

7 October 2010

DEO Petroleum plc
("DEO" or "the Company")

Proposed acquisition of North Sea assets from Nexen Petroleum UK Limited, placing to raise £16 million and readmission to trading on AIM

Highlights

- Conditional agreement to acquire 42.08 per cent. working interest in certain licence areas in UK Central North Sea from Nexen
- Proposed placing of ordinary shares to raise £16 million (before expenses) at 45 pence per ordinary share
- Proposed acquisition constitutes a reverse takeover under AIM Rules – shareholder approval to be sought at general meeting
- Application to be made to London Stock Exchange for enlarged share capital to be admitted to trading on AIM
- Licences to be acquired are P588 (Blocks 15/21c (All) and 15/21b (Residual Area)) and P218 (Block 15/21a (Residual Area)), referred to as Perth Core, Perth North, Perth Beta Terrace and Perth Beta East
- Temporary suspension expected to be lifted on 8 October 2010 upon publication of AIM Admission Document

David Marshall, Chief Executive Officer, commented:

"This is an exciting time for DEO as we make our first acquisition. We have a proven and experienced management team who have successfully developed and commercialised North Sea assets in recent times. By applying advanced subsea technology and first class drilling operations to stranded assets we aim to become the leading independent operator of high value subsea developments in the Central North Sea."

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Copies of the AIM Admission Document are expected to be available on the Company's website (www.deo-petroleum.com) or from the offices of Merchant Securities Limited at 51-55 Gresham Street, London EC2V 7HQ on 8 October 2010.

Proposed Acquisition and Placing

DEO, whose Ordinary Shares were suspended from trading on AIM on 22 September 2010 pending the entry into of the Acquisition Agreement and the publication of an AIM Admission Document, announces that it has entered into a conditional agreement to acquire a 42.08 per cent working interest in the Perth Assets from Nexen for a consideration of £10.5 million.

The Company is proposing to raise £16 million through a conditional placing of 35,555,555 Ordinary Shares at 45 pence per share with institutional and other investors. It is intended that the proceeds from this conditional placing will be used to fund the Acquisition, to produce and obtain DECC approval for the FDP for the Perth Assets and to provide further working capital for the Company upon Admission.

FirstEnergy Capital LLP ("FirstEnergy") acted as Broker and Lead Book Runner and Merchant Securities Limited ("Merchant Securities") acted as Nominated Adviser and Placing Agent.

The Acquisition will constitute a reverse takeover under the AIM Rules. As a consequence, the Directors are seeking shareholder approval for the Acquisition at a general meeting which is expected to be convened for 10.00 a.m. on 25 October 2010 at the offices of Merchant Securities Limited, 51-55 Gresham Street, London EC2V 7HQ.

Irrevocable Undertakings to vote in favour of the Resolutions at the General Meeting have been obtained from certain Existing Shareholders in respect of their shareholdings amounting to in aggregate 6,001,342 Ordinary Shares representing 79.44 per cent of the Existing Issued Share Capital.

Completion of the Acquisition is conditional on a number of matters including receipt of DECC's consent to the assignment of the Perth Assets, the written waiver of the JOA Parties (other than Nexen) of any pre-emption right under the JOA or expiry of the period within which the pre-emption rights under the JOA must be exercised, execution of the execution deed which relates to the affected agreements regarding the Licence Areas and Admission.

Application will be made to the London Stock Exchange for the Enlarged Issued Share Capital to be admitted to trading on AIM. The AIM Admission Document, which comprises a circular to Shareholders and notice of the general meeting, is expected to be posted to Shareholders and will be available from the Company's website, www.deo-petroleum.com, on 8 October 2010. The temporary suspension in trading of the Existing Ordinary Shares is also expected to be lifted on 8 October 2010, upon publication of the AIM Admission Document.

It is expected that admission to AIM will become effective and that dealings in the Enlarged Issued Share Capital will commence on or before 8 November 2010.

Perth Assets

The Perth Assets comprise a 42.08 per cent working interest in certain Licence Areas in the UK Central North Sea. The Perth Field Development is located approximately 185km northeast of Aberdeen in a water depth of 127m (450ft).

The discovery well 15/21a-7 was drilled in 1983 and tested oil in the Claymore sands of the Upper Jurassic Kimmeridge Clay Formation. Three subsequent appraisal wells (15/21b-47, 15/21b-49, 15/21b-56) and one sidetrack (15/21b-47y) were drilled by Hess between 1992 and 1997. The wells were production tested at rates varying from 1,000 to 6,000 bopd, all with H₂S content (2,500-8,500 ppm) and CO₂ (25-42 mol per cent.) in the associated gas.

The Perth Field Development has subsequently been divided into four main areas by an east-west fault to the north of the three appraisal wells and a north-south fault zone between these wells and the discovery well. The areas are referred to as:

- Perth Core – the three appraisal wells and one sidetrack
- Perth North – undrilled
- Perth Beta Terrace – discovery well 15/21a-7
- Perth Beta East – undrilled

Total 2C contingent resources of 20.6 MM boe have been identified for an initial Perth Core area development. AGR TRACS define a development chance of commerciality of the Perth Core area at 60 per cent. This, however, will change if partner intent and commitment to develop becomes apparent.

Licence arrangements

Licence summary

Location:	UK Central North Sea	
Licences:	P588, Blocks 15/21c (All) (10 th Round) and 15/21b (Residual Area)(10 th Round) P218, Block 15/21a (Residual Area) (4 th Round)	
Area:	26.63 sq km - 15/21c 5.36 sq km – 15/21b (Residual Area) 44.27 sq km- 15/21a (Residual Area)	
Other Licensees:	Petro-Canada UK Limited*	43.33 per cent.
	Maersk Oil UK Limited	10.84 per cent.
	Atlantic Petroleum UK Limited	3.75 per cent.
Licence Expiry:	4 June 2023	P588
	16 March 2018	P218

* Dana Petroleum (E&P) Limited recently entered into a conditional agreement to acquire this non-operating interest from Petro-Canada UK Limited (subject, *inter alia*, to co-venturer approval).

Development options

Two development options are being investigated: subsea tie-back to the Tartan platform and an FPSO development; both are viewed by the Directors as viable surface development options for the Perth Core area. The CPR produced by AGR TRACS assessed the contingent resources for the Tartan development option only, as it is the more commercially mature development route. An FPSO tieback was assessed as an alternative development option and a range of gross oil recoverable volumes for the core area (assuming water injection) estimated. The Directors believe, based on their own assessment, that the FPSO presents a viable commercial option. A decision will be made in due course, following consultation with co-venturers on which development option to pursue and submitted to DECC as part of the field development plan.

Additional tie-back potential

As part of the 15/21b and 15/21a licences being purchased, DEO will acquire a 42.08 per cent. interest in the Dolphin, Sigma and Gamma Central discoveries, all of which have been well tested. The Directors believe that additional resource upside exists in these assets; however they have not ascribed any core asset value in their decision to acquire the Perth Assets. As a result, these discoveries have been excluded from the independent asset valuation conducted by AGR TRACS. These are separate discoveries to the Perth and Beta discoveries and are in tie-back distance to the Perth Field Development.

Summary

In summary, the Board believes that the Acquisition provides the following:

- total 2C contingent resources for an initial Perth Core area development of 20.6 MM boe;
- two possible development options: tieback to Tartan platform; or use of a FPSO;
- other prospective acreage (Perth North, Perth Beta Terrace, Perth Beta East, Dolphin, Sigma and Gamma) which forms part of the Licence Areas being acquired;
- the opportunity to submit an FDP as operator to DECC; and
- ability to potentially achieve first oil production by January 2013.

Further details in relation to the Perth Assets can be found in CPR contained in Part III of the AIM Admission Document.

Directors and Senior Management

Directors

Richard Mays has today been appointed to the Board. Accordingly, the Board currently comprises:

Kevin Burke, FCA (Chairman), aged 64, has 30 years' experience in the structuring and financing of transactions and the broader strategic development of companies in the natural resources and oil and gas sectors. He was a co-founder and executive chairman of two publicly listed companies, Dana Petroleum (Russia) Limited and Vanguard Petroleum. The latter was a pioneering Western company engaged in oil production in the West Siberian oil province of the former Soviet Union and was subsequently sold to Sibir Energy. Mr Burke was until September 2009 a non-executive director of Oilexco Incorporated which was listed on both the Toronto Stock Exchange and the Main Market of the London Stock Exchange. Prior to that, he worked in corporate finance, mergers and acquisitions and venture capital. He is a qualified chartered accountant and holds a Sloan Fellowship from the London Business School.

David Marshall (Chief Executive Officer), aged 52, has 30 years' experience in the oil and gas sector. Until August 2009 he was Senior Vice President, Operations and General Manager of Oilexco N.S. Exploration Limited and has previously held various managerial positions in both onshore and offshore oil and gas drilling and production operations in the UK, the Caspian region, Africa, the Middle East and Western Europe. David has worked for Hess Corporation, Gulf, Lasmo and Eni. He holds a Masters Degree in Petroleum Engineering from Heriot Watt University and a Bachelor of Science Honours Degree in Civil Engineering from Glasgow University.

Gregor Goodwin (Chief Financial Officer), aged 38, is a qualified Chartered Accountant and has 18 years' of Finance and Private Equity experience. Gregor trained with KPMG where he spent seven years working on a broad mix of audit, transaction services, and corporate finance assignments. He then joined 3i plc and spent six years in the European buyout team, focusing on buyout and growth capital investments across a range of industry sectors. Gregor then joined Bank of Scotland Integrated Finance where he spent four years leading the bank's investments in some high profile buyouts. Since 2009 he has been working as an independent financial consultant to a number of private and public companies. In addition to being a qualified Chartered Accountant, Gregor holds a First Class Honours Degree from Glasgow University, and Securities Institute qualifications.

Richard Mays (Director & General Counsel), aged 49, is a Scots qualified solicitor. For the five years until 2009 he served in a variety of senior management roles for Oilexco North Sea Limited. Most recently, he was Vice President, Commercial (Operations) and in that role he led the legal, commercial, contract and procurement teams. He has wide experience of UKCS acquisitions and divestments, decommissioning agreements, upstream infrastructure agreements and oil and gas commercial contracts. He has previously acted as a consultant to other oil and gas companies and has advised a large number of energy industry companies. Formerly Professor of Law at The Robert Gordon University and Depute Dean of the Aberdeen Business School, he delivers training both in the UK and internationally in the field of oil and gas commercial contracts. He holds an Honours Degree in Law, the Diploma in Legal Practice from Strathclyde University, a Masters Degree in Commercial Law from Aberdeen University and a PhD in the field of Corporate Responsibility from Edinburgh University.

Further disclosure in relation to Richard Mays has been included at the end of this announcement.

Rakesh Patel (Non-Executive Director), aged 46, has a degree in Economics from Thames Valley University. He qualified as a chartered certified accountant with Gerald Edelman, a London firm of Chartered Accountants and then moved into the corporate finance division,

dealing with acquisitions, disposals, mergers, private placings and stock market flotations. Having advised and assisted on the acquisition of Ryman Limited, Rakesh was invited to join the Rymans Group as Group Financial Controller. Rakesh then returned to Gerald Edelman and was made a partner heading up the firm's corporate finance division. Rakesh joined Adler Shine LLP, chartered accountants, as an equity partner where he heads the Corporate Finance division. Rakesh is also on the board of The Niche Group plc and Edenville Energy plc, both AIM quoted companies in the oil and gas and energy (coal and uranium) industries.

Senior Management team

Adrian Jones (Vice President, Operations), has 24 years' of broad petroleum experience with both operators and contractors including Marathon, Baker Hughes INTEQ, Transocean and Oilexco North Sea Limited. Between 2005 and 2009, Adrian was the Drilling and Completion Manager for Oilexco North Sea Limited which during this period was one of the most active operators of exploration and appraisal wells in the UK sector of the North Sea. Adrian is an experienced professional with over 24 years within the industry including design and supervision of drilling, completions, workovers and well testing operations. Adrian has an MSc in Petroleum Engineering from Imperial College, London.

Michael Coulthard (Vice President, Engineering), has 30 years' of experience in subsea developments and drilling engineering, including with Hess Corporation, UWG, Smedvig, Ingen, and Oilexco North Sea Limited. Michael was responsible for the delivery of the Brenda and Nicol developments. He has industry recognition for effective use of new technology. Michael has performed engineering and management roles in a wide range of disciplines including project management of field development, management and supervision of subsea and platform well intervention and abandonment, well design and completions. Michael is a Chartered Engineer, and has a BSc (Hons) in Petroleum Engineering from Imperial College, London.

Principal terms of the Acquisition

Under the terms of the Acquisition Agreement, DEO UK has agreed to acquire the Perth Assets from Nexen, for a total consideration of £10.5 million (subject to adjustment) which will be paid in cash on completion.

Completion of the Acquisition is conditional, *inter alia*, on:

- (i) the passing of the Resolutions and Admission;
- (ii) receipt of DECC's consent to the assignment of the Perth Assets;
- (iii) the written waiver of the JOA Parties (other than Nexen) of any pre-emption right under the JOA or expiry of the period within which the pre-emption rights under the JOA must be exercised; and
- (iv) execution of an execution deed which relates to the affected agreements regarding the Licence Areas.

The consents listed in paragraphs (ii) to (iv) above are in the process of being obtained although, to date, they remain outstanding. The completion of the Acquisition Agreement is conditional on there having been no attempt by the JOA Parties to pre-empt the Acquisition or the period within which the preemption rights must be exercised having expired. Any such attempted pre-emption would require the JOA Parties to deliver a notice of pre-emption within 30 days of the date on which Nexen notified each of the JOA Parties of the Acquisition Agreement being entered into. In the event that no such notification is made by any of the JOA Parties within the requisite period then any possible pre-emption rights fall away. In the event that the Acquisition is not able to complete due to the exercise of the preemption rights by any of the JOA Parties, Nexen will be liable for all reasonable costs incurred by the Company from the date of execution of the Acquisition Agreement to the date of pre-emption up to a maximum of US\$500,000. Pursuant to the Acquisition Agreement, Nexen has given various warranties, representations and an indemnity in favour of DEO UK in respect of certain key matters relating to their title to the Perth Assets.

The Acquisition Agreement has a long-stop date of 31 December 2010 after which the agreement will automatically terminate, unless Nexen and DEO UK agree to extend the

period. If the Acquisition does not become unconditional prior to the long-stop date the Placing shall not complete and any application monies held by FirstEnergy or Merchant Securities in respect of the Placing shall be refunded by them to the Placees.

Use of Placing proceeds

The Placing will raise £16 million (before expenses). The net proceeds of the Placing, together with the Company's existing cash resources, will be utilised to fund:

- £10.5 million, being the cash consideration payable to Nexen for the Perth Assets pursuant to the Acquisition Agreement;
- approximately £1.2 million in respect of transaction costs;
- approximately £1.5 million, being the Company's share of the costs to produce the FDP; and
- the balance of the net proceeds of the Placing of £2.8 million for general working capital purposes and to continue to develop its oil and gas strategy by seeking out and appraising further business opportunities as appropriate.

Under Schedule 2, paragraph (g) of the AIM Rules, the following additional information is disclosed:

Directorships held by Mr Mays in the past five years:

Current Directorships/Partnerships

Broadway Consolidated plc
DEO Resources Limited
Richard Mays Legal Consultancy Limited

Past Directorships/Partnerships

Oilexco North Sea Exploration Limited (now called Premier Oil Exploration ONS Limited)

Mr Mays currently holds 577,000 Ordinary Shares in the Company, equivalent to 7.64 per cent of the Existing Ordinary Shares.

Mr Mays have confirmed there is no additional information under Schedule 2, paragraph (g) of the AIM rules which needs to be disclosed.

Definitions:

The following definitions apply throughout this announcement unless the context requires otherwise:

“Acquisition”	the proposed acquisition by the Group of the Perth Assets from the Vendor pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement dated 7 October 2010 between (1) the Vendor, (2) Deo UK, and (3) the Company
“Admission”	the admission of the Enlarged Issued Share Capital to trading on AIM becoming effective in accordance with the AIM Rules
“AGR TRACS”	TRACS International Consultancy Limited (a wholly owned subsidiary of AGR Group AS)
“AIM”	the AIM Market of the London Stock Exchange
“AIM Admission Document”	the AIM admission document, which has been sent to Shareholders today
“AIM Rules”	the AIM Rules for Companies published by the London Stock Exchange, as amended from time to time

“Company” or “DEO”	DEO Petroleum plc
“DEO UK”	DEO Petroleum U.K. Limited , a company registered in England and Wales with registered number 7336090
“DECC”	the Department of Energy and Climate Change
“Directors” or the “Board”	the directors of the Company
“Enlarged Issued Share Capital”	the 43,109,931 Ordinary Shares expected to be in issue on Admission
“Existing Ordinary Shares”	the 7,554,376 Ordinary Shares in issue
“Existing Shareholders”	the holders of Existing Ordinary Shares
“FDP”	the field development plan
“GM” or “General Meeting”	the General Meeting of the Company convened for 10.00 a.m. on 25 October 2010
“Group”	the Company and its subsidiary undertakings from time to time, including Deo UK
“Irrevocable Undertakings”	the agreement by each of the Directors, the Senior Management and certain Shareholders to vote in favour of the Resolutions
“JOA”	the Joint Operating Agreement dated 17 August 1987 regarding Licence P588 Blocks 15/21c (All) and 15/21b (Residual Area) and Licence P218 Block 15/21a (Residual Area)
“JOA Parties”	means the present parties to the JOA who are currently Atlantic Petroleum UK Limited, Maersk Oil UK Limited, Nexen Petroleum UK Limited and Petro-Canada UK Limited
“Licence Areas”	Licence P588, Blocks 15/21c (All) and 15/21b (Residual Area) and Licence P218, Block 15/21a (Residual Area), excluding the Scott Area and the Telford Area
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Perth Assets”	a 42.08 per cent. working interest in the Licence Areas
“Perth Field Development”	the Perth field development on the UK Continental Shelf
“Placees”	the subscribers for Placing Shares procured by FirstEnergy Capital LLP and Merchant Securities Limited on behalf of the Company pursuant to the Placing Agreement
“Placing”	the conditional placing of the Placing Shares at the Placing Price pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 7 October 2010 between the Company, the Directors, Adrian Jones, Merchant Securities and FirstEnergy
“Placing Price”	45p per Placing Share

“Placing Shares”	the 35,555,555 new Ordinary Shares to be issued by the Company pursuant to the Placing
“Resolutions”	the resolutions set out in the notice of the General Meeting
“Senior Management”	Adrian Jones and Michael Coulthard
“Shareholders”	holder(s) of Ordinary Shares
“UKCS”	the United Kingdom Continental Shelf
“Vendor” or “Nexen”	Nexen Petroleum U.K. Limited

Glossary of Terms:

“bpd” or “bopd”	barrel(s) per day, barrel(s) of oil per day
“MM boe”	million barrels of oil equivalent
“ppm”	parts per million