans, facilities, infrastructures and operational details are based on the desired annual production of 45,000 metric tons run-of-mine. Mining has been programmed to start from the most accessible panels to attain full production while development proceeds to maintain the availability of two panels at all times. If, at any point in time, the management decides to increase the output further, increasing the number of panels would be easy.

Safety and efficiency of MLW extraction dictates that the upper seams should be mined initially – before the underlying seams. Mining the lower seams first will render the upper seams inaccessible. Mine development has been programmed to attain full production at the earliest possible time. This is achieved by developing the shallow panels of the lower seam that do not in any way affect overlying panels of the middle and upper seam.

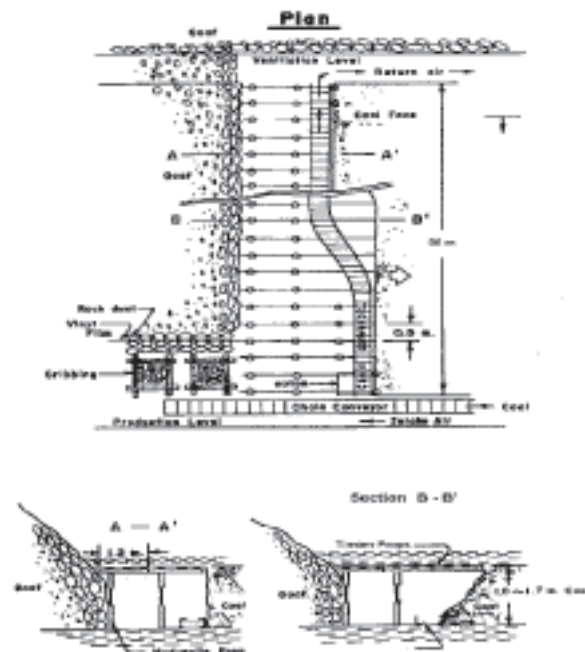
Since the attitude of the coal seams, with respect to topography, only permits an underground mining method, the shortwall mining method is being considered. With an average coal seam thickness of 1.2 m and a dip of 25°, economics dictate that the shortwall mining method is advantageous over the typical room-and-pillar method. The former method will allow for higher reserve recovery and higher productivities if employed correctly.

Generally, shortwall panels are designed with 25 to 30 m mining faces, with a 10 m separation between panels. Initially, coal extraction will be accomplished by manual coal pick and shovel but will eventually be upgraded to the use of pneumatic picks as soon as the cash flow position of the company allows. Coal transport in the coal face shall be done using hard plastic troughs, which are possible due to the 25° dip of the seam. At the main gate, the coal will be directly loaded into mine cars having a capacity of 1.0 metric tonnes. The loaded cars will then be hand-trammed out to the main shaft and hoisted out of the mine.

Mining Method

The selection of the mining method has been based on the characteristics of the seams, properties of the roof and floor, persistency of thickness, related advantages and disadvantages of each method as experienced by other mines of similar conditions. The previous room and pillar mining method employed by DMC-CERI and the longwall mining operations of then PNOC-MCC were used as references. A typical MLW operation is shown below in Figure 8.

Figure 8 Typical Mini Longwall Mining Method



The MLW mining method will be employed in general, however in portions where thinning and swelling persists, shortening of the panel width will be necessary. Primarily, the advantage of longwall mining over room-and-pillar mining is the high rate of coal recovery that reaches up to about 90 per cent. of the panel reserve compared to a recovery of less than 50 per cent. for the latter. In addition, mining cost has been established to be much cheaper with the longwall operation given the same geological conditions.

The planned operation is directed in line with the company's objective of fully utilizing the cheap labor available in the site at the same time increasing the productivity. With this objective, gradual but continuous introduction of appropriate level of mechanization is also planned.

After a thorough review of the geological data and information of the seams, it has been established that the conventional MLW (shorter width than normal longwall) method is the most applicable. In the country, only PNOC has mined by longwall as introduced by the DIA Consultant in the early 80's. MLW mining method has the following advantages:

- Maximum recovery of reserves
- High productivity
- Ability to deal effectively with weak roof and floor
- Suitable to flat and moderately dipping seams
- Ventilation is simpler

It is planned that all the panels will be mined in a retreating fashion because of the problems experienced in an advancing one like that in PNOC Malangas mine. To attain the desired production target of 75,000 metric tonnes per year, two MLWs are needed at a time. Operations will be on two shifts per day and six days per week for a total of 300 working days per year. The other parameters used are:

- MLW face length is 30 m. If thin and swell conditions become a problem method is shifted to room-and-pillar mining,
 - Pillars in-between panel are 20 m,
-

- Pillars shall be mined also together with the panel below, it in retreat,
- Average daily face advance rate is 1.2 m,
- Average specific gravity is 1.3.

At the desired production output, the conventional MLW system consisting of timber props as face support, water-assisted flumes for face transport, pick hammers with occasional drill and blast are deemed adequate.

Mine Design

The mine is designed based on the detailed geological interpretations done for every coal seam, geo-technical and hydrological data gathered during the exploration stage and applied engineering principles and practices on coal mining.

Selecting and deciding the mode of access to the coal seams is the foremost step and most critical since it is there that other underground openings are reckoned. Main mine entries can be tunnels, vertical shafts or inclined shafts or a combination depending on the location of outcrops, how the seams have developed towards the depth, topography and surface accessibility.

Production Plan

At least four separate mines can be developed at Central Cebu. Seam S-2 in Mahangin-Hangin can be developed as "Mine 1" whilst Seam S-2 in Luca can be developed as Northwest and Southeast Mines. Pending evaluation of the reserves in the Suom block and CBS-194 by end of the first year of exploration and delineation, at least another mine can be developed in the area as well.

For the proposed five-year work program, only seam S-2 in both the Luca and Mahangin-Hangin areas will be developed. The Southeast Mine will be developed initially beginning in year 1. The driving of the Northwest Mine twin shafts will then commence in year 2, four months after commissioning the second panel in the Southwest Mine. Mine 1 will be developed starting the second month of year 3 as a replacement for the Southeast Mine. FEI may decide to develop Seam S-3 and the possible mine in CBS-194 on the fourth or fifth year of this program as a replacement for the Northwest Mine and Mine 1 – once they are exhausted. On a yearly basis, the estimated coal production is summarized in Table 4.

Table 4.0 Proposed Production Plan

<i>Year</i>	<i>Metric Tonnes/Yr</i>
2005	—
2006	16,000
2007	60,000
2008	75,000

The down dip extension of Seam S-2 will effectively extend the life of the Northwest, Southeast and Mine 1 mines beyond the proposed five-year program. The company will have to seek approval of the DOE for such a program and the respective adjustments in its work commitments.

In general, two slopes shall be driven from the industrial site on a southeast direction. The Main Slope shall be utilized as the main entry of men and materials to the underground as well as the coal haulage. The Ventilation Slope shall be utilized for air exhaust and emergency exit.

Mine Layout

The mine layouts of each area have already been planned. Both slopes shall be driven to follow Seam 2 on a southeast direction at least 30 m apart to make them more stable.

From the slopes, pairs of panel gates 30 m apart shall be driven laterally on both sides towards the outer limit of the coal seam. At the end of the panel, the gates (main and return) shall be connected by a face raise which then will be prepared as the starting MLW face for a retreating coal winning process. Each panel is separated by a 20 m pillar. This pillar shall also be mined simultaneous with mining the lower adjacent panel. This way, the construction of costly stone packs is eliminated just to preserve the stability of the return gate if mining is without the pillar.

Roof Support

Three-piece timber sets shall be the primary ground support in all underground driving such as the slopes, tunnels and gates. Timbers will mostly be round logs of the sturdy variety.

The slope portals shall be concreted to a distance of 25 m inside. This is to ensure the stability of the entries to the underground.

Coal and Waste Transport

Unlike in large longwall operations, a mechanized transport system such as conveyors is not feasible with the small output. Small capacity but cheap methods such as water-assisted flume are more appropriate. These flumes are normally laid at the footwall of mining face at a minimum inclination of 5°. At the lower end of the flumes, the coal is directly discharged into the sieve bends where water is removed and recycled back. Dewatered coal drops straight to the mine cars parked below the sieve bend.

The train of mine cars pulled by a locomotive battery has sufficient capacity to handle production during the peak hours when at least a longwall face and two development headings are simultaneously feeding.

During the development of the gates or level roadway hand mucking will be used to load the coal and rocks into the flumes.

6.9 MINING – SOUTH CEBU

A preliminary feasibility was conducted on the South Cebu coal project. It proposes a mining method(s), complete with rates and costs including cash flow diagrams. What follows is a brief description of the suggested mining methodology.

The coal seam is subdivided into panels similar to a longwall layout. Each panel is bounded by two gates, the lower will serve as the main coal haulage and fresh-air intake to the mining face while the upper one will serve for ventilation return, emergency exit and haulage ways for supports and filling materials.

From the farthest end of the panel (maybe limited by fault or thinning) an initial mining face is driven from the lower gate to the upper gate. Starting from the bottom of the panel and just on top of the timber support a 2.40m high horizontal slice is advanced to about 5 m. The succeeding slices are now oriented 30° on an apparent dip to allow controlled free flow of broken coal along a laid PVC flume.

Coal is excavated using a drill and blast technique. After blasting, the roof is supported with timber stulls at a spacing that will allow workers to move freely at the mining face. By the time the entire face is moved at least a slice, broken rock from the surface is brought down and filled to the mined-out portion leaving a gap between the fill material and the coal roof enough for the workers to stand when working.

The broken coal freely falls down to the mine cars parked below which, when full, are pulled to the shaft station for surface hoisting. Within the first five years of operation management desires to have obtained a level of production of 51,800 metric tonnes per year while doing extensive exploration to prove the coal reserves at lower depth as well as along the lateral extent of the seams towards the other blocks. Production is intended to come from the three areas previously operated and left by the other company 10 years ago.

The areas ready for mine development are the South Ablayan, North Ablayan and North Maloray areas. Due to lack of drilling information in the deeper portion of the seams, mining shall be divided in 2 phases. Phase 1 consists of mining the panels delineated as proven reserves while doing the exploration of the continuation of the seams at deeper portions. Phase 2 involves mining the portion of the coal seams below the proven reserves after thorough exploration.

Mining Method

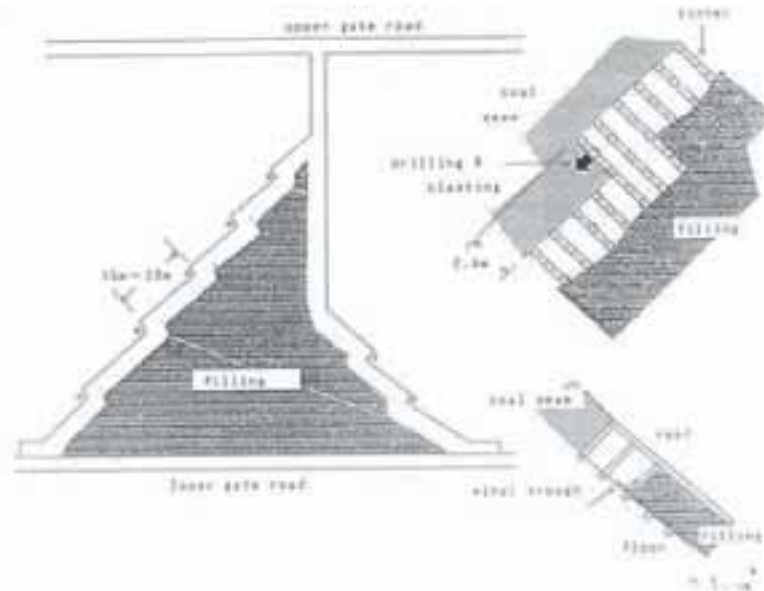
Diagonal Saw-Teeth method (sometimes called Stepped-Face method) is considered the most appropriate method to introduce in extracting the coal. As shown in Figure 9, the method resembles that of a jigsaw blade and was successfully utilized at very high productivity (over 35 metric tons per man-shift) in Sumitomo Akabira Mine in north Japan.

The hanging column of coal is drilled and blasted for production. Air auger drill with 1" bit is commonly used because electric equipment is restricted underground especially when gassy

conditions prevail. Holes are drilled normally at a spacing of one meter from each other and with a depth of 1.5m.

Only permissible type of explosives is allowed in underground and likewise, only electric blasting cap is used for detonation.

Figure 9.0 Typical Diagonal Saw-Teeth Mining Method



Mine Design

The objective is to attain full production of 36,000 metric tonnes of clean coal annually at the earliest time possible and at the most reasonable cost.

Initial mine development includes driving Tunnel 550A and B to coal seam B at Maangtud area. These two tunnels will interconnect inside to have an alternative haulage way. Upon intercepting the coal seam B, a ventilation raise shall be driven upwards at the designated end of the panel and come out on the surface at the outcrop zone. Even natural ventilation can induce air circulation with such ventilation raise(s).

From the coal intercept, tunnel 550 will be driven following the coal seam to the farthest extent or when the coal seam thins out totally. The tunnel will be driven at a gradient of -0.5 per cent. to allow mine water to flow freely out of the mine.

When full production is attained, development work shall be slowed down, leaving few development crews only for the roadways and gates. These headings will be developed only as required. Panel preparation shall continue at a pace equivalent to, or slightly faster than, the advance rate of panel extraction, which in this case is 1.2m/day/panel. In order to maintain the availability of a panel at a time, gates shall be developed at a rate of at least 2m/day/panel.

It is estimated that the first panel in stage 1 will be available after 9 months from the start of mine development. From that time on, the desired production of 1,000 metric tonnes /mo shall be maintained. As the worker's gain experience and expertise on the new mining method production will accelerate to 2,000 metric tonnes /mo. By then, the new panels in the second area shall already be producing and the target production of 3,000 metric tonnes becomes consistent.

Production Plan

On a panel by panel basis, a production program for Phase 1 is generated detailing the sequence of mining and tonnage expected to be produced. The objective of this exercise is to fulfill the desired output of 60,000 metric tonnes per year of clean coal and to pinpoint where the coal should come from. On a yearly basis, the estimated coal production (including incidental coal) is summarized in Table 5.

Table 5.0 Proposed Production Plan

Year	Metric Tonnes/Yr
2005	—
2006	20,000
2007	50,000
2008	60,000

Coal and Waste Transport

Blasted coal drops down and is allowed to flow freely by gravity along PVC coal flumes. Coal flumes resemble that of a gutter and are made of PVC to make them lightweight. One end is slightly expanding while the other end tapers slightly in order for several flumes to be connected with overlaps. Normal PVC flumes for coal application have lengths of 2.4 m and width of 60 cm inside.

Broken coal is directly loaded to cars waiting at the lower gate. Filled cars will either be trammed by hand or pulled by small electric hoist at the gate entrance. For every blast of 5.4 m³ (bank volume) the resulting volume of broken coal will be about 6.8 m³ for which 5 cars of 1.6 m³ capacity (cars are normally 90 per cent. full) are needed.

When mining is still above Tunnel 550 (at elevation 550) a train of 5 mine cars pulled by a 6-ton battery locomotive out of the mine is the main haulage system. Tunnel 550 shall be the main haulage tunnel for production as well as bringing in materials and men to the working areas.

When mining progresses to the lower panels (below 550 elevation) the main slopes shall be utilized for haulage way and transport of men and materials. At the staging area in every level, the cars are coupled and brought out using the main rope haulage system with the main hoist installed on surface. The main haulage slope is designed to have a maximum gradient of not more than 30 per cent. (17°) in order to pull at least 5 cars at a time.

6.10 QUALIFICATIONS, EXPERIENCE AND INDEPENDENCE

The CSA Group is a consulting firm, which has been providing services and advice to the international mineral industry since 1984. The primary author of the Competent Person's Report, Mr. Dexter Ferreira, is a senior geostatistician with over 15 years experience in project evaluation internationally, including extensive involvement with mineral projects throughout South America and Africa. He is a member of South African Council for Natural Scientific Professions, and qualifies as an 'Expert', 'Competent Person' and 'Qualified Person' as defined in National Instrument 43-101 and the JORC Code respectively.

Neither The CSA Group, nor the author of this report, has or has previously had any material interest in Forum Exploration Inc. or the mineral properties in which FEI has an interest. Our relationship with FEI is solely one of professional association between client and independent consultant. This report is prepared in return for professional fees based upon agreed commercial rates and the payment of these fees is in no way contingent on the results of this report.

6.11 PRINCIPAL SOURCES OF INFORMATION

The CSA Group has based its review of Forum Exploration Inc's coal properties on information provided by FEI, along with technical and feasibility reports prepared by Forum, and other relevant published and unpublished data. National Instrument 43-101, which sets a standard for reporting, requires that a site visit be undertaken to the projects or assets. In this instance, site visits were undertaken to all projects by the primary author in March 2005 (Central Cebu; both North Central and South Central, and Southern Cebu).

The CSA Group has made all reasonable enquires to ensure the authenticity and completeness of the technical data on which it has relied, and a final draft of the report was also provided to Forum Exploration PLC, along with a written request to identify any material errors or omissions prior to lodgement.

6.12 GLOSSARY OF TECHNICAL TERMS

Adit

A horizontal or sub horizontal tunnel used to access ore.

Aeromagnetic survey

A survey of the earth's magnetic field carried out from a helicopter or airplane.

Air photo interpretation

The identification of geology and structures from interpretation and examination of aerial photos.

Alluvial

Descriptive of sediments, which have been deposited by rivers or streams.

Alpine Orogeny

Descriptive of a major period of tectonism that occurred in phases through Cretaceous to mid-Tertiary.

Anomaly

Value higher or lower than the expected or norm.

Anticline

A fold in rock strata that is convex upward with a core of older rocks.

Argillite

A clay-rich sedimentary rock.

AusIMM

JORC Australasian Institute of Mining and Metallurgy Joint Ore Reserves Committee.

Ball mill

Machine used to crush rock during the processing phase.

Basin

A regional depression, which may be structural in origin.

Bed/bedding

Distinct tabular unit(s) of rock laid down on the earth's surface.

Bitumen

Naturally occurring tar-like hydrocarbon of indefinite composition.

Block model

A 3D array of cells constructed to enable recording of variables of interest such as grade and geology.

Breccia

Rock fragmented into angular components.

Calcareous

Said of a rock which contains calcium carbonate.

Calcite

Calcium carbonate, CaCO₃.

Cap-rock

The uppermost chaotic and insoluble portions of a salt diapir which remain after salt has ceased to flow.

Carbonaceous

Said of a sedimentary rock containing organic material.

Carbonate

A rock, usually of sedimentary origin, composed primarily of calcium, magnesium or iron and CO₂. Essential component of limestones and marbles, but may also occur as a product of alteration.

Carbonate platform

The shallow margins of a marine basin where carbonates are being deposited.

Cenozoic

Epoch of Earth's history from 65 million years ago to Recent times.

Channel sample

Sample obtained by cutting a representative channel or groove across a rock face or profile.

COC

Coal operating contracts is a means by which coal mining is regulated in the Philippines

Collapse breccias

Breccias resulting from the dissolution of part of the rock and the subsequent collapse of the rock structure.

Compression

When tectonic elements oppose and form a certain type of resulting structures.

Competent Person

A "Competent Person" is a person who is a Member or Fellow of the Australasian Institute of Mining and Metallurgy, or of the Australian Institute of Geoscientists, or of a 'Recognised Overseas Professional Organisation' ('ROPO') included in a list promulgated from time to time.

A 'Competent Person' must have a minimum of five years experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which that person is undertaking.

Core

A tube of rock produced by diamond drilling.

Cretaceous

Applied to the third and final period of the Mesozoic era.

Decline

An inclined tunnel-like excavation into the ground to allow vehicle and equipment access for the mining of ore bodies.

Diamond drilling

Method of obtaining cylindrical core of rock by drilling with a diamond set or diamond impregnated bit.

DOE

Department of Energy in the Philippines.

Dolomite

A rock composed of calcium and magnesium carbonate.

Expert

An appropriately qualified person who prepares and is responsible for a report issued under the JORC and / or National Instrument 43-101 Code, who can demonstrate independence and competence in the preparation of the Report, and is a professional having at least ten years of relevant expertise and experience in the general, mining or petroleum industry.

Face sampling

Sampling of an exposed rock face in underground development fire assay. The assaying of metallic ores, usually gold and silver, by methods requiring a furnace heat.

Geological mapping

The process of identifying and recording the distribution and types of rocks and other geological features.

Geophysical

Use of electrical techniques or the measure of natural phenomena to assist in determining sub-surface features.

JORC Code

Code and Guidelines for the assessment of Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy.

Limestone

Sedimentary rock wholly or in large part composed of calcium carbonate, CaCO₃.

NI43-101

Canadian legislative code for the assessment of mineral resources and ore reserves for listing on any Canadian stock exchange.

Neogene

The later of two periods into which the Cenozoic era is divided.

Organic carbon

Carbon derived from organic processes.

Percussion drilling

A drilling method which uses a percussive hammer on a set of drill rods to drill a hole, using compressed air to power the hammer and remove drill cuttings.

Proterozoic

An era of geological time spanning the period from 2,500 million years to 570 million years before present.

Qualified Person

“Qualified person” means an individual who is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these; has experience relevant to the subject matter of the mineral project and the technical report; and is a member or licensee in good standing of a professional association.

Reverse Circulation (RC)

A drilling method in which the fragmented sample is brought to the surface inside the drill rods, thereby reducing contamination; commonly used with a percussion hammer bit.

Rock chip sampling

The collection of selective or representative samples of rock fragments within a limited area.

Sandstone

A sedimentary rock composed of cemented or compacted detrital minerals, principally quartz grains.

Schist

A crystalline metamorphic rock having a foliated or parallel structure due to the recrystallisation of the constituent minerals.

Shale

A fine-grained, laminated sedimentary rock formed from clay, mud and silt.

Soil sampling

The collection of soil specimens for mineral analysis.

Tertiary

Subdivision of geological time covering the period from 65 million years to 1.6 million years ago.

Thrust

A low angle (shallowly inclined) fault or shear on which the rocks on the top have moved up and over the rocks on the bottom.

Trench sampling

A sampling technique in which a shallow linear excavation is made in the ground surface, which is then methodically sampled, generally along one wall.

PART 7 ACCOUNTANTS' REPORTS
PART 7A – REPORT ON FORUM ENERGY PLC

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Private & Confidential

The Directors
Forum Energy Plc
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London EC2Y 5EB

The Directors

Noble & Company Limited
120 Old Broad Street
London
EC2N 1AR

28 July 2005

Dear Sirs

Forum Energy Plc

We report on the financial information set out below. This financial information has been prepared for inclusion in the Admission Document dated 28 July 2005 ("the Admission Document") of Forum Energy Plc ("the Company").

Basis of preparation

The financial information set out below is based on the books and records of Forum Energy Plc on incorporation on 1 April 2005. Forum Energy Plc was incorporated as Sterling Philippines Plc on 1 April 2005 and changed its name to Forum Energy Plc on 20 May 2005.

Responsibility

Maintenance of such books and records are the responsibility of the Directors of the Company.

The Directors of the Company are responsible for the contents of the Admission Document dated 28 July 2005 in which this report is included.

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

Basis of opinion

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

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

Opinion

In our opinion the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of Forum Energy Plc at 1 April 2005.

We consent to the inclusion in the Admission Document dated 28 July 2005 of this report and accept responsibility for this report for the purposes of paragraph 45 (8) (b) of Schedule 1 of the Public Offer of Securities Regulations 1995.

1. Balance sheet

	1 April 2005
Cash in hand	\$ 4
Called up share capital (note 2.2)	4

2. Notes to the financial information

- 2.1 Forum Energy Plc was incorporated on 1 April 2005 as Sterling Philippines Plc and changed its name to Forum Energy Plc on 20 May 2005. Forum Energy Plc did not trade during this period, no audited financial statements have been made up and no dividends have been declared or paid since the date of incorporation.
- 2.2 Issued share capital at 1 April 2005 represents two allotted, fully paid Ordinary shares of £1 each. The authorised share capital at the balance sheet date was 50,000 Ordinary shares of £1 each.
- 2.3 To be consistent with other information presented in the Admission Document, the financial information on the Company has been converted to US Dollars using the following rate of exchange at the date of incorporation (1 April 2005) being £1: \$1.8895.

3. Post balance sheet events

On 21 April 2005 various resolutions were passed by the Company's then shareholders (conditional on passing resolutions at an EGM on 18 May 2005) pursuant to which (a) the authorised share capital was increased from £50,000 to £10,050,000 by the creation of 10,000,000 ordinary shares of £1 each, (b) each of the 10,050,000 £1 ordinary shares then authorised were sub divided into 100,500,000 ordinary shares of 10p each of which 500,000 were immediately reclassified and redesignated as 50,000 redeemable Preference Share of £1 each (c) amendments to the articles of association of the Company were adopted (e.g. Preference shares have no right to participate in any profit of the Company available for distribution and have priority of right of return of capital on winding up or other return of capital), (d) the directors of the Company were authorised to allot relevant securities up to the aggregate nominal amount of £10,050,000 up until 31 July 2005. The Company's issued share capital consisted of 50,000, £1 Preference Shares and 20, 10p Ordinary Shares, all held by Sterling (or by one of its subsidiary undertakings).

On 22 April 2005, Sterling of the UK transferred its GSEC 101 Reed Bank asset in the Philippines into the Company in exchange for 4,003,980 Ordinary Shares of 10p each. On the same date FEC Resources Inc., ("FEC", formerly Forum Energy Corporation) of Canada, agreed to transfer its 662/3 per cent. interest in Forum Exploration Inc. of the Philippines to the Company in exchange for 9,996,000 Ordinary Shares of 10p each (subject to FEC shareholder approval on 18 May 2005). At this point the Company was owned 71.4 per cent. by FEC and 28.6 per cent. by Sterling Energy Plc.

On 18 May 2005 the Company approved the raising of £3.4 million (before issue expenses of £400,000) from a pre-IPO placing of 3,400,000 Ordinary shares which were issued at a price of £1 per share. On receipt of the pre IPO placing funds, the Preference shares were redeemed on 31 May 2005, pursuant to the terms of the Transaction Agreement between FEC, Sterling and the Company.

On 27 July 2005 the Forum Energy Share Option Plan was adopted, pursuant to which the following options were granted subject only to the Company's admission to AIM:

- 1,218,000 options at an exercise price equal to the Placing Price which vest three years after the date of issue.

At the time of the Company's Admission to AIM, the authorised share capital of the Company will be £10,000,000 divided into 100,000,000 Ordinary shares of 10p each.

Yours faithfully

KPMG LLP

PART 7B – REPORT ON FORUM EXPLORATION INC

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The Directors

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EC2N 1AR

28 July 2005

Dear Sirs

Forum Energy Plc

We report on the financial information set out below. This financial information has been prepared for inclusion in the Admission Document dated 28 July 2005 ("the Admission Document") of Forum Energy Plc ("Forum").

Basis of preparation

Forum Energy Plc was incorporated as Sterling Philippines Plc on 1 April 2005 and changed its name to Forum Energy Plc on 20 May 2005. On 18 May 2005, FEC Resources Inc's ("FEC", formerly Forum Energy Corporation) 66²/₃ per cent. holding in the share capital of Forum Exploration Inc ("FEI") was acquired by Forum. The financial information, prepared in accordance with Generally Accepted Accounting Practice in the United Kingdom, set out in paragraphs 1 to 7.20 of this financial information report is based on the audited financial statements of FEI for the three years ended 31 December 2004, after making such adjustments as we considered necessary. All figures are reported in US dollars.

Responsibility

Such financial statements are the responsibility of the directors of FEI who approved their issue.

The Directors of Forum are responsible for the contents of the Admission Document dated 28 July 2005 in which this report is included.

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

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by KPMG Laya Mananghaya & Co and the Company's previous auditors, BDO Alba Romeo & Co, relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and an assessment of whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable

assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Going concern

As set out in note 7.1 the financial information has been prepared on the going concern basis on the assumption that the parent company will be able to raise adequate financial resources from the Placing and Admission. In view of the significance of this matter we consider it should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

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

We consent to the inclusion in the Admission Document dated 28 July 2005 of this report and accept responsibility for this report for the purposes of paragraph 45 (1) (b) (iii) of Schedule 1 of the Public Offers of Securities Regulations 1995.

1. Profit and loss accounts

		<i>For the year ended 31 December</i>		
	<i>Notes</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
		<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Turnover		—	—	—
Cost of sales		—	—	—
		<hr/>	<hr/>	<hr/>
Gross profit		—	—	—
		<hr/>	<hr/>	<hr/>
Operating expenses				
Administration expenses		—	(93)	(3,904)
		<hr/>	<hr/>	<hr/>
Loss on ordinary activities before taxation	7.2	—	(93)	(3,904)
		<hr/>	<hr/>	<hr/>
Taxation on loss on ordinary activities	7.5	—	—	—
		<hr/>	<hr/>	<hr/>
Retained loss for the period attributable to equity shareholders		—	(93)	(3,904)
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The above results relate wholly to continuing activities.

2. Balance sheets

		<i>As at</i> <i>31 December</i> <i>2002</i> <i>\$000</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$000</i>
Fixed assets				
Intangible assets	7.6	10,382	11,035	8,324
Tangible assets	7.7	1	488	297
Investments	7.8	—	290	81
		<u>10,383</u>	<u>11,813</u>	<u>8,702</u>
Current assets				
Stocks	7.9	—	106	114
Debtors	7.10	571	48	64
Cash at bank and in hand		2	7	6
		<u>573</u>	<u>161</u>	<u>184</u>
Creditors: amounts falling due within one year	7.11	<u>(62)</u>	<u>(91)</u>	<u>(385)</u>
Net current assets/(liabilities)		<u>511</u>	<u>70</u>	<u>(201)</u>
Total assets less current liabilities		10,894	11,883	8,501
Creditors: amounts falling due after more than one year	7.12	<u>(7,341)</u>	<u>(8,000)</u>	<u>(8,582)</u>
Net assets/(liabilities)		<u>3,553</u>	<u>3,883</u>	<u>(81)</u>
Capital and reserves				
Called up share capital	7.14	3,526	3,394	3,343
Revaluation reserve	7.15	—	463	273
Profit and loss account	7.15	27	26	(3,697)
Shareholders' funds/(deficit) – all equity		<u>3,553</u>	<u>3,883</u>	<u>(81)</u>

3. Cash flow statements

3.1 CASH FLOW STATEMENT

	<i>For the year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Cash inflow/(outflow) from operating activities	93	(108)	296
Capital expenditure and financial investment			
Expenditure on oil and gas exploration and developmen	(281)	(1,040)	(965)
Purchase of tangible fixed assets	—	(28)	(10)
Purchase of fixed asset investments	—	(290)	—
Net cash outflow from capital expenditure and financial investment	(281)	(1,358)	(975)
Financing			
Increase in loans from parent and associated undertakings	187	1,471	678
Net cash inflow from financing	187	1,471	678
(Decrease)/increase in cash in the year	(1)	5	(1)
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the year	(1)	5	(1)
Change in net debt resulting from cash flows	(1)	5	(1)
Movement in net funds in the year	(1)	5	(1)
Net funds at the start of the year	4	2	7
Exchange adjustments	(1)	—	—
Net funds at the end of the year	2	7	6

3.2 RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	<i>For the year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Operating loss	—	(93)	(3,904)
Depreciation of revalued drilling equipment	—	93	183
Impairment of intangible fixed assets	—	—	3,517
Impairment of fixed asset investments	—	—	204
Decrease/(increase) in stock	1	(106)	(9)
Decrease/(increase) in debtors	30	(33)	10
Increase in creditors	62	31	295
Net cash inflow/(outflow) from operating activities	93	(108)	296

4. Statement of total recognised gains and losses

	<i>For the year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Loss for the financial period	—	(93)	(3,904)
Unrealised surplus on revaluation of tangible fixed assets	—	556	—
Exchange movement through reserves	(1)	(1)	(9)
Total recognised gains and (losses) relating to the financial period	<u>(1)</u>	<u>462</u>	<u>(3,913)</u>

5. Note of historical cost profits and losses

	<i>For the year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Reported loss on ordinary activities before taxation	—	(93)	(3,904)
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	—	93	183
Historical cost loss on ordinary activities before taxation	<u>—</u>	<u>—</u>	<u>(3,721)</u>

6. Reconciliation of movements in shareholders' funds/(deficit)

	<i>For the year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Loss for the financial year	—	(93)	(3,904)
Revaluation of tangible fixed assets	—	556	—
New share capital issued	2,644	—	—
Exchange adjustment	(1)	(1)	(9)
Net addition/(reduction) to shareholders fund/(deficit)	<u>2,643</u>	<u>462</u>	<u>(3,913)</u>
Opening shareholders' funds/(deficit)	939	3,553	3,883
Retranslation of opening shareholders' funds/(deficit) to closing rates	(29)	(132)	(51)
Closing shareholders' funds	<u>3,553</u>	<u>3,883</u>	<u>(81)</u>

7. Notes to the financial information

7.1 Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to FEI's financial statements:

Basis of preparation

The financial information has been prepared under the historical cost convention (except for certain plant and equipment which are stated at revalued amounts) and in accordance with applicable UK accounting standards.

The financial information has also been prepared on the going concern basis on the assumptions that the parent company will be able to raise adequate financial resources from the Placing and Admission. On this basis, the directors believe that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

The financial information has also been prepared in accordance with applicable accounting standards and the Statement of Recommended Practice ("SORP") for Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities (June 2001).

Investments

Fixed asset investments are held at cost less any provisions for impairment in value

Fixed assets

(i) Exploration and development costs

Exploration costs are accounted for using the full-cost method. Under this method, all exploration costs, which includes acquisition costs, direct exploration and development costs and an appropriate portion of the related overhead expenditures are accumulated in geographical cost pools. FEI currently has one geographical cost pool: Philippines.

Exploration costs are carried in the books only if the costs related to an area of interest for which the rights of tenure are current and:

- a. such are expected to be recouped through successful development and exploration or from sale of the area; or
- b. exploration and evaluation of activities in the area as of balance sheet date have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing

Related deferred exploration costs are written-off when an area of interest is permanently abandoned. The areas of interest are considered permanently abandoned if the contracts have expired and/or there are no definite plans for future exploration and/or development.

Revenue earned in connection with the exploration activities in the area of interest prior to the start of commercial operations are offset against the expenditures on such area of interest.

Expenditure incurred in relation to exploration assets is carried as intangible assets. When a decision is made on the commercial development of a field or property then the relevant expenditure is reclassified as tangible. At 31 December 2004 all exploration and development costs are carried as intangible assets, pending determination of commercial reserves or indications of impairment.

Exploration costs relating to fields which are in production will be amortised for each area of interest using the unit of production method upon the start of commercial operations. The unit of production method results in an amortisation charge proportional to the depletion of economically recoverable reserves. Economically recoverable reserves represent the estimated quantity of product which is expected to be profitability extracted, processed and sold under the current foreseeable economic conditions.

The carrying value of each producing area is reviewed regularly and, to the extent that this amount exceeds the recoverable amount (based on the higher of the net present value of estimated future net cash flows and current net realisable value), an allowance for impairment will be provided in the year in which such is determined.

When further development expenditures are incurred on producing areas of interest, such expenditures are capitalised as part of the costs of such areas of interest only when substantial economic benefits are thereby established; otherwise, such expenditures are charged to cost of production as incurred.

(ii) Property and equipment

Drilling equipment is carried at revalued amounts as determined by an independent firm of appraisers less accumulated depreciation and impairment losses, if any. The net appraisal increment resulting from the revaluation is credited to Revaluation reserve shown under the statement of changes in shareholders' equity. The amount of revaluation increment absorbed through depreciation is transferred to Retained Earnings.

All other property and equipment are carried at cost (transportation and motor equipment and furniture, fixtures and equipment) less accumulated depreciation and impairment losses, if any.

Initially, an item of property and equipment is measured at cost, which comprises its purchase price and any directly attributable costs of bringing the asset to working condition. Subsequent

expenditures are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to FEI.

Depreciation is provided on a straight-line basis in order to write off the cost of tangible fixed assets to their estimated residual value over their estimated economic lives of three to five years.

The estimated useful life and depreciation method are reviewed periodically to ensure that such useful lives and depreciation method are consistent with the expected pattern of economic benefits from those assets.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

(iii) Impairment

The carrying amounts of the Company's non-current assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. An impairment loss of a revalued asset is recognised in the profit and loss account if it is caused by a clear consumption of economic benefits. Other impairments of revalued fixed assets are recognised in the statement of total recognised gains and losses until the carrying amount of the asset reaches its depreciated historical cost and thereafter in the profit and loss accounts. All other impairment losses are recognised in the profit and loss account.

The recoverable amount is the greater of the asset's estimated net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal of an impairment loss in respect of a revalued asset is recognised in the same way as a revaluation increase. All other reversals of impairment are recognised in the profit and loss account.

(iv) Decommissioning

Expected decommissioning costs of a property are provided for on the basis of the net present value of the liability, discounted at a pre-tax, risk-free rate, and an equivalent amount is added to the tangible asset cost pool. A provision for decommissioning costs is initially recognised upon the commencement of production operations. No provision is currently made for decommissioning costs in the Philippines as these are not material.

Inventory

Drilling materials inventory is stated at cost. Cost is determined using the first-in, first-out method.

Lease obligations

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Reporting and functional currency

The Company believes its functional currency to be the US dollar and this is also its reporting currency. Assets and liabilities recorded in Philippine Pesos ("PhP") are translated into US dollars ("US\$") at the relevant closing exchange rate. Exchange differences arising on transactions of net assets held at the beginning of the year are taken to reserves. The exchange rates used are shown below:

	<i>Balance sheet closing rate</i>
Year ended 31 December 2002	US\$ 0.01881: 1PhP
Year ended 31 December 2003	US\$ 0.01810: 1PhP
Year ended 31 December 2004	US\$ 0.01783: 1PhP

Taxation

The charge for taxation is based on the results for the periods and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Financial instruments

FEI does not trade in financial derivatives. FEI's use of financial instruments is restricted to parent and associated company loans, cash deposits and various items such as trade debtors and trade creditors which derive from its operations.

Pension schemes

Retirement benefits

In accordance with Philippine Republic Act No (RA) 7641 (New Retirement Law) the company provides minimum retirement benefits to qualified retiring employees.

FEI is obligated to provide a lump sum benefit on retirement based upon length of service (22 days accrued for each year of service) and final pensionable pay.

FEI does not currently operate a separate pension scheme but accrues an estimated liability within its balance sheet based upon information at the balance sheet date. At 31 December 2004, FEI has accrued estimated retirement costs of approximately \$17,000 within other creditors and accruals on the balance sheet.

7.2 Loss on ordinary activities before taxation

	<i>For the year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Loss on ordinary activities before taxation is stated			
Depreciation and other amounts written off tangible and intangible fixed assets:			
– Owned	—	93	3,700
Amount written off fixed asset investments	—	—	204
	<u> </u>	<u> </u>	<u> </u>

7.3 Remuneration of directors

(i) Directors' emoluments and fees

	<i>For the year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Aggregate emoluments	<u>19</u>	<u>42</u>	<u>102</u>

The analysis of remuneration by director is set out below

	<i>Basic salary \$000</i>	<i>Bonus \$000</i>	<i>Other \$000</i>	<i>Total \$000</i>
Year ended 31 December 2002				
Geronimo F. Velasco Jr	4	—	—	4
Peter S Salud	15	—	—	15
Fredenco E Puno	—	—	—	—
Arthur R Ponsaran	—	—	—	—
	<u>19</u>	<u>—</u>	<u>—</u>	<u>19</u>
Year ended 31 December 2003				
Geronimo F. Velasco Jr	9	1	—	10
Peter S Salud	28	1	3	32
Fredenco E Puno	—	—	—	—
Arthur R Ponsaran	—	—	—	—
David Thompson ⁽¹⁾	—	—	—	—
Larry Youell ⁽¹⁾	—	—	—	—
William T Mullins ⁽¹⁾⁽²⁾	—	—	—	—
	<u>37</u>	<u>2</u>	<u>3</u>	<u>42</u>

(1) Appointed 28 April 2003

(2) Resigned 17 November 2003

	<i>Basic salary \$000</i>	<i>Bonus \$000</i>	<i>Other \$000</i>	<i>Total \$000</i>
Year ended 31 December 2004				
Geronimo F. Velasco Jr	10	1	—	11
Peter S Salud	43	2	4	49
Fredenco E Puno	—	—	—	—
Arthur R Ponsaran	—	—	—	—
David Thompson	—	—	—	—
Larry Youell	—	—	—	—
William T Mullins ⁽¹⁾	35	7	—	42
	<u>88</u>	<u>10</u>	<u>4</u>	<u>102</u>

(1) Appointed 10 July 2004, resigned 29 November 2004

(ii) Retirement benefits

	<i>For the year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Retirement benefits are accruing to the following number of directors	<u>—</u>	<u>—</u>	<u>1</u>

(iii) Directors beneficial interests

Details of the directors' interests in the share capital of FEI at the end of each year are as follows:

	<i>For the year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Number of ordinary shares of 1 PhP each held			
Geronimo F. Velasco Jr	10	10	10
Peter S Salud	10	10	10
Frederico E Puno	10	10	10
Arthur R Ponsaran	10	10	10
David Thompson	—	1	1
Larry Youell	—	1	1
William T Mullins	—	1	1
	<u> </u>	<u> </u>	<u> </u>

7.4 Staff numbers and costs

The average number of persons employed by FEI (including directors) during the years, was as follows:

	<i>For the year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
Head office administration	5	9	9
	<u> </u>	<u> </u>	<u> </u>

The aggregate payroll costs of these persons was as follows:

	<i>For the year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Wages and salaries	41	71	181
Bonuses	—	7	22
Other (including pension contributions)	1	21	26
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>

7.5 Taxation

	<i>For the year ended 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
(a) Analysis of charge in the period			
Total current and deferred tax	—	—	—
	<u> </u>	<u> </u>	<u> </u>
(b) Factors affecting tax charge for the period			
Loss on ordinary activities before tax	—	(93)	(3,904)
Loss on ordinary activities before tax at Philippine corporation tax rate of 32 per cent.	—	30	1,249
Effects of:			
Non-deductible expenditure and tax losses available for carry forward	—	(30)	(1,249)
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>

(c) Factors that may affect future tax charges

No provision for corporate income tax is required since no taxable income has arisen in these periods. Qualifying expenditure incurred on each petroleum and coal contract can be carried forward only against income from that contract. At 31 December 2004, the expenditures carried

forward on FEI's SC40 licence and their Coal Operating Contracts were approximately \$7.7m and \$0.2m respectively.

FEI has not recognised a deferred tax asset in respect of these expenditures as it does not currently meet the recognition criteria of FRS19.

7.6 Intangible fixed assets

	<i>Total</i> <i>\$000</i>
Oil and gas exploration	
Cost and net book value	
At 1 January 2002	10,432
Additions during the year	283
Exchange rate adjustment on retranslation	(333)
	<hr/>
At 31 December 2002	10,382
Additions during the year	1,043
Exchange rate adjustment on retranslation	(392)
	<hr/>
At 31 December 2003	11,035
Additions during the year	972
Impairment losses	(3,517)
Exchange rate adjustment on retranslation	(166)
	<hr/>
	<u>8,324</u>

7.7 Tangible fixed assets

	<i>Drilling equipment \$000</i>	<i>Transportation and motor equipment \$000</i>	<i>Furniture, fixtures and office equipment \$000</i>	<i>Total \$000</i>
Cost or valuation:				
At 1 January 2002	597	82	44	723
Exchange rate adjustment on retranslation	(19)	(3)	(1)	(23)
At 31 December 2002	578	79	43	700
Exchange rate adjustment on retranslation	(22)	(3)	(2)	(27)
Additions	2	4	22	28
At 31 December 2003	558	80	63	701
Exchange rate adjustment on retranslation	(9)	(1)	—	(10)
Additions	—	—	10	10
At 31 December 2004	549	79	73	701
Depreciation:				
At 1 January 2002	597	82	43	722
Exchange rate adjustment on retranslation	(19)	(4)	(2)	(25)
Charge for year	—	1	1	2
At 31 December 2002	578	79	42	699
Exchange rate adjustment on retranslation	(22)	(3)	(3)	(28)
Eliminated due to revaluation	(556)	—	—	(556)
Charge for year	93	1	4	98
At 31 December 2003	93	77	43	213
Exchange rate adjustment on retranslation	(1)	(1)	—	(2)
Charge for year	183	1	9	193
At 31 December 2004	275	77	52	404
Net book value:				
At 31 December 2002	—	—	—	1
At 31 December 2003	465	3	20	488
At 31 December 2004	274	2	21	297

Drilling equipment was subject to a revaluation dated 30 June 2003. The revaluation was made by Integrated Appraisal Corporation (an independent firm of valuers). The basis of valuation was fair market value. The historical cost less accumulated depreciation for the assets included at valuation is nil at 31 December 2003 and 31 December 2004.

7.8 Investments

	<i>Total \$000</i>
Shares in parent company	
Cost:	
At 1 January 2003	—
Additions in year	290
At 31 December 2003	290
Exchange rate adjustment on revaluation	(5)
At 31 December 2004	285
Provision for decline in market value:	
At 31 December 2002 and 31 December 2003	—
Provided during the year	204
At 31 December 2004	204
Net book value:	
At 31 December 2002	—
At 31 December 2003	290
At 31 December 2004	81

Investments represent shares in the equity of FEC, FEI's parent company. As at December 2003, and 2004, market value of the marketable equity securities amounted to \$489,000 and \$81,000, respectively.

7.9 Stocks

	<i>As at 31 December 2002 \$000</i>	<i>As at 31 December 2003 \$000</i>	<i>As at 31 December 2004 \$000</i>
Drilling materials inventory	—	106	114

7.10 Debtors

	<i>As at 31 December 2002 \$000</i>	<i>As at 31 December 2003 \$000</i>	<i>As at 31 December 2004 \$000</i>
Amounts receivable from associated undertakings	565	11	37
Other debtors	6	37	27
	571	48	64

7.11 Creditors: amounts falling due within one year

	<i>As at 31 December 2002 \$000</i>	<i>As at 31 December 2003 \$000</i>	<i>As at 31 December 2004 \$000</i>
Other creditors and accruals	62	91	385
	62	91	385

7.12 Creditors: amounts falling due after more than one year

	<i>As at 31 December 2002 \$000</i>	<i>As at 31 December 2003 \$000</i>	<i>As at 31 December 2004 \$000</i>
Amounts payable to parent undertakings	7,271	6,712	6,427
Amounts payable to associated undertakings	23	1,279	2,155
Other loans	47	9	—
	<u>7,341</u>	<u>8,000</u>	<u>8,582</u>

7.13 Financial instruments

FEI's financial instruments comprise, from time to time, Philippine Peso and US dollar cash and bank deposits and loans from parent and associated undertakings, together with various balances such as accounts receivable and accounts payable that arise directly from its operations.

FEI's loans from parent and associated undertakings are denominated in US\$ and are non-interest bearing. FEI does not currently use derivative instruments to manage its interest rate risk although it continues to monitor the need for such instruments on an ongoing basis.

The functional currency of the oil and gas exploration activities of FEI is US\$. Balances are held in US\$ and PhP to meet immediate local operating or administrative needs. At each of the balance sheet dates there were no material monetary liabilities or assets not denominated in the functional currency of FEI. FEI does not enter into derivative transactions to manage its foreign currency translation or transaction risk

7.14 Called up share capital

	<i>As at 31 December</i>		
	<i>2002 Number (000's)</i>	<i>2003 Number (000's)</i>	<i>2004 Number (000's)</i>
Authorised			
Ordinary shares of 1 Philippine Peso each	750,000	750,000	750,000
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Ordinary shares of 1 Philippine Peso each	14,108	13,575	13,373
	<u>Number (000's)</u>	<u>Number (000's)</u>	<u>Number (000's)</u>
Allotted, called up and fully paid			
Ordinary shares of 1 Philippine Peso each	187,500	187,500	187,500
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Ordinary shares of 1 Philippine Peso each	3,526	3,394	3,343
	<u>3,526</u>	<u>3,394</u>	<u>3,343</u>

7.15 Reserves

	<i>Revaluation reserve \$000</i>	<i>Profit and loss account \$000</i>
At 1 January 2002	—	28
Exchange rate adjustment on retranslation	—	(1)
31 December 2002	—	27
Exchange rate adjustment on retranslation	—	(1)
Loss for the year	—	(93)
Revaluation of tangible fixed assets	556	
Transfer of revaluation increment absorbed through depreciation for the year	(93)	93
At 31 December 2003	463	26
Exchange rate adjustment on retranslation	(7)	(2)
Loss for the year	—	(3,904)
Transfer of revaluation increment absorbed through depreciation for the year	(183)	183
At 31 December 2004	<u>273</u>	<u>(3,697)</u>

7.16 Commitments

FEI, in the course of its exploration activities in licence area SC 40, is committed to fulfil the terms and conditions set forth by the Philippine Department of Energy as follows:

- a. Implement the work program for the three year extension period:
 - Contract year 8 – One (1) well plus one (1) minimum of 250-km of seismic survey;
 - Contract year 9 – Two (2) wells; and
 - Contract year 10 – Two (2) wellsThe estimated cost of each well at 31 December 2004 is US\$750,000.
- b. FEI has also manifested its commitment to the timely development and production of the Libertad Gas Field

Leases

FEI leases land and premises on which its exploration activities for the SC 40 are situated. The lease is automatically terminated upon cessation of drilling operations. However, in case there are proved reserves on the leased areas, FEI, in addition to the fixed leased rentals (PhP 1,881,000 per annum) shall compensate the lessor for property disturbance under the following terms and conditions:

- a. Three per cent. of FEI's 40 per cent. net share should the oil/mineral extractions/production be 100,000 litres or below per day, payable every quarter;
- b. Four per cent. of FEI's 40 per cent. of the Company's 40 per cent. net share if beyond 100,000 litres but not more than 200,000 litres per day, payable every quarter; or
- c. Five per cent. of FEI's 40 per cent. net share if beyond 200,000 litres per day payable, every quarter.

The Company also leased an office space on April 1, 2004, under an operating lease. The lease runs for a period of three months, renewable upon mutual agreement of the parties.

Rent charged to deferred costs in 2003 and 2004 amounted to approximately \$29,000 and \$28,000 respectively.

7.17 Analysis of net funds

	<i>Net funds \$000</i>
At 1 January 2002	
Cash flow	3
At 31 December 2002	2
Cash flow	5
At 31 December 2003	7
Cash flow	(1)
At 31 December 2004	6

7.18 Related party transactions

FEI receives advances from its parent undertaking and from the minority interest shareholder to fund the exploration costs and overheads of FEI. These advances are recoverable through the parent and associated undertakings' share of profits from future production of the licence areas.

Balances with related parties at each balance sheet date are set out below:

	<i>As at 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
<i>Included within debtors</i>			
Forum Pacific Inc	1	10	36
The Wellex Group Inc	564	1	1
	<u>565</u>	<u>11</u>	<u>37</u>
<i>Included within creditors: amounts falling due after more than one year</i>			
FEC Resources Inc	7,271	6,712	6,426
Forum Pacific Inc	—	1,257	2,134
The Wellex Group Inc	23	22	22
	<u>7,294</u>	<u>7,991</u>	<u>8,582</u>

Peter S Salud, Chief Executive of FEI is also Chief Executive of Forum Pacific Inc.

During the year at 31 December 2004 FEI incurred \$273,000 of professional fees and expenses to ESG Dubai Partnership in connection with its exploration activities. The entire amount remained outstanding at 31 December 2004. Peter Bradley holds the position of operational manager of FEI and is also a partner of the ESG Dubai Partnership.

7.19 Post balance sheet events

On December 2, 2004, the Board of directors of the parent company FEC approved the pledging of 800,000 common shares, representing 27 per cent. of its investments in Langley Park Investment Trust Plc (LPITP) listed at the London Stock Exchange, in favour of FEI. The pledged shares will come from the parent company's long-term pool held in escrow for one year by Christows Stockbrokers. FEI's interest in the LPITP shares will form part of the parent company's financial support for its work program commitments. To date, the documentation of the transfer of the shares referred to above has not been completed. Consequently the transaction has not yet been recognised in the balance sheet.

On 22 April 2005 Forum Exploration Inc's, then parent undertaking, FEC of Canada agreed to transfer its 66 2/3 per cent. interest in FEI to Forum in exchange for 9,996,000 10p Ordinary Shares in Forum. This was subject to FEC shareholder approval which was received on 18 May 2005.

From this date the Company is owned 66 2/3 per cent. by Forum with the remainder held by Forum Pacific Inc of the Philippines.

At the time of Forum's Admission to AIM, the authorised share capital of FEI was 750,000,000 Ordinary Shares of 1 Philippine Peso each.

At the time of Forum's Admission to AIM its authorised share capital was £10,000,000 divided into 100,000,000 Ordinary Shares of 10p each.

Yours faithfully

KPMG LLP

PART 7C FINANCIAL INFORMATION ON THE REED BANK LICENCE ASSET

1. Introduction

The financial information contained in this section has been extracted without material adjustment from the reporting schedules on Sterling Energy Plc's ("Sterling" or "the Group") Reed Bank asset, prepared in support of the financial statements of Sterling for the three years ended 31 December 2004.

Sterling's financial statements for the three years ended 31 December 2004 in respect of which Deloitte and Touche LLP (and its predecessor partnership Deloitte and Touche) issued unqualified reports under section 235 of the Companies Act (and such reports did not refer to any matters of fundamental uncertainty), have been delivered to the Registrar of Companies in England & Wales and such reports did not contain any statements under Sections 237(2) or (3) of the Companies Act.

The Reed Bank asset is held within the balance sheet of Sterling Energy (UK) Limited, a subsidiary of Sterling and is not reported as a separate stand alone statutory entity. Therefore, the information presented was extracted from the reporting schedules used in the preparation of the financial statements of Sterling. In addition, to be consistent with other information presented in this section, the financial information presented has been converted to US Dollars using the rate of exchange prevailing at the balance sheet date at each of the three years ended 31 December 2004.

2. Balance sheet (extract)

	<i>As at 31 December</i>		
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Fixed assets			
Intangible assets	57	375	1,086

Notes

Intangible assets comprise deferred exploration costs incurred by Sterling in connection with its 100 per cent. interest in the Reed Bank asset in South East Asia. These costs are separately identifiable and have been extracted from the records of Sterling at each balance sheet date, without adjustment.

The financial information on the Reed Bank asset has been converted to US Dollars using the following rates of exchange at the balance sheet date for each of the three years ended 31 December 2004:

31 December 2002	–	£1: \$1.6039
31 December 2003	–	£1: \$1.7779
31 December 2004	–	£1: \$1.9262

3. Accounting policies (extract)

Basis of accounting

The financial statements are prepared under the historical cost convention, and in accordance with applicable United Kingdom accounting standards. The financial statements have also been prepared in accordance with the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities ("the SORP").

Oil and gas interests

The Group accounts for oil and gas exploration under the full cost basis as set out in the SORP.

Licence acquisition costs, geographical and geophysical assessment costs, cost of drilling exploration, appraisal and development wells, and an appropriate share of overheads (including appropriate directors' costs) and capitalised and accumulated in full cost pools within tangible fixed assets on a geographical basis.

Costs relating to the exploration and appraisal of oil and gas interests, which the directors consider to be unevaluated, are initially held outside the cost pools as intangible fixed assets. These costs are reassessed at each year end and when there are indications of impairment or at the conclusion

of an appraisal programme the related costs are transferred to the appropriate full cost pool within tangible fixed assets.

An impairment test is carried out at each balance sheet date to assess whether the net book value of the capitalised costs in each pool is covered by the associated recoverable amount, as outlined in FRS 11 "Impairment of Fixed Assets and Goodwill". Impairment losses are recognised in the profit and loss account.

Depletion is provided on balances held in each cost pool, plus the expected future costs to extract all commercial oil and gas reserves, using the unit of production method. Depletion is not provided on interests held outside the cost pools.

PART 8

PRO FORMA STATEMENT OF NET ASSETS

The following is an unaudited *pro forma* statement of net assets of the Group on the basis of the notes set out below for the purposes of illustrating the effect of the FEI Acquisition Agreements, the Reed Bank Acquisition Agreements, the Pre-IPO Placing and the Placing as if they had taken place on 31 December 2004. The statement has been prepared for illustrative purposes only, and should be read in conjunction with the notes set out below. On account of its nature, this statement may not give a true picture of the financial position of the Group.

Pro forma statement of net assets

	<i>Net assets of the Company¹ \$000</i>	<i>Net assets of FEI² \$000</i>	<i>Adjustments Net assets of Sterling's Reed Bank Licence³ \$000</i>	<i>Proceeds of the Issue⁴ \$000</i>	<i>Pro forma net assets \$000</i>
Fixed assets					
Intangible	—	8,324	1,086	—	9,410
Goodwill	—	2,006	(315)	—	1,691
Tangible assets	—	297	—	—	297
Investments	—	81	—	—	81
	<u>—</u>	<u>10,708</u>	<u>771</u>	<u>—</u>	<u>11,479</u>
Current assets					
Stock	—	114	—	—	114
Debtors	—	64	—	—	64
Cash	—	6	—	24,700	24,706
	<u>—</u>	<u>184</u>	<u>—</u>	<u>24,700</u>	<u>24,884</u>
Creditors – amounts falling due within one year	—	(385)	—	—	(385)
Net current (liabilities)/assets	<u>—</u>	<u>(201)</u>	<u>—</u>	<u>24,700</u>	<u>24,499</u>
Total assets less current liabilities	—	10,507	771	24,700	35,978
Creditors – amounts falling due after more than one year	—	(8,582)	—	—	(8,582)
Net assets	<u>—</u>	<u>1,925</u>	<u>771</u>	<u>24,700</u>	<u>27,396</u>

Notes:

- The net assets of the Company are those at 1 April 2005 (the date of incorporation of the Company) and have been extracted from Part 7a of this Admission Document.
- The net assets of FEI are those at 31 December 2004 and have been extracted from Part 7b of this Admission Document. The Group also issued 9,996,000, 10p Ordinary Shares pursuant to the terms of the FEI Acquisition Agreements, details of which are set out in Part 9 of the Admission Document. The resultant goodwill (based on the net asset position at 31 December 2004) is set out below:

	<i>\$000</i>
Shares issued	1,925
Net liabilities transferred to the Group	81
	<u>2,006</u>
- The net assets of Sterling's Reed Bank Licence are those at 31 December 2004 and have been extracted from Part 7c of this Admission Document. The Group also issued 4,003,980, 10p Ordinary Shares pursuant to the terms of the Reed Bank Acquisition Agreement, details of which are set out in Part 9 of the Admission Document. The resultant goodwill (based on the net asset position at 31 December 2004) is set out below:

	<i>\$000</i>
Shares issued	771
Net assets transferred to the Group	(1,086)
	<hr/>
Negative goodwill	(315)
	<hr/> <hr/>

4. As set out in this Admission Document, the Group raised and is projecting to raise the following amounts at the Pre-IPO Placing and the Placing respectively:

	<i>Pre-IPO Placing \$000</i>	<i>Placing \$000</i>	<i>Total \$000</i>
Gross proceeds	6,460	20,900	27,360
Issue costs	(760)	(1,900)	(2,660)
	<hr/>	<hr/>	<hr/>
Net proceeds	5,700	19,000	24,700
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

At the Pre-IPO, the Group issued 3,400,000, 10p Ordinary Shares at £1.00 per share and in connection with the Placing the Group intends issuing 9,821,450, 10p Ordinary Shares at £1.12 per share.

5. No account has been taken of the trading of the Group since 31 December 2004.

PART 9

Additional Information

9.1 THE COMPANY

- 9.1.1 The Company was incorporated and registered as a public limited company in England and Wales under the Act on 1 April 2005 with the name Sterling Philippines Plc and with registered number 5411224. A certificate to commence trading under Section 117 of the Act was issued by the Registrar of Companies on 20 April 2005. On 18 May 2005, the Company changed its name to Forum Energy Plc. The liability of the members is limited.
- 9.1.2 The head and registered office of the Company is at 6th Floor, One London Wall, London EC2Y 5EB.

9.2 SHARE CAPITAL

- 9.2.1 The following changes have occurred in the share capital of the Company:
- (a) on incorporation, the authorised share capital of the Company was £50,000, divided into £50,000 ordinary shares of £1 each, of which two were issued to the subscribers to the memorandum (nil paid);
 - (b) on 19 April 2005:
 - (i) the authorised share capital of the Company was increased to £10,050,000 by the creation of 10,000,000 ordinary shares of £1 each;
 - (ii) each ordinary share of £1 was sub-divided into 10 Ordinary Shares;
 - (iii) 500,000 Ordinary Shares were reclassified as 50,000 redeemable preference shares of £1 each ("Preference Shares");
 - (iv) the two subscriber shares were transferred to a member of the Sterling group of companies, which paid up the amount of £1 on each of those shares; and
 - (v) the Preference Shares were issued to Sterling one quarter paid up;
 - (c) by a resolution passed on 18 May 2005:
 - (i) the Directors were generally and unconditionally authorised pursuant to section 80 of the Act to allot the issued shares referred to in paragraph 9.2.1 (d) below and the Articles were adopted;
 - (ii) the Directors were generally and unconditionally authorised pursuant to section 80 of the Act to allot relevant securities (as defined in that section of that Act) up to a maximum aggregate nominal amount of £2,000,000 in connection with the Placing as if section 89(1) of the Act (which confers pre-emption rights on shareholders) did not apply to any such allotment, such authority to expire on 31 December 2005;
 - (iii) conditional upon Admission becoming effective on or before 31 December 2005, the Directors were generally and unconditionally authorised pursuant to section 80 of the Act to allot relevant securities, in addition to the authority referred to in sub-paragraphs 5(i) and (ii) above as if section 89(1) of the Act did not apply to any such allotment, provided that such authority shall be limited to one-third in nominal value of the ordinary share capital of the Company in issue immediately following the Placing, and provided that such authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2006 and the Directors may during that period make offers or arrangements which could or might require the allotment of securities after the expiry of such period; and
 - (d) on 18 May 2005 the Company issued a total of 4,003,980 Ordinary Shares to Sterling Northwest Africa Holdings Limited and 9,996,000 Ordinary Shares to FEC in accordance with the terms of the Transaction Agreement;
 - (e) between 18 and 31 May 2005 the Company issued a total of 3,400,000 Ordinary Shares for cash at a premium of 90p per share pursuant to the Pre-IPO Placing; and
 - (f) on 31 May 2005 all of the Preference Shares were redeemed and an amount equal to the amount paid up on those shares was paid to Sterling;
-

(g) conditional upon Admission, the Placing Shares will be issued.

9.2.2 The following table shows the authorised and issued share capital of the Company as it is expected to be immediately before and immediately following the Placing.

Before the Placing

<i>Authorised</i>			<i>Issued</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
100,000,000	£10,000,000	Ordinary Shares	17,400,000	£1,740,000
50,000	£50,000	Undesignated shares	—	£—

After the Placing

<i>Authorised</i>			<i>Issued</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
100,000,000	£10,000,000	Ordinary Shares	27,221,450	£2,722,145
50,000	£50,000	Undesignated Shares	—	£—

9.2.3 The following options under the Share Option Plans have been granted subject only to Admission:

<i>Number of Ordinary Shares under option</i>	<i>Exercise price</i>	<i>Exercise period</i>
1,448,000	£1.12	2 August 2008 to 1 August 2015

9.2.4 Of the balance of the authorised but unissued share capital of the Company immediately after Admission (amounting to 72,778,550 Ordinary Shares):

- (a) 9,073,816 Ordinary Shares will remain unissued and unreserved which the Directors will be authorised to allot pursuant to the authority referred to in paragraph 9.2.1(c)(iii) above;
- (b) 1,218,000 Ordinary Shares will be reserved for issue in respect of options granted under the Share Option Plans; and
- (c) 62,486,734 Ordinary Shares will remain unissued and unreserved which the Directors will not be authorised to allot.

9.2.5 The provisions of section 89(1) of the Act (to the extent not disapplied pursuant to section 95 of the Act) confer on the shareholders certain rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash and apply to the authorised but unissued equity share capital of the Company. These provisions are intended to be disapplied following Admission to the extent referred to in paragraph 9.2.1(c)(iii) above.

9.2.6 Save as mentioned in this paragraph 9.2:

- (a) no unissued share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
- (b) no share capital or loan capital of the Company or any of its subsidiaries (other than intra-group issues by wholly-owned subsidiaries) is in issue and no such issue is proposed.

9.2.7 Other than pursuant to the Placing none of the Ordinary Shares has been sold or made available to the public in conjunction with the application for Admission.

9.2.8 The Ordinary Shares are in registered form and capable of being held in uncertificated form. Application has been made to CRESTCo for the Ordinary Shares to be enabled for dealings through CREST as a participating security. No temporary documents of title will be issued. It is expected that definitive share certificates will be posted to those shareholders who have requested the issue of Ordinary Shares in certificated form on 12 August 2005.

9.2.9 The Placing Price of 112 pence per Ordinary Share represents a premium of 102 pence over the nominal value of 10 pence per Ordinary Share and is payable in full on Admission under the terms of the Placing.

9.3 SUBSIDIARY UNDERTAKINGS

9.3.1 On Admission, the Company will have the following wholly owned subsidiaries, each of which is a private limited company incorporated in Jersey:

<i>Name</i>	<i>Registration number</i>	<i>Business</i>
Forum Philippines Holdings Limited	89858	Holding Company
Forum (GSEC 101) Limited	89851	Contractor under the GSEC 101 (Reed Bank)
Forum (FEI) Limited	89850	Holding Company

9.3.2 In addition to its interests in the companies described in paragraph 9.3.1 above, the Company is also interested in the issued share capital of the following company, which is incorporated in the Philippines and held in the name of Forum (FEI):

<i>Name</i>	<i>Business</i>	<i>Percentage of the issued share capital</i>
FEI	Contractor under SC 40 (Cebu)	66 2/3

9.4 SUMMARY OF THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE COMPANY

9.4.1 Memorandum of Association

The Memorandum of Association of the Company provides that the object of the Company is to carry on a business as a general commerce company.

9.4.2 Articles of Association

The Articles contain, *inter alia*, provisions to the following effect:

Voting rights

Subject to the provisions of the Act and 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 (being a corporation) is present by a duly authorised representative has one vote, and on a poll every member present in person or by proxy or (being a corporation) by a duly authorised representative has one vote for each share of which he is the holder;

Transfer of shares

Save for in the case of shares which have become participating securities for the purposes of the Uncertificated Securities Regulations 2001, title to which may be transferred by means of a relevant system such as CREST without a written instrument, all transfers of shares must be effected by an instrument of transfer in writing in any usual form or in any other form approved by the Board. The instrument of transfer shall be executed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of certificated shares unless:

- (a) it is in respect of a share which is fully paid up;
- (b) it is in respect of a share on which the Company has no lien;
- (c) it is in respect of only one class of share;
- (d) it is in favour of a single transferee or not more than four joint transferees;
- (e) it is duly stamped (if required); and
- (f) it is lodged at the registered office together with the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer,

provided that the Board may not exercise such discretion in such a way as to prevent dealing from taking place on an open and proper basis.

The Board may, in its absolute discretion and without giving any reason, refuse to register the transfer of an uncertificated share which is in favour of more than four persons jointly or in any other circumstances permitted by the Uncertificated Securities Regulations 2001 (subject to any relevant requirements of the London Stock Exchange).

If the Board refuses to register a transfer it must, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee.

The registration of transfers may be suspended by the Board for any period (not exceeding 30 days) in any year.

Failure to disclose interests in shares

If a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 212 of the Act and has failed in relation to any shares (the “**default shares**”) to give the Company the information thereby required within the prescribed period from the date of the notice, the following sanctions shall apply:

- (a) the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class of shares or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and
- (b) where the default shares represent at least 0.25 per cent. in nominal value of their class:
- (c) any dividend or other money payable in respect of the shares shall be withheld by the Company which shall not have any obligation to pay interest on it and the member shall not be entitled to elect in the case of a scrip dividend to receive shares instead of that dividend; and
- (d) no transfer, other than an approved transfer as defined in the Articles pursuant to a takeover offer of the Company or a bona fide sale to an unconnected third party, of any shares held by the member shall be registered unless the member is not himself in default as regards supplying the information required and the member proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer.

The above sanctions shall also apply to any shares in the Company issued in respect of the default shares (whether on capitalisation, a rights issue or otherwise).

In respect of any default shares which are in uncertificated form the Board may require their holder to change them from uncertificated form into certificated form within a period specified in a written notice given to such holder and then to hold such default shares in certificated form for so long as the default subsists. Additionally, the Board may appoint any other person to take any steps in the name of such holder as may be required to change such shares from uncertificated form into certificated form.

Dividends

Subject to the provisions of the Act and of the Articles and to any special rights attaching to any shares, the Company may by ordinary resolution declare dividends, but no such dividends shall exceed the amount recommended by the Board. All dividends shall be apportioned and paid *pro rata* according to the amounts paid up or credited as paid up (otherwise than in advance of calls) on the shares during any portion or portions of the period in respect of which the dividend is paid. Interim dividends may be paid provided that they appear to the Board to be justified by the profits available for distribution and the position of the Company. Unless otherwise provided by the rights attached to any share, no dividends in respect of a share shall bear interest. The Board may, with the prior authority of an ordinary resolution of the Company, offer the holders of Ordinary Shares the right to elect to receive Ordinary Shares credited as fully paid instead of cash in respect of all or part of any dividend.

Any dividend unclaimed after a period of 12 years from its due date of payment shall (if the Board so resolves) be forfeited and cease to remain owing by the Company and shall thereafter belong to the Company absolutely.

Distribution of assets on liquidation

Subject to any rights or restrictions attached to any class of shares, on a winding-up of the Company, the surplus of assets available for distribution shall be divided among the members in proportion to the amounts paid up on their respective shares at the commencement of the winding-up, or, with the sanction of an extraordinary resolution of the Company, be divided amongst the members *in specie* in such manner as shall be determined by the liquidator.

Changes in share capital

The Company may alter its share capital as follows:

- (a) it may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amounts, cancel any shares which have not been taken or agreed to be taken by any person and sub-divide its shares or any of them into shares of smaller amounts;
- (b) subject to any consent required by law and to any rights for the time being attached to any shares, it may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or other undistributable reserve in any manner; and
- (c) subject to the provisions of the Act and to any rights for the time being attached to any shares it may with the sanction of a special resolution enter into any contract for the purchase of its own shares.

Variation of rights

Subject to the provisions of the Act and of the Articles, the special rights attached to any class of share in the Company may be varied or abrogated either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated whilst the Company is a going concern or while the Company is or is about to be in liquidation. The quorum for such separate general meeting of the holders of the shares of the class shall be at least two persons holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the relevant class.

Directors' interests in contracts

Save as provided below, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or any committee of the Board in respect of any contract, arrangement, transaction or any proposal whatsoever in which he has any material interest or duty which conflicts with the interests of the Company. A Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution at such meeting if his duty or interest arises only because the resolution relates to one of the following matters:

- (a) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (b) the giving to a third party of any guarantee, security or indemnity in respect of 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, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
- (c) where the Company or any of its subsidiary undertakings is offering securities in which offer the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Director is to participate;

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- (d) relating to another company in which he and any persons connected with him do not to his knowledge hold an interest in shares (as that term is used in sections 198 to 211 of the Act) representing one per cent. or more of either any class of the equity share capital, or the voting rights, in such company;
 - (e) relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
 - (f) concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons including Directors.

A Director may not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment as the holder of any office or place of profit with the Company or any company in which the Company is interested (including fixing or varying the terms of such appointment or its termination).

Where proposals are under consideration concerning the appointments (including fixing or varying the terms of the appointment) or two or more Directors, such proposals may be divided and a separate resolution considered in relation to each Director. In each case, each such Director (if not otherwise debarred from voting) is entitled to vote (and be counted in the quorum) in respect of each resolution except that resolution concerning his own appointment.

Directors

The aggregate fees which the Directors shall be entitled to receive for their services in the office of director shall not exceed £200,000 per annum, or such other sum as may from time to time be determined by an ordinary resolution of the Company. Such sum (unless otherwise directed by the resolution of the Company by which it is approved) shall be divided among the Directors in such proportions and in such manner as the Board may determine or, in default of such determination, equally.

All the Directors are entitled to be repaid all reasonable traveling, hotel and other expenses properly incurred by them in or about the performance of their duties as Directors. If by arrangement with the Board any Director performs any special duties or services outside his ordinary duties as a Director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable additional remuneration which may be by a lump sum or by way of salary, commission, participation in profits or otherwise as the Board may determine.

No Director is to retire from office pursuant to section 293 of the Act by reason of the fact that he has attained the age of 70 or any other age and section 293 of the Act does not apply to the Company.

Borrowing powers

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any of its undertakings, property, assets (present or future) and uncalled capital and, subject to the provisions of the Act, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The aggregate principal amount for the time being outstanding in respect of monies borrowed or secured by the Company shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed £20 million.

9.5 DIRECTORS

- 9.5.1 The Directors of the Company and their respective functions are set out in Part 2 of this document.
- 9.5.2 Details of any directorship that is or was in the last five years held by each of the Directors, and any partnership of which each of the Directors is or was in the last five years a member in addition to their directorships of the Company and its subsidiary undertakings are set out below:

	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
Alan Henderson	Aberdeen New Thai Investment Trust Plc Aberdeen New Dawn Investment Trust Plc The Seachange Trust RAFT Trustees Limited RAFT Enterprises Limited Global Energy Development Ltd Seachange Trading Limited	Energy Capital Investment Company Plc Aberdeen Emerging Economies Investment Trust Plc Newmarket Management Services Limited Newmarket Venture Capital Plc Henderson Greenfriar Investment Trust Plc CNR International (U.K.) Limited Yvonne Arnaud Theatre Management Limited
David Robinson	Scrum Limited	Cabo Mining Aurado Energy Inc. FEC Resources Inc.
David Thompson	AMS Limited Cuarenta Bucaneros Limited Altius Investment Management Cadmus Limited Corporate Responsibilities Fund Limited Eastmark Limited ISP Event Limited Fund Limited Lemco Holdings Limited Lemco Invest Limited Magnair Limited RCG Capital Limited Solon Capital Limited Trimwest Limited VCM Trading Limited Vitesse Aviation Limited	Aurado Energy, Inc Thunder Consulting Limited FEC Resources Inc Forum Petroleum International Limited Tepco Limited
Henry Wilson	Sterling Energy Inc Sterling Oil & Gas Pty Ltd Lepco Oil & Gas Canada Ltd Roselea Limited M.O.P.S. Limited Roselea Developments Limited Mardall Securities A Limited Fairplay Securities Limited De Blank-Morgan Limited Sangster & May Limited Sterling Energy (UK) Limited Sterling Energy Plc Park Securities Limited Fusion Oil & Gas Limited	Mardall Securities B Limited Impulse Entertainment Limited Sterling Oil & Gas Limited Mardall Securities Limited Endeavour Energy Limited Sterling Energy G.P. Limited London Exploration and Production Company Limited Endeavour Energy Ltd Petrel Resources Plc Liberty Bishop (51) Ltd Liberty Bishop (52) Ltd Liberty Bishop (54) Ltd Liberty Bishop (46) Ltd Impulse Music Travel Limited Liberty Bishop (41) Ltd Liberty Bishop (43) Ltd Liberty Bishop (63) Ltd Mardall Securities C Ltd Park Resources Ltd Endeavour Oil & Gas Ltd Endeavour Oil & Gas, Inc.

	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
Barry Stansfield	FEC Resources Inc B&L Estates	Liberty Bishop Ltd Liberty Bishop (Director) Ltd Liberty Bishop (Nominee) Ltd Stansfield Wade Limited
Ian Baron	ESG Dubai Partnership	Dragon Resources (Holdings) Plc Dragon Oil Plc Aurado Energy, Inc
Graeme Thomson	Sterling Energy (UK) Limited Sterling Energy Plc Marble City Limited Sterling Oil Limited Sterling Energy, Inc Sterling Oil & Gas Pty Ltd LEPCO Oil & Gas, Inc LEPCO Oil & Gas Canada Limited LEPCO Oil & Gas Netherlands B.V. Westmount Resources Inc Sterling Northwest Africa Holdings Limited Fusion Mauritania A Limited Sterling Cameroon Holdings Limited Sterling Cameroon Limited Sterling Croix du Sud Holdings Limited Sterling Croix du Sud Limited Sterling Cheval Marin Holdings Limited Sterling Cheval Marin Limited Sterling Dome Flore Holdings Limited Sterling Dome Flore Limited Sterling Oil & Gas (Iris Marin) Ltd Sterling Oil & Gas (Themis) Ltd Sterling Energy (Mauritania) Limited West Oil Ghana Limited	Helmsley Computing Limited Sterling Energy G.P. Limited London Exploration and Production Company Limited Endeavour Oil & Gas Limited Sterling LP Mardall LP Iris Marin Holdings Limited Themis Marin Holdings Limited Fusion Mauritania B Limited Westmount Energy Limited Gearworks Trustee Limited GRST Limited

9.5.3 Alan Henderson is a non-executive director of Energy Capital Investment Company plc which is the subject of a members' voluntary winding-up.

9.5.4 Henry Wilson was a non-executive director of Ocean Recognition Limited, having made a financial investment in the company. That company suffered trading difficulties and following legal advice was put into liquidation on 4 August 1999. He was also a non-executive director of Impulse Entertainment Limited, having made a financial investment in the company. That company suffered trading difficulties and following legal advice was put into liquidation on 21 March 2001.

9.5.5 Graeme Thomson was also a non-executive director of Butters, Strugnell and Waleczek Limited until September 1988, when an offer for the company, which was suffering trading difficulties, was rejected by the controlling shareholder. Following legal advice it was put into liquidation on November 1988.

9.5.6 Save as disclosed at paragraphs 9.5.3 to 9.5.5 above, at the date of this document none of the Directors named in this document:

- (a) has any unspent convictions in relation to indictable offences;
- (b) has been declared bankrupt or has entered into an individual voluntary arrangement;
- (c) was a director of any company at the time of or within the 12 months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors with which such company was concerned;
- (d) was a partner in a partnership at the time of or within the 12 months preceding a compulsory liquidation, administration or partnership voluntary arrangement of such partnership;
- (e) has had his assets the subject of any receivership or was a partner in a partnership at the time of or within the 12 months preceding any assets thereof being the subject of a receivership; or
- (f) has been the subject of any public criticisms by any statutory or regulatory authority (including any recognised professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

9.6 DIRECTORS' AND OTHER INTERESTS

9.6.1 The interests of the Directors (including the interests of persons connected with them which would, if the connected person were a Director, be required to be disclosed, and the existence of which is known to, or could with reasonable diligence be ascertained, by that Director within the meaning of section 346 of the Act) in the issued share capital of the Company which are required to be notified by each Director to the Company pursuant to section 324 or 328 of the Act or are required to be entered in the register of Directors' interests referred to in section 325 of the Act (all of which, save where stated otherwise in the notes below, are beneficial interests) as at the date of this document and as they are expected to be prior to and immediately following Admission are/will be as follows:

<i>Director</i>	<i>Number of Ordinary Shares (at the date of this document)</i>	<i>Percentage of issued Ordinary Shares (at the date of this document)</i>	<i>Number of Ordinary Shares (at the date of Admission)</i>	<i>Percentage of issued Ordinary Shares (at the date of Admission)</i>
Alan Henderson	5,000	0.0	5,000	0.0
David Robinson	60,000	0.3	60,000	0.2
David Thompson	55,000	0.3	55,000	0.2
Ian Baron	25,000	0.1	25,000	0.1
Barry Stansfield	—	—	—	—
Graeme Thomson	10,000	0.1	10,000	0.0
Henry Wilson*	50,000	0.3	50,000	0.2

* Of the above interests held at admission, Mr Wilson's 50,000 Ordinary Shares are held by Roselea Limited, a company in which he has a 26 per cent. interest and is a Director.

Details of any options to subscribe for Ordinary Shares in the Company held by the Directors under the Share Option Plans which have been granted subject only to Admission are as follows:

<i>Name</i>	<i>Exercise price per Ordinary Share</i>	<i>Number of Ordinary Shares under Option</i>	<i>Exercise periods</i>
Alan Henderson	112p	72,000	2 August 2008 to 1 August 2015
David Robinson	112p	360,000	2 August 2008 to 1 August 2015
David Thompson	112p	270,000	2 August 2008 to 1 August 2015
Ian Baron	112p	54,000	2 August 2008 to 1 August 2015
Barry Stansfield	112p	54,000	2 August 2008 to 1 August 2015
Graeme Thomson	112p	54,000	2 August 2008 to 1 August 2015
Henry Wilson	112p	54,000	2 August 2008 to 1 August 2015

9.6.2 Save as disclosed above, none of the Directors nor any member of his immediate family or any person connected with him holds or is beneficially or non-beneficially interested, directly or indirectly, in any shares or options to subscribe for, or securities convertible into, shares of the Company or any of its subsidiary undertakings.

9.6.3 In addition to the interests of the Directors set out above, as at 27 July 2005 (being the latest practicable date prior to the publication of this document), insofar as is known to the Company, the following persons were, or will at Admission, be directly or indirectly interested (within the meaning of Part VI of the Act) in three per cent. or more of the issued share capital of the Company:

<i>Name</i>	<i>Number of Ordinary Shares (at the date of this document)</i>	<i>Percentage of issued Ordinary Shares (at the date of this document)</i>	<i>Number of Ordinary Shares (at the date of Admission)</i>	<i>Percentage of issued Ordinary Shares (at the date of Admission)</i>
FEC Resources, Inc.	9,996,000	57.4	9,996,000	36.7
Sterling North West Africa Holdings Limited	4,004,000	23.0	4,004,000	14.7
Moore Capital Fund (Master) LP	1,545,000	8.9	2,183,000	8.0
Legal & General	—	—	1,100,000	4.0
Rathbones	—	—	1,010,000	3.7
Canada Life	—	—	850,000	3.1

9.6.4 Save as disclosed above, there are no persons, so far as the Company is aware, who are or will be, immediately following Admission, interested, directly or indirectly, in three per cent. or more of the Company's issued share capital, nor, so far as the Company is aware, are there any persons who at the date of this document or immediately following Admission, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

9.6.5 Save as disclosed in this document, no Director is or has been interested in any transactions which are or were unusual in their nature or conditions or significant to the business of the Group during the current or immediately preceding financial year or which were effected during any earlier financial year and remain in any respect outstanding or unperformed.

9.6.6 There are no outstanding loans or guarantees provided by the Company or any of its subsidiary undertakings to or for the benefit of any of the Directors.

9.6.7 No Director nor any member of his immediate family or any person connected with him has a related financial product (as defined in the AIM Rules) referenced to Ordinary Shares.

9.7 DIRECTORS' REMUNERATION AND SERVICE AGREEMENTS

9.7.1 With effect from 18 May 2005 the Company's wholly owned subsidiary, Forum Philippines Holdings Limited, entered into the following service agreements with the Executive Directors (the "Executive Service Agreements"):

<i>Name</i>	<i>Position</i>	<i>Annual salary</i>
David Robinson	Chief Executive	£120,000
David Thompson	Finance Director	£90,000

The Executive Service Agreements are terminable, in the case of both David Robinson and David Thompson, on not less than six months' written notice by either party.

9.7.2 With effect from 18 May 2005 Alan Henderson, Henry Wilson, Ian Baron, Graeme Thomson, Barry Stansfield entered into agreements with the Company governing the terms of their appointment as non executive Directors on the following terms:

- (a) an annual fee of £18,000 is payable to each of them for the provision of their services, subject to an additional amount of £500 per day where the Director is required to commit in excess of four days per month, Alan Henderson is entitled to receive an additional £6,000 per annum for acting as Chairman of the Board of Directors;
- (b) an additional annual payment of £5,000 for chairing a committee of the board or (except where he also chairs another committee of the board) £2,000 for being a member of a committee of the board; and
- (c) each of their appointments is terminable on not less than two months' written notice by either party.

9.7.3 Save as disclosed in this document, there are no service agreements or agreements for the provision of services, existing or proposed, between the Directors and any member of the Group.

9.7.4 On the basis of the arrangements in force at the date of this document, it is estimated that the aggregate remuneration payable including pension contributions and benefits in kind to be granted to the Directors for the period from 18 May 2005 to 31 December 2005 will be approximately £195,000, equivalent to £312,171 on an annualised basis.

9.7.5 Although the Executive Service Agreements are made pursuant to the laws of England and Wales, both of the Executive Directors reside outside the jurisdiction of the United Kingdom and are expected to perform the majority of their duties outside the UK's jurisdiction. In the case of David Robinson this is in the Philippines. In the case of David Thompson, this is in Bermuda. Accordingly, any relevant local Philippine and Bermudan laws may apply.

9.8 THE SHARE OPTION PLANS

9.8.1 The Company adopted on 27 July 2005 the Forum Energy Share Option Plan ("Plan"), in respect of which the rules ("Rules") provide for the grant of options over Ordinary Shares which do not comply with the provisions of Schedule 4 ITEPA ("CSOP Code"), pursuant to the Rules.

9.8.2 Schedule A to the Rules, which has been submitted to HM Revenue & Customs for approval (the "Approved Sub-Plan) allows the grant of Options which comply with the provisions of the CSOP Code.

9.8.3 Schedule B to the Rules allows the grant of Options to non-employees who provide consultancy services to the Company and its subsidiaries (the "Consultants' Sub-Plan").

9.8.4 the Company adopted the Approved Sub-Plan and Consultants' Sub-Plan on 27 July 2005.

9.8.5 The Plan, Approved Sub-Plan and Consultants' Sub-Plan provide for the following:

- (a) the Remuneration Committee may, subject to certain conditions, in their discretion invite any employee or Director of a Group company ("Eligible Employee") to accept the grant of an option under the Plan or the Approved Sub-Plan;
- (b) The Board may, subject to certain conditions, in its discretion invite any person who provides services to any Group Company through a contract for services (including as a non-executive director) ("Eligible Consultant") to accept the Grant of an Option under the Consultants' Sub-Plan;
- (c) there shall be no monetary consideration for the grant of an Option which shall be granted by way of deed in the form of an option certificate, which shall, *inter alia*, set out the date of grant, the number and class of shares subject to the option, the exercise price and the exercise period;
- (d) the exercise period shall be such period as determined by the Remuneration Committee or Board (as appropriate) at the date of grant so long as it ends prior to the tenth anniversary of such date;

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- (e) the exercise price shall be the price at which each share under Option may be acquired on its exercise, which shall be not manifestly less than the market value of the shares at the date of grant;
 - (f) the Remuneration Committee or Board (as appropriate) may from time to time impose individual annual limits on the grant of Options. Options granted under the Approved Sub-Plan are subject to a statutory limit of £30,000 on the market value (measured on the date of grant) of the shares under option at any one time;
 - (g) the Remuneration Committee or Board (as appropriate) may set performance conditions as a condition of the exercise of an Option, but in the event that the Remuneration Committee or Board consider that such conditions have become unfair or impractical, they may use their fair and reasonable discretion to amend, relax or waive such conditions, so long as any conditions so amended or relaxed will be no more difficult to satisfy than the original performance conditions;
 - (h) the maximum number of shares which may be placed under option for subscription under the Plan, the Approved Sub-Plan and the Consultants' Sub-Plan when added to the number of shares placed under option under any other share scheme of the Company, shall not exceed eight per cent. of the Company's issued ordinary share capital in any rolling 5 year period;
 - (i) ordinarily, Options may not be exercised prior to the beginning of the exercise period, nor prior to the date on which any performance conditions if any have been satisfied;
 - (j) in the event of the death of an optionholder, his personal representative may exercise any subsisting Option during the period of 12 months following the date of such death;
 - (k) in the event that an optionholder ceases to be an Eligible Employee on account of injury, ill-health or disability, redundancy or having reached retirement (subject to compliance with the relevant performance conditions); or on account of the transfer of the undertaking or part-undertaking in which the optionholder is employed, to a person other than a Group Company, or the employer of the optionholder ceases to be a Group Company, or for any other reason which the Remuneration Committee in their absolute discretion consider reasonably justifies the exercise of the Option, then subject to the relevant performance conditions, a subsisting Option may be exercised within six months of such an event but lapse thereafter;
 - (l) in respect of Options granted under the Consultants' Sub-Plan, in the event that an optionholder ceases to be an Eligible Consultant for any reason other than becoming a Group Employee, an Option may be exercised within 30 days of such an event but lapse thereafter;
 - (m) it shall be a term of the grant of an Option that the optionholder agrees to indemnify his employer or former employer (being a Group Company) in respect of any income tax or social security withholding obligations (including UK PAYE and employee's National Insurance Contributions) that may arise;
 - (n) in the event that the optionholder, while continuing to be an Eligible Employee, is transferred to work in another country and the Remuneration Committee are satisfied that he may suffer a tax disadvantage upon exercising his Option or become subject to restrictions on his ability to exercise, the optionholder may, *inter alia*, subject to the relevant performance conditions, exercise any subsisting Options in the period commencing the date of transfer and ending 12 months thereafter, and thereafter all Options shall cease to be exercisable under such provisions, but shall remain exercisable as may be permitted by the Rules and under the terms set out in the Option certificate;
 - (o) an optionholder may exercise his Options in the event of:
 - (i) a takeover of the Company, within six months of such event, after which such Option shall lapse; and
 - (ii) on notice being given of a general meeting at which a resolution will be proposed for the voluntary winding up of the Company (conditional upon such resolution being passed), until the resolution is passed, after which such Option shall lapse;
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- (iii) a demerger of the Company, within three months after the date of an announcement of such event, after which such Option shall lapse;
 - (p) in the event of any capitalisation (including a bonus issue), consolidation, subdivision, reduction or other analogous event of the share capital of the Company, the number of shares comprised in the Option, their exercise price and the description of the shares may be varied so far as necessary to take account of such variation;
 - (q) the Rules may be amended by resolution of the Remuneration Committee or Board (as appropriate) provided that no amendment would adversely affect any subsisting rights of the optionholders (save in the event that the majority of optionholders approve of such amendments). The approval of HM Revenue & Customs is required in respect of certain amendments to the Rules of the Plan and the Approved Sub-Plan; and
 - (r) participation in the Plan by an optionholder shall not form part of his entitlement to remuneration or benefits to his contract of employment.

9.9 TAXATION

The following description of taxation of the Group is intended as a general guide only and is based on the Director's understanding of current Philippines, Jersey and United Kingdom (UK) taxation. Any discussion of taxation and related matters contained in this document does not purport to be a comprehensive description of all the tax considerations that may be relevant to purchase Placing Shares. Prospective purchasers of Placing Shares should consult their own tax and legal advisers with respect to the tax consequences of such an investment in their particular circumstances, including with respect to the eligibility of the Placing Shares for investment by a prospective purchaser under relevant laws and regulations.

9.9.1 Philippines Taxation

Companies entering into agreements with the Philippine Government through the Department of Energy (DOE) in relation to Philippine coal and petroleum exploration and production will have a taxable presence in the Philippines and will be subject to 32 per cent. income tax on Philippine taxable profits. By Republic Act No. 9337 (RA 9337), current 32 per cent. income tax rate will be increased to 35 per cent. effective 1 July 2005 but will be reduced to 30 per cent. effective 1 January 2009. The taxation of petroleum exploration and development and the taxation of coal operations are governed by Presidential Decrees No. 87 and No. 972, respectively.

Petroleum Geophysical Survey and Exploration Contracts (GSECs) and Service Contracts (SCs) generally provide that the Government shall pay the Philippine income taxes for the Contractors out of the Government share of gross income from the proceeds of the sale of the petroleum products. The proceeds of sales are generally shared between the Philippine Government and the Contractor based on the 60:40 ratio, after the deduction of participation incentive allowances and certain operating expenses. Incentive allowances of up to 7.5 per cent. of gross proceeds are allowed where Philippine citizens or corporations have participating interests. Operating expenses up to 70 per cent. of the gross proceeds from production in any year can be deducted and any excess may be recovered in later years.

The GSECs and SCs further provide that the Contractors are generally exempt from the payment of all taxes, except income tax, such as documentary stamp taxes, excise tax, value added tax and customs duties under the Tariff and Customs Code on the importation of certain machinery and equipment required for petroleum explorations. Under RA 9337 an exemption from VAT on the sale of petroleum products was removed. Contractors are subject to local taxes, i.e. local business tax and real property tax. Depending on the terms of the GSEC or SC, taxes like local business tax and branch profits remittance tax or dividends tax, whichever is applicable, may or may not be assumed by the Philippine Government.

Coal Operating Contracts (COCs) generally provide that Operators are entitled to recover all operating expenses up to 90 per cent. of total gross income in any year. Any excess may be recovered from gross income in succeeding years. Thereafter, Operators are entitled to an operator's fee of up to 40 per cent. and a special allowance of up to 40 per cent.. The COCs also provide that Operators are generally exempt from the payment of all taxes, except income tax, such as documentary stamp taxes, excise tax, value added tax and customs duties

under the Tariff and Customs Code on the importation of certain machinery and equipment required for coal operations. (Under RA 9337 a VAT exemption for the sale of coal and natural gas was removed). The Bureau of Internal Revenue (BIR) is of the position that the excise tax exemption of the COC Operators in so far as the excise tax is concerned has been removed and has issued several rulings that the COC Operators are subject to excise tax of PhP 10 per metric ton of coal produced/explored and removed from the locality where mined. Operators are also subject to local taxes, i.e. local business tax and real property tax. Unlike GSECs and SCs, COCs do not provide for the assumption by the Government of the taxes of Operators.

GSEC and SC Contractors and the COC Operators are liable for branch profits tax of 15 per cent. (or the lower rate if the recipient is a resident of a treaty country) on remittance of after tax profits from a branch in the Philippines to its head office or dividend withholding tax of 32 per cent. (or the lower rate if the recipient is a resident of a treaty country) on dividend payments to a non resident where the Contractor is a Philippine tax resident company. The 32 per cent. (or 35 per cent. effective 1 July 2005) dividend withholding tax may be reduced to 15 per cent. if the country where the non resident is domiciled allows a credit equivalent to 17 per cent. (or 20 per cent. effective from 1 July 2005 to 31 December 2008 or 15 per cent. effective 1 January 2009) as the tax deemed to have been paid in the Philippines or does not impose tax on foreign source income.

On 1 July 2005, the Supreme Court issued a temporary restraining order suspending the implementation of RA 9337 due to possible constitutional issues.

9.9.2 Jersey Taxation

Under present Jersey law for exempt companies, there is no Jersey tax on dividends paid, income received and capital gains, other than a £600 annual exempt company fee.

9.9.3 Taxation of Shareholders resident or ordinarily resident in the UK

These comments are intended only as a general guide for investors who are resident or ordinarily resident for tax purposes in the UK, and are beneficial owners of Ordinary Shares, in respect of their position under UK law and Inland Revenue practice current at the date of this document. These comments may not apply to certain classes of investors such as dealers in securities. If investors are in any doubt as to their tax position, or subject to taxation in a jurisdiction other than the UK, they should consult their own professional adviser immediately.

UK Taxation on dividends

Under current UK tax legislation the Company is not required to withhold tax from dividend payments it makes.

An individual Shareholder who is a resident for tax purposes in the UK is entitled to a tax credit in respect of any dividend received equal to one ninth of the amount of cash dividend received.

Such individual Shareholder's liability to UK tax is calculated on the sum of the dividend and the tax credit which, with certain other investment income, will be regarded as the top part of the individual's income and which will be subject to UK income tax at the rates of tax described below. The tax credit therefore equals 10 per cent. of the sum of the dividend and the tax credit (the gross dividend). The tax credit will be available to offset the Shareholder's liability (if any) to income tax on the gross dividend.

An individual Shareholder liable to income tax at the basic rate or at a rate which is lower than the basic rate will be liable to tax on dividend income received at the rate of 10 per cent. This means that the tax credit will satisfy the income tax liability of such Shareholders.

An individual Shareholder will be liable to tax on dividend income received at the rate of 32.5 per cent. on the gross dividend to the extent that the gross dividend, when treated as the top slice of that Shareholder's income, falls above the threshold for higher rate income tax. After taking into account the 10 per cent. tax credit, a higher rate taxpayer will therefore be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to

25 per cent. of the net dividend. Where the tax credit exceeds the tax liability of UK resident individual Shareholders, they cannot claim repayment of the tax credit from the Inland Revenue.

Subject to certain exceptions for traders in securities and overseas insurance companies, a corporate Shareholder resident for tax purposes in the UK will not normally be liable to corporation tax on any dividend received. These Shareholders will not be able to claim repayment of tax credits attaching to dividends.

Capital gains tax

Shareholders who are resident or ordinarily resident for tax purposes in the UK may, depending upon their individual circumstances, be liable to UK taxation on chargeable gains on a disposal of shares.

A Shareholder who is not resident or ordinarily resident for tax purposes in the UK will not be liable to UK taxation on chargeable gains unless (subject to relief under any applicable double taxation treaty) the Shareholder carries on a trade, profession or vocation in the UK through a branch or agency or, in the case of a non-resident company, through a permanent establishment in the UK and the shares are, or have been, used, held or acquired for the purposes of such trade, profession or vocation or for the purposes of such branch or agency or in the case of a non-resident company through a permanent establishment. Special rules apply to disposals by individuals at a time they are temporarily not resident or ordinarily resident in the UK.

A capital gain realised on the disposal of Ordinary Shares will be eligible for taper relief in the case of individuals at a rate determined by the number of complete years for which they have been held. Special rules apply to establishing whether the shares in the Company will be considered business or non-business assets for the purposes of taper relief and an individual should consult his or her professional adviser if in doubt as to his or her position.

Companies realising gains on disposals of shares in the Company will be eligible for indexation allowance. For trading companies or a member of a trading group disposing of shares, the substantial shareholdings rules may apply. This may allow companies that own not less than 10 per cent. of a company's capital to make disposals of shares in that company exempt from tax. Capital losses on such shareholdings are not allowable.

Inheritance tax

Shares are assets situated in the UK for the purposes of UK inheritance tax. A gift of shares by, or the death of, an individual shareholder may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the shareholder is neither domiciled nor deemed to be domiciled in the UK.

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

No liability to stamp duty or SDRT will generally arise on the allotment and issue of the New Ordinary Shares under the Placing, to a Shareholder. But a charge may arise if the Shares are acquired for the purposes of an arrangement for the provision of clearance services or the issue of depository receipts (see below).

The conveyance or transfer on sale of Shares in the Company will generally be subject to *ad valorem* stamp duty, at the rate of 0.5 per cent., rounded-up if necessary to the nearest multiple of £5, of the amount or value of the consideration paid. In practice, stamp duty is normally paid by the purchaser. A charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid for the Shares will generally arise in relation to an unconditional agreement to transfer the Shares. However, if within six years of the date of agreement (or, if the agreement was conditional, the date the agreement became unconditional) an instrument of transfer is executed pursuant to the agreement and that instrument is duly stamped, this will cancel, or give rise to a repayment in respect of, the SDRT liability. SDRT is specifically the liability of the purchaser.

There will be no stamp duty or SDRT on a transfer of Shares in the Company into CREST where such a transfer is made for no consideration e.g. the Shares are held by CREST Members in uncertificated form as nominee for the transferor. Similarly, where Shares which are in uncertificated form are re-materialised and then transferred by a member of CREST to

the beneficial owner (on whose behalf it has held them as nominee) and no onward sale is effected, then no stamp duty or SDRT should be payable. Where shares are held in uncertificated form, transfers of shares which are settled within CREST will not be subject to stamp duty. But a transfer of Shares effected on a paperless basis through CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the system.

Certain categories of persons are not liable to stamp duty or SDRT and others may be liable to a higher rate as mentioned above or may, although not primarily liable for the tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

Special rules apply to agreements made by market intermediaries and to certain repurchase and stock-lending arrangements. There is also an exemption for agreements to transfer shares to charities.

Domicile

Any individual who owns Common Shares and is resident or ordinarily resident in the UK, but is not regarded as domicile in the UK for tax purposes, may be subject to UK income tax or capital gains tax as described above only to the extent that this income or disposal proceeds are treated as remitted to the UK. Any such individual is advised to obtain his own professional advice on the UK tax implications of the acquisition, ownership and disposal of Common Shares.

Non-UK resident shareholders

Subject to certain exceptions for individuals who are Commonwealth citizens, citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands, nationals of states which are part of the European Economic Area and certain others, non-UK resident Shareholders will not generally be able to claim repayment from the Inland Revenue of any part of the tax credit attaching to dividends paid by the Company. A Shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law. A Shareholder who is not resident in the UK (for tax purposes) should consult his own tax adviser concerning his tax liabilities on dividends received from the Company.

Any person who is in any doubt as to his tax position or who may be subject to tax in any other jurisdiction should consult his professional adviser.

9.10 SUMMARY OF PETROLEUM LICENCES

9.10.1 The Legal Process

The Group's interests in petroleum licences and contracts which are referred to in Part 2 of this document arise from standard form contracts between the DOE and the relevant member of the Group, the latter of which is referred to in such contracts as the "contractor". The nature of those contracts depends on the phase of exploration and development reached by the Group in relation to the relevant geophysical survey and exploration contract area ("contract area"). The initial phase, in which the contractor undertakes the seismic and other geophysical and exploration operations is regulated by a GSEC; the second phase, in which the contractor has completed the initial phase and is searching for, discovering and producing petroleum, is regulated by a SC.

9.10.2 Standard terms of GSECs

Study programme

Under each GSEC, the contractor shall inform the DOE of the geophysical survey programme ("study programme") which it will carry out in respect of the contract area during the term of the contract, which will usually include the acquisition of new seismic data over part of the contract area.

Contract term

The term of the contract will typically be for one year, subject to extension by agreement with the DOE.

Minimum expenditure on the study programme

In carrying out the study programme, the contractor must incur a minimum amount of expenditure. If the actual expenditure incurred is less than this amount, an amount equal to the shortfall will be payable to the DOE.

In addition, on the signing of a GSEC, the contractor will also pay an amount to the DOE, and provide a bond or guarantee, guaranteeing payment of all amounts payable under the GSEC, including the minimum expenditure amount.

Drilling of wells

On or before the end of the contract term, the contractor may give notice to the DOE that it wishes to drill up to two exploratory wells in the contract area at a location or locations selected by the contractor and agreed with the DOE. In the case of GSEC 101 (Reed Bank), either but not both of the wells may be and has been replaced by a programme of 3D seismic acquisitions.

Six months after receiving the final processed 3D seismic data, the operator of the licence must inform the DOE of its intentions to drill a well or forfeit the GSEC. If the Operator chooses to drill a well, it has one year in which to spud the well following its notification of its intentions to do so.

Within a period of three months from completion of such drilling, the contractor may elect by giving notice to the DOE:

- to drill a second well;
- to acquire 3D seismic over the contract area;
- to convert the GSEC into a Service Contract (in the form attached to the GSEC); or
- to relinquish the contract area.

Subject to the DOE approving the location of any second well, the second well shall be spudded and the drilling completed within 15 months of the end of the contract term.

Within a period of three months from completion of such drilling, the contractor may elect by giving notice to the DOE:

- to convert the GSEC into a Service Contract; or
- to relinquish the contract area.

Minimum expenditure on drilling wells/ commencing 3D seismic operations

The contractor must incur a minimum amount of expenditure on the drilling of each well. If the actual expenditure incurred is less than such amount, the contractor shall pay to the DOE the balance less the higher of any expenditures incurred by the contractor in the drilling programme and US\$500,000.

General obligations of the contractor

The contractor is subject to a number of general obligations during the contract term, including maintaining detailed technical records and accounts of its operations, giving priority in employment to qualified personnel in the contract area, and providing assistance for training, conferences and other related programmes and activities for DOE personnel (the total cost of which shall not be more than US\$15,000 during the one year term of the GSEC). The contract is not assignable by the contractor except to another member of the same group of companies.

9.10.3 Standard terms of Service Contracts

Petroleum operations

Under each Service Contract, the contractor shall carry out petroleum operations under the control and supervision of the DOE during the term of the contract.

Contract term

The Service Contract term will typically be for seven years from the expiration of the relevant GSEC contract term ("effective date"). The contract may be extended for three years if, *inter alia*, the contractor has drilled a minimum of 25,000 feet of test wells or has provided a work obligation for the extension acceptable to the DOE. The contract shall automatically terminate on the tenth anniversary of the effective date, unless petroleum has been discovered and the contractor requests a further extension of one year to determine whether the discovery is in commercial quantities, in which event a further extension of one year for exploration will be granted. The whole of this period of the contract is referred to as the "exploration period".

Where petroleum in commercial quantities is so discovered, the contract shall remain in force in respect of the relevant production area for the rest of the exploration period, together with an additional period of 25 years. Thereafter the contract will be renewable for a period not exceeding an additional 15 years on terms to be agreed between the DOE and the contractor. The production area is the reservoir area delineated by the contractor in consultation with the DOE and in which it is subsequently determined that the reservoir contains petroleum in commercial quantities.

Surrender of part of the contract area

On or before the end of the fifth anniversary of the effective date, the contractor shall surrender 25 per cent. of the initial contract area, together with, if the contractor has elected to extend the contract beyond the seventh anniversary of the effective date, a further 25 per cent. on or before the end of such seventh anniversary.

The contractor may surrender all or any portion of the contract area at any time on giving at least 30 days' notice to the DOE. Any area so surrendered will count towards the surrender obligations referred to above.

If during the exploration period, petroleum has been discovered in commercial quantities, the contractor may retain after the exploration period 12.5 per cent. of the initial contract area ("retained area") in addition to the relevant production area if the contractor has provided an annual work programme for the retained area in a form acceptable to the DOE, subject to payment of an annual rental on such retained area.

Work programme and expenditures

During each year of the contract, the contractor shall submit a work programme and budget for the contract area setting out the petroleum operations which it proposes to carry out during that year.

In each of the first seven years of the contract term, the contractor must drill a minimum number of wells and incur a minimum amount of expenditure.

The drilling programme continues until the earlier of:

- the aggregate minimum amount of required expenditure having been incurred;
- the drilling commitments having been fulfilled; and
- petroleum having been discovered in commercial quantities.

If the actual expenditure incurred is less than the minimum required amount in respect of any year, an amount equal to the shortfall will be payable to the DOE. If the actual expenditure incurred is greater than the minimum required amount in any year, an amount equal to the excess can be set off against the minimum required expenditure during any succeeding year.

In addition, on the effective date, the contractor will also pay an amount to the DOE and provide a bond or guarantee, guaranteeing the payment of all amounts payable under the Service Contract, including the minimum expenditure amounts.

All payments to the DOE by the contractor shall be in foreign exchange except that the contractor may pay in Philippines Pesos to the extent that such currency is realised as a result of the sale of crude oil or natural gas.

General obligations of the contractor

The contractor is subject to a number of general obligations during the period of the contract, which are similar to those applying under the GSEC. In addition, the contractor must keep complete books and accounts, reflecting all transactions in connection with petroleum operations in accordance with the standard accounting procedures annexed to the Service Contract.

Recovery of operating expenditures and accounting for the proceeds of production

The contractor will recover from the gross proceeds resulting from the sale of all petroleum production under the contract an amount equal to all initial operating expenses (including all expenditure incurred under the relevant GSEC), provided that the amount so recovered shall not exceed 70 per cent. of the gross proceeds from production in any year and, to the extent that such operating costs do exceed 70 per cent. of such gross proceeds, then the unrecovered balance shall be recovered from the gross proceeds in succeeding years.

The DOE shall be entitled to receive in kind petroleum equal in value to 60 per cent. of the net proceeds from the petroleum operations, and the contractor shall retain by way of its fee an amount equal to 40 per cent. of the net proceeds. The net proceeds represent the difference between the gross income and the sum of the operating expenses recovered in the manner referred to above and any Filipino participation incentive allowance granted to the contractor.

Payments following production

Within 60 days following commencement of production of petroleum from each production area, the contractor shall pay to the DOE a fixed sum in the case of oil and a lesser fixed sum in the case of natural gas. As production increases to 25,000 BOPD, 50,000 BOPD and 75,000 BOPD, in each case for 60 consecutive days, further amounts shall be payable to the DOE as each of such thresholds is achieved.

Taxes

The DOE shall pay on behalf of the contractor all income taxes payable to the Philippines based on income or profit derived from petroleum operations.

9.10.4 SC 40 (Cebu)

The original GSEC from which SC 40 (Cebu) derives was entered into in February 1993. In addition to the terms generally applicable to Service Contracts set out in paragraph 9.10.3 above, the following terms apply specifically to SC 40 (Cebu):

- *Term:* the contract was extended in September 2003 for a further three year period (being years 8, 9 and 10 of the contract period) from 1 October 2003 to 30 September 2006.
- *Work programme:* during year 8 of the contract period, the contractor must drill one well and carry out a minimum of 250 kilometres of seismic survey; during each of years 9 and 10 of the contract period, the contractor must drill two wells.
- *Minimum expenditure:* US\$2,000,000 in the year to September 2005. The minimum expenditure for the year to September 2006 is yet to be determined.

9.10.5 GSEC 101 (Reed Bank)

GSEC 101 (Reed Bank) was entered into between the DOE and Sterling Energy (UK) Limited, a wholly owned subsidiary of Sterling, on 13 June 2002. On 1 April 2005, Sterling Energy (UK) Limited assigned the whole of the interest in GSEC 101 (Reed Bank) to Forum (GSEC 101). Such assignment is subject to formal approval. In addition to the terms generally applicable to GSECs set out in paragraph 9.10.2 above, the following terms apply specifically to GSEC 101 (Reed Bank):

- *Term:* the original term of the contract was 18 months from the date of the contract. This was subsequently extended to 12 June 2004, and again to 11 June 2005.
- *Minimum expenditure on study programme:* US\$200,000.

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- *Minimum expenditure on drilling wells/commencing 3D seismic operations:* US\$2,000,000 in respect of each well if the well is on a shallow water area or in itself a shallow well, or US\$4,000,000 if the well is on a deep water area or in itself a deep well; or at least US\$1,000,000 for 3D seismic acquisition.

Under the form of Service Contract annexed to the GSEC 101 (Reed Bank), the following terms specifically apply in addition to the terms generally applicable to Service Contracts set out in paragraph 9.10.3 above:

- *Payment on effective date:* US\$100,000.
- *Minimum expenditure:* Years 1 and 2: £nil; years 3-7: US\$2,000,000 in each year.
- *Work commitment:* Years 1 and 2: nil; years 3-7: one well to be drilled in each year.
- *Payment following production:* US\$500,000 on commencement of production; US\$1,000,000 on reaching 25,000 BOPD; US\$2,000,000 on reaching 50,000 BOPD; and US\$3,000,000 on reaching 75,000 BOPD.

9.11 SUMMARY OF COAL OPERATING CONTRACTS

The Group's interests arise from two contracts, both dated 23 February 2005 and made between the DOE and FEI as the operator. One relates to an area located at Balamban-Naga (Central Cebu) and the other to an area located at Dalaguete (South Cebu). The main terms of those contracts, which are in similar form, are summarised below.

Phases

The contract is split into two phases, the exploration phase and the development and production phase.

The exploration phase of the contract lasts for one year from the date of the contract, subject to extension by agreement with the DOE, unless coal reserves in commercial quantity have been delineated by both parties.

If coal reserves in commercial quantities are measured, the contract will proceed to the development and production phase immediately after approval by the DOE of a coal development and production work programme and feasibility study submitted by the operator. The contract shall remain in force in respect of the coal blocks where the operator has an approved coal development and production programme in place for the balance of the exploration phase, together with an additional period of 10 years. Thereafter, the operator may request an extension of the contract term for a series of up to four three year periods.

Work programme and expenditures

The operator shall be obliged to carry out an agreed work programme in respect of each coal block, and to incur a minimum of PhP 1,000,000 per block. At the commencement of the development and production phase, the operator shall submit for approval by the DOE a five year development and production work programme and feasibility study. The operator shall be obliged to spend the minimum amount committed by it as part of such programme.

If the actual expenditure incurred is less than the amount committed in any year, an amount equal to the shortfall will be payable to the DOE. If the actual expenditure incurred is greater than the amount committed in any year an amount equal to the excess can be set off against the amount committed in any succeeding year.

Before the expiry of such five year period, the operator shall submit for approval by the DOE another coal production programme with a corresponding budget for the next five years.

If during any year the operator fails to produce the minimum amount of coal prescribed in the work programme, a penalty shall be payable by the operator to the DOE.

All payments to the DOE by the operator shall be in Philippine Pesos realised as a result of the domestic and export sale of coal.

General obligations of the operator

The operator is subject to a number of general obligations during the period of the contract, which are similar to those applying to the Service Contracts referred to in paragraph 9.10.3 above.

Recovery of operating expenses and accounting for the proceeds of production

The operator can recover from the gross income of the contract an amount equal to all operating expenses provided that the amounts they recover shall not exceed 90 per cent. of the gross income in any year and, to the extent that such operating costs do exceed 90 per cent. of any such gross income, then the unrecovered balance shall be recovered from the gross income in any succeeding year.

The operator shall be entitled to a fee, the net amount of which shall not exceed 40 per cent. of the net operating income. In addition, the operator shall be granted a special allowance which shall not exceed 30 per cent. of the net operating income. The DOE shall be entitled to an amount equal to the balance of the gross income after deducting all operating expenses, the operator's fee and the operator's special allowance.

Taxes

The operator shall be exempt from all national Philippine taxes except income tax, and shall generally be exempt from payment of tariff duties, compensating tax and value added tax on importations of machinery and equipment, spare parts and materials required for coal operations.

9.12 MATERIAL CONTRACTS

The following material contracts (other than those described in paragraphs 9.10 and 9.11 above and excluding any other contracts entered into in the ordinary course of business) have been entered into by the Company or any other member of the Group within the period of two years immediately preceding publication of this document:

9.12.1 Transaction Agreement

This agreement sets out the basis on which Sterling and FEC agreed to transfer their respective Philippine interests and assets to the Group. Each of Sterling and FEC has undertaken to Newco that neither it nor any of their respective subsidiaries will:

- (a) be interested in any business whose sole or a material part of whose business is the exploration, development or exploitation of oil, gas or coal assets in the Philippines;
- (b) solicit any director or senior employee away from the Group; or
- (c) do anything which is harmful to the Group's reputation.

FEC has given certain warranties to Sterling and the Company including in relation to FEI, and Sterling has given warranties to FEC and the Company including in relation to GSEC 101 (Reed Bank).

The Company has repaid loans aggregating £200,000 to Sterling and £200,000 to FEC for the loan arrangements that were in place incurred in establishing Forum Energy.

9.12.2 Reed Bank Acquisition Agreements

- (a) On 1 April 2005, Sterling Energy (UK) Limited and Forum (GSEC 101), as assignor and assignee respectively, entered into a deed of assignment under the terms of which the assignor assigned and novated to the assignee all rights, interests, obligations, and liabilities of the assignor under the Reed Bank Licence, in consideration of which the assignee paid to the assignor the sum of £600,000. The assignee has covenanted that it will perform all of the obligations of the assignor under the Reed Bank Licence, observe the terms of the Reed Bank Licence and indemnify the assignor against all demands, costs, losses, liabilities, claims and actions arising in connection with the Reed Bank Licence.
- (b) On 22 April 2005, Sterling Northwest Africa Holdings Limited and Forum Philippines Holdings Limited, as seller and buyer respectively, entered into a conditional share sale agreement under the terms of which the seller agreed to transfer to the buyer the

entire interest of the seller in Forum (GSEC 101), being 100 issued ordinary shares of US\$1 each, in consideration of which the buyer agreed to issue to the seller 100 ordinary shares of US\$1 each in the capital of the buyer. The sale agreement became unconditional on 18 May 2005.

- (c) On 22 April 2005 Sterling Northwest Africa Holdings Limited and the Company entered into a conditional share sale agreement under the terms of which the seller agreed to transfer to the Company the entire interest of the seller in Forum Philippines Holdings Limited, being 100 issued ordinary shares of US\$1 each, in consideration of which the Company agreed to issue to the seller 4,003,980 Ordinary Shares. The sale agreement became unconditional on 18 May 2005.

9.12.3 FEI Acquisition Agreements

- (a) On 22 April 2005, FEC and Forum (FEI), as seller and buyer respectively, entered into a conditional share sale agreement under the terms of which the seller agreed to transfer to the buyer the entire interest of the seller in FEI, being 125,000,000 issued ordinary shares of one Philippine Peso each, in consideration of which the buyer agreed to issue to the seller 100 ordinary shares of US\$1 each in the capital of the buyer. The sale agreement became unconditional on 18 May 2005.
- (b) On 22 April 2005, FEC and Forum Philippines Holdings Limited, as seller and buyer respectively, entered into a conditional share sale agreement under the terms of which the seller agreed to transfer to the buyer the entire interest of the seller in Forum (FEI), being the 100 issued ordinary shares of US\$1 each issued to the seller under the agreement referred to at sub-paragraph (a) above, in consideration of which the seller agreed to issue to the buyer 100 ordinary shares of US\$1 each in the capital of the buyer. The share sale agreement became unconditional on 18 May 2005.
- (c) On 22 April 2005, FEC and the Company entered, as seller and buyer respectively, into a conditional share sale agreement under the terms of which the seller agreed to transfer to the Company the entire interest of the seller in Forum Philippines Holdings Limited, being 100 ordinary shares of US\$1 each issued to the seller under the share sale agreement referred to at sub-paragraph (b) above, in consideration of which the Company agreed to issue to the seller 9,996,000 Ordinary Shares. The sale agreement became unconditional on 18 May 2005.

9.12.4 Agreement with Basic Consolidated Inc.

On 17 May 2005 the Company and Basic Consolidated entered into an agreement pursuant to which the parties have agreed a period of exclusivity during which they will work towards valuing the petroleum interests of Basic Petroleum Inc., a wholly owned subsidiary of Basic Consolidated, all of which are based in the Philippines, and merging them into the Group. The period of exclusivity will expire on the earliest to occur of a merger agreement between the parties and 17 November 2005.

9.12.5 Services Agreement

On 18 May 2005 the Company and Sterling Energy (UK) Limited entered into an agreement pursuant to which the latter has agreed to act as contractor in managing the acquisition and processing of the 3D seismic survey over, and assisting in farming out as required, the Reed Bank Licence. The agreement shall continue until the interpretation of the 3D seismic survey is completed, after which time it may be terminated by either party on one month's notice or extended by mutual agreement. The Company has agreed to pay the contractor agreed daily rates for the four categories of geoscientist, senior geoscientist, manager and director. Costs incurred by sub-contractors will be billed at cost plus 5 per cent. to cover handling. The contractor will be solely responsible for meeting all fees, costs and expenses of nominees designated by the contractor, agents and sub-contractors. All intellectual property arising in the course of the provision of services by the contractor under the agreement shall belong to the Company. The contractor shall be responsible for effecting and maintaining appropriate insurance coverage and, save in respect of any willful default, fraud or negligence on the part of the Company, shall indemnify the Company against any

liability in respect of death, injury or damage to the property of any employee of the contractor or any person whose services are provided by the contractor to the Company under the agreement.

9.12.6 Agreement with MG Mining and Energy Corporation

On 29 June 2005 the Company and MG Mining entered into an agreement pursuant to which the parties have agreed a period of exclusivity during which they will work towards combining their coal assets, all of which are based in the Philippines, and merging them into a special purpose vehicle. The period of exclusivity expires on 29 September 2005. Forum will be responsible for 100 per cent. of the operating costs and capital expenditures of MG's coal mining operations during the months of July and August 2005, up to a maximum of US\$600,000, which will be loaned to MG and secured against MG's Cebu Island coal contracts. If the special purpose vehicle is not formed by 1 September 2005, this loan will attract interest at the rate of 10 per cent. per annum and will become due and payable in full on August 2006.

9.12.7 Nominated Adviser and Broker Agreement

By an agreement entered into on 27 July 2005 the Company and Noble entered into an agreement pursuant to which the Company appointed Noble to act as its nominated adviser and broker for the purposes of the AIM Rules. The agreement contains certain undertakings by the Company and indemnities given by the Company in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreement is subject to termination on the giving of three months' written notice by either party. There is an annual fee payable by the Company of £30,000.

9.12.8 Placing Agreement

Under this agreement Noble has agreed conditionally, *inter alia*, upon Admission taking place by no later than 2 August 2005 (or such later date as the Company and Noble may agree, being in any event not later than 12 August 2005), to use its reasonable endeavours to procure subscribers for Placing Shares at the Placing Price, in return for which, the Company has agreed to pay Noble a corporate finance fee of £100,000 payable on Admission and a commission of 4.5 per cent. of the value, at the Placing Price, of the Placing Shares. The agreement contains warranties from the Company and the Directors as to the accuracy and reliability of information contained in this document and certain other matters relating to the Group and its business. Each of the Directors has agreed, subject to certain exceptions, not to dispose of any Ordinary Shares held by him at Admission for 12 months thereafter (other than amounts which in aggregate represent less than five per cent. of their individual shareholdings at the date of Admission and, for six months thereafter, only to dispose of Ordinary Shares in accordance with the orderly marketing criteria of Noble.

9.13 WORKING CAPITAL

In the opinion of the Directors, having made due and careful enquiry, taking into account the banking facilities available to the Group and the net proceeds of the Pre-IPO Placing and the Placing, the working capital available to the Group will be sufficient for its present requirements, that is for at least twelve months from the date of Admission.

9.14 LITIGATION

So far as the Company is aware there are no legal or arbitration proceedings, active, pending or threatened against, or being brought by, the Company or any other member of the Group which are having or may have a significant effect on the Group's financial position.

9.15 CONSENTS

9.15.1 Noble & Company Ltd

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

9.15.2 KPMG LLP

KPMG LLP has given and has not withdrawn its written consent to the inclusion of its name and its reports in Part 7 of this document and the references to such reports and its name, in the form and context in which they appear. KPMG LLP has authorised the contents of those parts of this document in which its reports appear for the purposes of Regulation 13(1)(d) of the Public Offers of Securities Regulations 1995.

9.15.3 PGS Reservoir Limited

PGS has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and its report in Part 5 of this document and the references to such report and its name, in the form and context in which they appear.

9.15.4 CSA Group Limited

CSA Group has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and its report in Part 6 of this document and the references to such report and its name, in the form and context in which they appear.

9.16 GENERAL

9.16.1 Significant changes

Apart from the Pre-IPO Placing and the proposed Placing as described in this document, there has been no significant change in the financial or trading position, in the case of FEI, since 31 December 2004 (being the date to which the accounts of FEI relate) and, in the case of all other members of the Group, since their incorporation.

9.16.2 Expenses

The expenses of or incidental to the Admission and Placing, including the fees and commission payable to Noble referred to in paragraph 9.12.8 above, the London Stock Exchange fee, professional fees (including those payable to the Company's legal advisers, auditors and reporting accountants and registrars) and the cost of printing and distribution, all of which are payable by the Company, are estimated to amount to approximately £1 million (exclusive of VAT).

9.16.3 Application of the proceeds of the Placing

In the Directors' opinion, the minimum amount which must be raised pursuant to the Placing for the purposes set out in paragraph 21(a) of Schedule 1 to the Public Offers of Securities Regulations 1995 is £11 million comprising:

- (a) preliminary expenses and commissions payable in respect of the Admission and Placing of £1 million; and
- (b) working capital for the purposes set out in Part 2 of this document of £10 million.

9.16.4 Payments to promoters

Except as detailed in this document, no person (excluding professional advisers otherwise disclosed in the admission document and trade suppliers) has received directly or indirectly from the Company within the 12 months preceding the application for Admission or entered into contractual arrangements not otherwise disclosed in the Admission document to receive, directly or indirectly, from it on or after Admission any of the following:

- (a) fees totalling £10,000 or more;
- (b) securities where these have a value of £10,000 or more calculated by reference to the issue price; or
- (c) any other benefit with a value of £10,000 or more at the date of Admission, giving full details of the relationship of such person with the Company and of the fees, securities or other benefit received or to be received.

9.17 AVAILABILITY OF THIS DOCUMENT

Copies of this document are available free of charge from the Company's registered office, the offices of Noble and at the offices of Osborne Clarke at One London Wall, London, EC2Y 5EB,

during normal business hours on any weekday (Saturdays and public holidays excepted) and will remain available for at least one month after Admission.

Dated 28 July 2005