

CLARIFICATION

SCIMITAR'S POSITION IN BANGLADESH

INTRODUCTION

There has been a number of reports in the media with regard to the origin and operations of our company as well as the terms and conditions of the contract between the Government of Bangladesh/BOGMC and Scimitar Exploration Ltd. (the Production Sharing Contract). As private investors in Bangladesh we are working within the laws and regulations of the country and until now did not feel it necessary to counter the baseless allegation thrust upon us. However, at this point and time, the public in general and interested quarters in particular, are entitled to have the facts before forming any opinion on the subject of our reputation and operations in Bangladesh. The allegations made in a report dated April 11, 1991 by a non-govt. commission constituted by a self styled committee, cannot go unchallenged.

CLARIFICATION

"There have been repeated allegations that Scimitar is not an experienced oil company and has not been adequately capitalized".

Scimitar group of companies is chaired by Mr. Angus A. Mackenzie, a prominent Canadian oilman who has been active in the international petroleum industry for over thirty years. Mr. Mackenzie, through private and public companies, has been involved in various parts of the world, including Canada, the United States, South America, Norway, United Kingdom, the Middle East and South East Asia and in some of the most significant discoveries in the world, including the famous "Brae Field" North Sea, UK, the "Abu Kush" in Abu Dhabi and in Norway.

The Scimitar group of companies, established over the past 15 years, has been involved in a wide range of activities, which have included the concept, project design, financing and management of the 'Dubai Natural Gas Company' (DUGAS) a US\$ 550 million major capital project equivalent to One thousand nine hundred eighty crore takas (Tk 1,980 crores).

'Scimitar Oils Ltd.', a Canadian controlled company established in 1976 and registered in Panama, besides managing, operating, designing and constructing of the 'DUGAS' project in Dubai, has drilled exploratory and development wells offshore resulting in the daily production of 30,000 barrels of liquid condensate and over a 150 million cubic feet of gas.

It is normal practice in the international petroleum industry that separate companies be formed for various ventures in different countries, due to different laws, rules and regulations. Accordingly, (Scimitar Exploration Ltd.), a British Virgin Islands Company, was formed in July, 1987. This company has been adequately financed by its shareholders and has spent in excess of US\$ 20 million, equivalent to over seventy two crore takas (Taka 72 crore) in relation to the Production Sharing Contract in Bangladesh. The expenditure of these sums is verifiable and absolute demonstrable proof of the proper and adequate capitalization of the company.

"There have been allegations that Scimitar received some valuable and unusual advantage by the granting to it of the Production Sharing Contract".

We would note that the Production Sharing Contract excluded oil production from the previous discovery, Haripur, Sylhet, Well No.7 which remains the exclusive property of BOGMC. The terms of the Production Sharing Contract, including the sharing ratios are usual in South East Asia if not tending more favourably towards BOGMC. For example, after recovery of operating cost where production increases from 5,000 barrels a day to 50,000 barrels a day, Scimitar's interest would decline from 30% to 10% with the balance 90% going to BOGMC. More favourable terms for foreign investors can be negotiated in other countries in South East Asia and there are many contracts evidencing better ratios. In mid 1989, BOGMC held seminars in London, Houston and Dhaka to attract foreign investors in the oil and gas industry in Bangladesh. We understand that no Production Sharing Contracts have been signed to date. We also understand that in the past, certain companies who did in fact commence operations in Bangladesh subsequently surrendered their exploration rights after their initial surveys/drillings. Despite the obstacles and adverse publicity against the company and its contract, Scimitar proceeded to drill wells, spending substantial amounts of capital from its own resources as per the terms of the Production Sharing Contract.

In January, 1987, Scimitar gave a proposal to the Government of Bangladesh for the appraisal and development of the Surma Basin. After lengthy negotiations, which also included the financial and technical evaluation of the company, a Production Sharing Contract (PSC) was signed on December 28, 1987 between the Government of Bangladesh/BOGMC and Scimitar Exploration Ltd. In accordance with the terms of the contract Scimitar was to initially drill two appraisal and one exploratory well and spend a minimum of US\$ 10 million equivalent to thirty six crore takas (Tk 36 crores).

OPERATIONS

Surma-1, the first appraisal well which commenced on the 27th of March, 1989, at a location closest to Haripur (Sylhet) Well No. 7, was dry and abandoned. Scimitar also drilled Surma-1A by side-tracking to a new target depth. This well was completed as a suspended gas well with traces of oil. No great benefit has accrued to Scimitar as a result of the drilling of these wells and Scimitar has incurred substantial costs with respect to same. (Well reports, logs, and other data are available with BOGMC and Scimitar). The information from these appraisal wells have substantially added to the knowledge and understanding of this highly complex Haripur structure.

The Company, having fulfilled its financial obligations of spending US\$ 10 million proceeded to spend more funds and fulfil its contractual obligations by drilling an exploratory well in Jalalabad. This well is 20km away from Well No. 7 and few kilometers from Sylhet town in the Lakatora Tea Estate. **By the grace of Allah, Scimitar had a world class gas and gas condensate discovery with reserves of 1.5 trillion cubic feet of gas and 30 million barrels of condensate.** This discovery at Jalalabad has added significantly to the already existing gas reserves of Bangladesh but for which commercial usage has not yet been clearly identified.

All these wells were directionally drilled and the entire mobilization, site preparation, drilling and testing was done in a record time of just over eight months. The operations were executed by first class international experts including Forasal S.A. a highly respected drilling company which was previously under contract to Shell in Bangladesh. This was carried out as per standard practice in the petroleum industry.

TERMS OF CONTRACT

In order to demonstrate that the terms of the Production Sharing Contract are not unusual, we set forth below the major terms of the same:

Period

- * The Production Sharing Contract is for twenty five years.
- * Maximum of first eight years for exploration.
- * Commercial production period not to exceed fifteen years from the date of first commercial sale.

Production Share

During its exploration period, should Scimitar have a commercial discovery, the production would be shared in the following manner (after recovery of cost):

bbls (barrels) of total Crude Oil Produced (BOPD)	BOGMC	Scimitar
* upto 5,000 BOPD	70%	30%
* 5,000-10,000 BOPD	75%	25%
* 10,000-25,000 BOPD	80%	20%
* 25,000-50,000 BOPD	85%	15%
* More than 50,000 BOPD	90%	10%

Bonuses

In addition, bonuses are payable to BOGMC which are to be borne by Scimitar and are not recoverable from the operating cost.

Production reaching bbls per day for 60 days	Payable to BOGMC (US\$)
5,000 BOPD	US\$ 500,000 (1.8 crore takas)
10,000 BOPD	1,000,000 (3.6 crore takas)
15,000 BOPD	1,500,000 (5.4 crore takas)
20,000 BOPD	2,000,000 (7.2 crore takas)
* Annual administrative fees payable to BOGMC	US\$ 100,000 (36 lac takas)
* Annual fees payable for training of Bangladeshi personnel to BOGMC	US\$ 50,000 (18 lac takas)

CONCLUSION

Scimitar requests that all unfounded accusations and unsupported opinions and innuendoes be put aside and that facts be permitted to speak for themselves:

1. (a) Scimitar, one of the largest private sector foreign investors in Bangladesh, has spent from its own resources over US \$ 20 million equivalent to seventy two crore takas (Tk. 72 crores) to date. This amount exceeds its financial obligation of spending US \$ 10 million (Tk. 36 crores) under the terms of the Production Sharing contract.
- (b) The entire investment is in foreign currency including local expenses for which foreign currency remittance is brought into the country.
- (c) Although, (during the exploration period, maximum of 8 years) BOGMC does not contribute financially to this project, it monitors and approves all budgets and work programmes prior to commencement. BOGMC also has the right to audit our Books of Accounts at any time.
2. Scimitar's contract does not include Haripur Well No. 7 nor the production of oil from that well.
3. The operations under the Production Sharing Contract have been completed in accordance with good oil field practice by competent and experienced professionals.
4. By the grace of Allah, a major new gas and gas condensate field was discovered by Scimitar on an entirely new location at Jalalabad. This has contributed to the existing gas reserves of Bangladesh.
5. The terms and conditions of the Production Sharing Contract are similar to those contained in Production Sharing Contracts of other nations such as Malaysia, Thailand, Indonesia, Burma, India and Pakistan. In fact, many of the terms of such contracts in those countries are more favourable to the foreign investors.
6. (a) The Company's project office in Bangladesh situated in Baridhara, Dhaka, is functioning with permission from various Government authorities including Bangladesh Bank, Ministry of Industry and National Board of Revenue (NBR).
- (b) Audited balance sheets upto December 31, 1989 have been submitted to BOGMC and the Registrar, Joint Stock Company.
7. Scimitar has no local agent in Bangladesh. No Bangladeshi national is a shareholder of Scimitar, nor does any Bangladeshi national have any interest in the company.

Scimitar will continue to spend additional funds from its own resources and perform its continuing obligations under the Production Sharing Contract in good faith and trusts that the other parties to the Contract will perform their obligations in a like manner.

Scimitar, as the largest private investor in the oil and gas industry in Bangladesh is proud to be associated with BOGMC as a partner in the development of the oil and gas industry in the country. We pray to the All Mighty Allah that we are successful in commercially developing the hydrocarbon deposits we find for the benefit of not only ourselves, but also the people of Bangladesh who will be the major beneficiaries of this project.

If Scimitar is not able to find any commercially exploitable hydrocarbons, the company will walk away bearing all costs for the exploration, appraisal and development of its contract area without any obligations to the Government of Bangladesh / BOGMC.

It is common knowledge that attraction of risk capital to Bangladesh is not an easy task. As such, foreign investors should be encouraged by all quarters. Scimitar's primary goals are to perform its obligations under the contract and to commercially exploit its discoveries. To this end, Scimitar will take all legitimate and legal actions available to protect its business interests as well as its reputation.

BANGLADESH OFFICE



SCIMITAR EXPLORATION LIMITED

HOUSE NO. 19, ROAD NO. 3, BARIDHARA, DHAKA,
P. O. BOX 2157, DHAKA, BANGLADESH