

M3ENERGY BERHAD

To: Board of Directors

From: Group Managing Director / Chief Executive Officer

INFORMATION ON PRODUCTION SHARING CONTRACT WITH BADAN PELAKSANA KEGIATAN USAHA MINYAK DAN GAS BUMI ("BPMIGAS") FOR UJUNG KULON BLOCK ON/OFFSHORE WEST JAVA INDONESIA

1 BACKGROUND

1.1 BPMIGAS

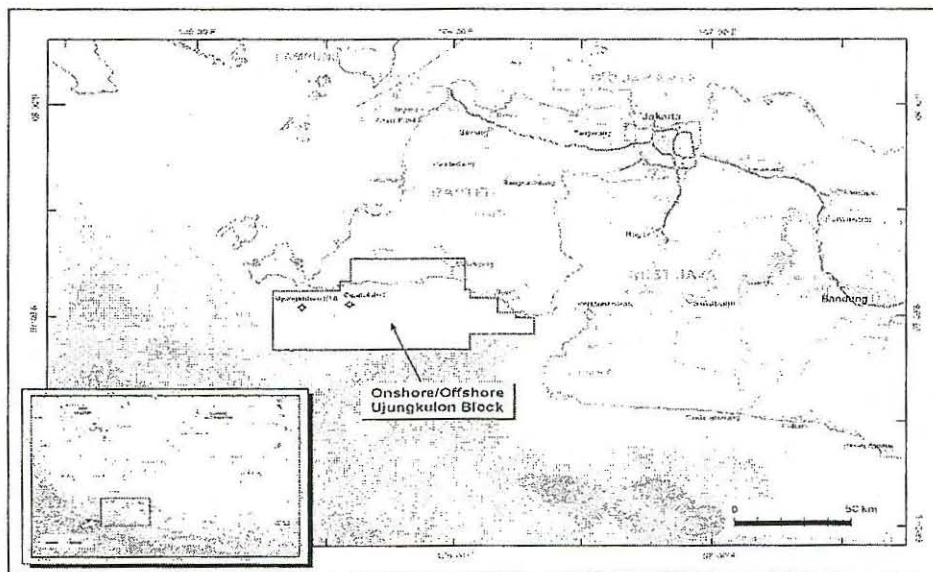
BPMIGAS, a state-owned company, was established on 16 July 2002 to supervise and control the Production Sharing Contracts operating in Indonesia.

1.2 Scope of work

The scope of work under the PSC includes exploration, development, extraction, production, transportation, marketing, abandonment and site restoration operations authorized or contemplated.

1.3 Location

Ujung Kulon Block is located in south-west Java area and covers both onshore and offshore. It is one of the 20 blocks that is being offered by Government of Indonesia in 2006 through the regular tender process.



Location map of Ujungkulon Block

1.4 History of Exploration

Exploration activity in this area was started by AMOCO. AMOCO signed a PSC contract in 1982 for Pelabuhan Ratu Block. Seismic survey was undertaken in the western part of the block and one exploration well was drilled on January 1985. The well was plugged and abandoned as a dry well even though there were some oil and gas.

After relinquishment in 1986, there was no activity in this area until 1995 when British Gas was awarded the Malingping Block. British Gas explored this block by doing extensive seismic surveys in the area. In 1999 British Gas drilled one exploration well to test the potential. The well was plugged and abandoned as a dry hole. In 2000, British Gas relinquished the block.

1.5 Prospects

The Ujung Kulon prospect has been tested by Ujung Kulon-1 exploratory well in early 1985. This well was reported as a dry hole with no significant hydrocarbon shows, but in fact there are at least 16 layers of sandstones had been penetrated by this well and the thickness ranges from about 4 to 70 feet.

The South-East Cipatulah prospect is located near where the Cipatulah-1 well was drilled, which was concluded as a dry hole due to no significant reservoir sands and without any hydrocarbon shows. The possibility of lateral facies changes will make this a prospect.

In the present low area between Ujung Kulon-1 and Cipatulah-1 wells, there is a carbonate build-up. This prospect is believed has an adequate seal and the trap can be a stratigraphic.

2 OIL RESERVES & RISK ASSESSMENT

The method of volume calculation of the hydrocarbon potential reserves in Ujung Kulon block is probabilistic volumetric with the data taken from the Ujung Kulon-1 well data. Based on available data, Initial Oil In Place is 1,107 million barrels of oil. The risked Initial Oil In Place ranges between 300 to 400 million barrels of oil.

There are four petroleum system elements, i.e. reservoir, trap, source/charging/migration and seal that have been assessed for the risk of each prospect and lead.

3 EXPLORATION PROGRAM

The previous research on geology of Ujung Kulon area is very limited, to get more comprehensive knowledge of geological condition of Ujung Kulon area, M3nergy plans to do regional geological study. The regional geological study will be conducted to construct such as the paleogeography of Ujung Kulon Block.

The new seismic acquisition is needed to be integrated into both the surface and available well data to have a better understanding of the structural setting and stratigraphic framework.

6 SALIENT POINTS OF PRODUCTION SHARING CONTRACT

- 6.1 M3nergy provides all the funds, technological expertise and have to have the necessary ability and take all risks in the exploration and exploitation of oil and gas.
- 6.2 If commercial oil and/or gas are found, the contract could be 30 years.
- 6.3 The period for exploration is six (6) years and may be extended for another final four (4) years.
- 6.4 M3nergy is obliged and required to relinquish the Contract Areas in stages.
- 6.5 Standard production sharing (in kind) of commercial oil and gas find will be split (after tax) into 75% (Government) and 25% (M3nergy) for Oil, and 60% (Government) and 40% (M3nergy) for Natural Gas. M3nergy is allowed to recover all costs, i.e exploration, development and operating expenditure incurred under the scope of work after commercial production.
- 6.6 M3nergy must pay and is responsible for local taxes, levies and retributions, which may be imposed by the local government. These however are subject to reimbursements pursuant to PSC.
- 6.7 If M3nergy however utilizes the Tax Treaty for its tax regime, the overall split as indicated in item 5 above remains unchanged.
- 6.8 M3nergy has the option to choose either provisions of the current tax law or those tax laws in effect at the time the PSC is signed, in the event that M3nergy chooses provisions of the current tax law, all percentages appearing in item 5 above remains unchanged.
- 6.9 M3nergy is required to commit (firm) for the first 3 years of exploration period and during which time M3nergy shall hold majority (greater than 50%) participating interest in the Contract Area.
- 6.10 After the first 3-years exploration period M3nergy may divest all or part of its participating interest in the Contract Area to other parties.
- 6.11 After commercial productions commences, M3nergy must provide oil and or natural gas for the domestic market obligation (DMO) 25% of M3nergy share.
- 6.12 M3nergy shall receive its oil and or gas share at port of export or at a mutually agreed designated location.
- 6.13 M3nergy is responsible for the management and maintenance of the environment of the Contract Area and its surroundings that may or could be directly or indirectly affected by M3nergy's activities within its Contract Area.
- 6.14 M3nergy is required to pay signature bonus, equipment and services bonus and production bonus.

M3nergy plans to drill 3 new wells in 6 years, the first 3 year commitments (which is obligatory) is only one well, and the second three years commitment is two wells (which is not obligatory).

4 CONCEPTUAL DEVELOPMENT PLAN

In conceptual development plan is for the three prospects to be developed. The prospects are Ujung Kulon Prospect (UK-2), SE Cipatulah A (SE CPTL-A) and SE Cipatulah B prospects. Total reserves of UK-2 and SE CPTL-A are approximately 78 million barrels of oil.

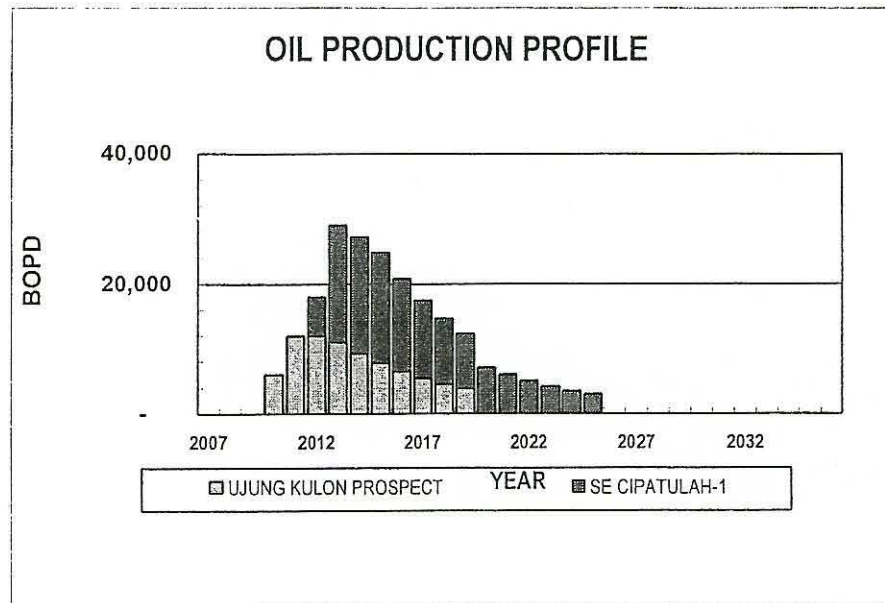
The first production will be commenced from UK-2 in Year- 4, in Year-6 from SE CPTL-A. The maximum production is approximated can reach of 80,000 barrels of oil per day in Year-8.

The offshore production facilities will be designed for oil production. Producing wells will be tied into Platforms. There will be 3 WHP (Wellhead Platform). The fluid from Mini WHP will be delivered through a pipeline and processed in a CPP which is connected to a FSO (Floating Storage & Offloading). A FSO will be leased and will have a maximum capacity around of 80,000 barrels of oil per day.

5 ECONOMIC ANALYSIS

5.1 Production Estimate

The crude oil production profile of the two prospects used in this analysis is as below.



5.2 Estimated Work Program and Capital Expenditure

The capital expenditure estimates are based on in-house studies and M3nergys' estimates. A summary of the work program and potential capex are as follows:

Item	Exploration Phase		Development Phase	
	Description	Amount	Description	Amount
G&G Studies	Reservoir study, seismic reprocessing	US\$0.3 million		
Seismic	2D & 3D seismic acquisition and processing	US\$4.1 million		
Exploration Drilling Capex	1 well drilled in UK in year 2 and 1 well in SE CPTL in year 4	US\$14.0 million per well		
Appraisal Drilling Capex			3 wells	Estimated US\$7.6 million per well
Re-entry Well			1 well will be re-entered in year 3	Estimated US\$5.0 million
Development Drilling Capex			11 for UK and 18 wells for SE CPTL-A to be drilled	Estimated US\$7.6 million per well
Production Facilities Capex			3 Mini WHP	Estimated US\$30.0 million
			CPP	Est. US\$90 million

5.3 Rate of Return

The following section describes in a table format the IRR Analysis of the project. Sensitivities which were applied included Geological risk and Oil price to provide the range from low to high risk.

Geological Risk	Reserve P50 mmbbls	IRR (%) at Corresponding Oil Price		
		US\$30	US\$35	US\$40
33%	77.6	14.5	19.2	25.8
50%	117.7	23.7	29.9	36.9
Unrisked	235.3	37.2	45.9	50.3

- 6.15 M3nergy is required to provide 10% of its interest as Indonesian Participating (IP) at the time when commerciality is ascertained (deemed) on the first commercial field within the Contract Area to Local Government Company (LGC) or Indonesian National Company (INC) as designated by the Government.

7 CONCLUSION

- 7.1 As far as petroleum system of Ujung Kulon Block is concerned, there is no problem with source, maturation and migration of oil and gas. It was proven by Ujung Kulon-1 well data. Good quality reservoir rocks are present in the area.
- 7.2 According to the existing well data, all the prospects and leads have some risk. However, in fact, the well and outcrop data indicates good reservoir sands. It can be concluded, therefore, that the quality of reservoir varies within the block.
- 7.3 Three prospects have been identified in the Ujung Kulon block based on the re-evaluation of the available seismic and well data. The prospects are Ujung Kulon, South-East Cipatulah and Cijengkol Build-up.
- 7.4 Total risked P-50 reserve is 77.6 million barrels of oil that have been identified in this block respectively and the risked Initial Oil In Place is 300 to 400 million barrels of oil.
- 7.5 Based on Conceptual development Plan for UjungKulon-1 and SE Cipatullah-A Prospects, the economic calculation shows these prospects are feasible to be developed.