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COMPANY DATA:
COMPANY CONFORMED NAME: XCL LTD
CENTRAL INDEX KEY: 0000720676
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IRS NUMBER: 510305643
STATE OF INCORPORATION: DE
FISCAL YEAR END: 1231

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STATE: LA
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STREET 1: 110 RUE JEAN LAFITTE
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STATE: LA
ZIP: 70508

FORMER COMPANY:
FORMER CONFORMED NAME: EXPLORATION CO OF LOUISIANA INC
DATE OF NAME CHANGE: 19920703

FORMER COMPANY:
FORMER CONFORMED NAME: EXPLORATION COMPANY OF LOUISIANA INC
DATE OF NAME CHANGE: 19920128

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As filed with the Securities and Exchange Commission on October 23, 1998

Registration Statement No. 333-51937

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-1

REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

XCL LTD.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1311
(Primary Standard
Industrial Classification
Code Number)

51-0305643
(IRS Employer
Identification No.)

110 Rue Jean Lafitte, 2nd Floor
Lafayette, Louisiana 70508
(318) 237-0325

(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

Benjamin B. Blanchet
XCL Ltd.

110 Rue Jean Lafitte, 2nd Floor
Lafayette, Louisiana 70508
(318) 237-0325

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copy to:

Peter A. Basilevsky, Esq.
Satterlee Stephens Burke & Burke LLP
230 Park Avenue
New York, New York 10169
(212) 818-9200

<TABLE>
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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered	Offering Price Per Share	Aggregate Offering Price	Amount of Registration Fee
Amended Series A, Cumulative Convertible Preferred Stock, \$1.00 par value per share	1,163,115	\$85.00 (1)(2)	\$98,864,775.00	\$29,165.11
Amended Series A, Cumulative Convertible Preferred Stock, \$1.00 par value per share	56,084	\$85.00 (1)(2)	\$4,767,140.00	\$1,325.26 (6)
Common Stock, \$.01 par value per share	1,731,285	\$4.125 (3)	\$7,141,550.63	\$2,106.76
Common Stock, \$.01 par value per share	170,383	\$4.125(3)	\$702,829.88	\$207.33
Common Stock, \$.01 par value issuable upon conversion or exercise of:				
Amended Series A Preferred Stock	13,181,970	\$7.50 (1)(5)	\$98,864,775.00	\$29,165.11
Amended Series A Preferred Stock	862,285	\$7.50 (1)(4)	\$6,467,137.50	\$1,797.86 (6)
Amended Series B Preferred Stock	991,262	\$4.75 (1)(4)	\$4,708,494.50	\$1,389.01
Amended Series B Preferred Stock	30,738	\$4.75 (1)(4)	\$146,005.50	\$40.59 (6)
\$3.0945 Warrants expiring November 1, 2000	109,900	\$3.0945 (1)(5)	\$340,085.55	\$100.33

\$3.0945 Warrants expiring May 20, 2004	13,765,284	\$3.0945 (1)(5)	\$42,596,671.34	\$12,566.02
\$3.75 Warrants expiring December 31, 2001	205,000	\$3.5122 (1)(5)	\$720,001.00	\$212.40
\$7.50 Warrants expiring December 21, 2000	196,000	\$7.0246 (1)(5)	\$1,376,821.60	\$406.16
\$5.25 Warrants expiring April 22, 2001	64,000	\$5.1739 (1)(5)	\$331,129.60	\$97.68
\$5.25 Warrants expiring December 21, 2000	148,000	\$5.1739 (1)(5)	\$765,737.20	\$225.89
\$7.50 Warrants expiring December 28, 2000	60,000	\$7.50 (1)(5)	\$450,000.00	\$132.75
\$7.50 Warrants expiring January 2, 2001	28,888	\$7.50 (1)(5)	\$216,660.00	\$63.91
\$7.50 Warrants expiring 5 years after first exercise	50,000	\$7.50 (1)(5)	\$375,000.00	\$110.63
\$4.65 Warrants expiring December 21, 2000	46,400	\$4.601 (1)(5)	\$213,486.40	\$62.98
\$3.75 Warrants expiring March 7, 2001	13,600	\$3.7105 (1)(5)	\$50,462.80	\$14.89
\$3.75 Warrants expiring April 22, 2001	12,000	\$3.7105 (1)(5)	\$44,526.00	\$13.14
\$3.75 Warrants expiring July 30, 2001	100,000	\$3.1522 (1)(5)	\$351,220.00	\$103.61
\$3.75 Warrants expiring August 13, 2001	63,467	\$3.7105 (1)(5)	\$235,494.30	\$69.47
\$3.75 Warrants expiring December 31, 1998	20,000	\$3.1522 (1)(5)	\$70,244.00	\$20.72
\$1.875 Warrants expiring December 31, 1999	48,891	\$1.8478 (1)(5)	\$90,340.79	\$26.65
\$3.75 Warrants expiring December 31, 1999	124,964	\$3.7105 (1)(5)	\$463,678.92	\$136.79
\$0.15 Warrants expiring April 9, 2002	683,723	\$0.15 (1)(5)	\$102,558.45	\$30.25
\$2.8125 Warrants expiring August 13, 2001	100,000	\$2.7816 (1)(5)	\$278,160.00	\$82.06
\$3.75 Warrants expiring February 20, 2002	13,333	\$3.7105 (1)(5)	\$49,472.10	\$14.59
\$0.15 Warrants expiring December 31, 2001	153,333	\$0.15 (1)(5)	\$22,999.95	\$6.78
\$5.50 Warrants expiring March 2, 2002	250,000	\$5.50 (1)(5)	\$1,375,000.00	\$405.63
\$3.75 Warrants expiring June 30, 2003	17,000	\$3.75 (1)(5)	\$63,750.00	\$17.72 (6)
\$2.50 Warrants expiring September 30, 1998	351,015	\$2.50 (1)(5)	\$877,537.50	\$243.96 (6)
TOTAL	33,592,721		\$273,123,745.50	\$80,362.04

(1) Pursuant to Rule 416 there are also being registered such additional shares of Common Stock as may become issuable pursuant to applicable anti-dilution provisions.

(2) Estimated solely for the purposes of calculating the registration fee using the proposed offering price of the Amended Series A Preferred Stock, as required by Rule 457 (i).

(3) Estimated solely for the purpose of calculating the registration fee using the average of the high and low prices

reported on the American Stock Exchange ("AMEX") on April 23, 1998, as required by Rule 457(c).

- (4) Estimated solely for the purpose of calculating the registration fee using the conversion price of the Preferred Stock, as required by Rule 457(g)(1), as adjusted for the reverse stock split.
- (5) Estimated solely for the purpose of calculating the registration fee using the exercise price of the Warrants, as required by Rule 457(g)(1), as adjusted for the reverse stock split and applicable anti-dilution adjustments.
- (6) Calculated using the revised fee rate of \$278 per \$1,000,000 (.000278).

</TABLE>

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall hereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED OCTOBER 23, 1998

PROSPECTUS

XCL LTD.

1,219,199 SHARES OF 9.50%

AMENDED SERIES A, CUMULATIVE CONVERTIBLE PREFERRED STOCK

33,592,721 SHARES OF COMMON STOCK

This Prospectus offers for resale in transactions registered under the Securities Act of 1933, as amended (the "Securities Act"), 1,219,199 issued and outstanding shares of 9.50% Amended Series A, Cumulative Convertible Preferred Stock (the "Amended Series A Preferred Stock") of XCL Ltd. (the "Company"). These shares of Amended Series A Preferred Stock were originally issued in transactions intended to qualify for an exemption from registration under the Securities Act.

This Prospectus also offers for resale in transactions registered under the Securities Act, 33,592,721 shares of Common Stock of the Company which have been or will be issued in transactions intended to qualify for an exemption from registration under the Securities Act. These shares include shares originally issued in transactions intended to qualify for an exemption from registration under the Securities Act, shares the Company is contractually obligated to issue and shares that may be issued if holders of convertible preferred stock convert that stock or if holders of various warrants exercise those warrants.

In this Prospectus, the shares of Common Stock being registered that will be issued when various warrants are exercised are referred to as the "Warrant Shares," and the warrants are referred to as the "Warrants." The shares of Common Stock that will be issued when the Company's convertible preferred stock is converted into Common Stock are referred to as the "Conversion Stock." The shares of Common Stock that the Company is contractually required to issue are referred to as the "Contract Stock." The Amended Series A Preferred Stock, Warrant Shares, Conversion Stock and Contract Stock are collectively referred to as the "Securities."

This Prospectus is intended for use by the holders (the "Selling Security Holders") of the Securities in resale transactions registered under the Securities Act. The Company will not receive any proceeds from the sale of the Securities (other than proceeds upon exercise of the Warrants). See "Selling Security Holders" and "Use of Proceeds." The Company will pay the costs of registering sales of the Securities covered by this Prospectus under the Securities Act and related costs (although the Selling Security Holders will pay all applicable stock transfer taxes, brokerage commissions or other transaction charges or expenses). The Company estimates that its expenses in making this offering will be approximately \$152,000.

The Common Stock is quoted on the American Stock Exchange (the "AMEX") under the symbol "XCL" and on the London Stock Exchange. On September 30, 1998, the last reported closing price of the Common Stock on the AMEX was \$3.00.

See "Risk Factors" beginning on page [] of this Prospectus for a discussion of certain factors that should be considered in evaluating an investment in the Securities.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is _____, 1998.

[The following legend appears in the left margin of the Prospectus cover page.]

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

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AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and files reports, proxy and information statements and other information with the U.S. Securities and Exchange Commission (the "Commission"). Such reports, proxy and information statements and other information can be inspected and copied at the public reference facilities maintained by the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the following regional offices of the Commission: Seven World Trade Center, Suite 1300, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such materials can be obtained by mail from the Public Reference Section of the Commission, at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. In addition, the Commission maintains a site on the World Wide Web that contains reports, proxy and information statements and other information filed electronically by the Company with the Commission. These can be accessed over the Internet at <http://www.sec.gov>. The Company's Common Stock is listed on the AMEX. Reports, proxy and information statements and other information relating to the Company can be inspected at the offices of the AMEX at 86 Trinity Place, New York, NY 10006-1881.

This Prospectus constitutes part of a registration statement on Form S-1 (together with all amendments and exhibits referred to in this Prospectus as the "Registration Statement") filed by the Company with the Commission under the Securities Act. This Prospectus omits some of the information contained in the Registration Statement. Consult the

Registration Statement and its exhibits for further information about the Company and the Securities covered hereby. Statements made herein about the provisions of contracts or other documents are not necessarily complete; each such statement is qualified in its entirety by reference to the copy of the applicable contract or other document filed with the Commission. Copies of the Registration Statement and its exhibits are on file at the offices of the Commission and may be obtained upon payment of the fee prescribed by the Commission, or may be examined without charge at the public reference facilities of the Commission described above.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes (or incorporates by reference) "forward-looking statements." All statements made in this Prospectus, other than historical facts (whether set forth or incorporated by reference), are forward-looking statements. Although the Company believes such statements are reasonable, it can give no assurance that they will prove to be correct.

It is difficult to estimate quantities of proved oil and natural gas reserves and to project future rates of production, the timing of development costs and future net revenues. Those estimates depend upon many factors the Company cannot control. Reserve engineering involves estimating underground accumulations of oil and natural gas that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of that data and the judgment of the reserve engineers. As a result, estimates made by different engineers are often different. Because reserve estimates are only estimates, the actual amounts of oil and natural gas recovered are usually different from the estimates. Results of drilling, testing and production subsequent to the date of an estimate may require reserve estimates to be revised and may change the schedule of production and development drilling.

Additional important factors that could cause actual results to differ materially from the Company's expectations are disclosed under "Risk Factors" and elsewhere in this Prospectus.

PROSPECTUS SUMMARY

Because this is a summary, it does not contain all the information that may be important to you. You should carefully read the whole Prospectus and its appendices, as well as the information incorporated by reference into this Prospectus. Usually in this Prospectus, the terms "XCL" or the "Company" refer to XCL Ltd. and all of its subsidiaries. Except as otherwise noted, the reported reserve data are based on reserve estimates made by the Company's independent petroleum engineers. See "Glossary of Terms" for definitions of certain oil and gas terminology.

The Company

XCL is principally engaged in the exploration for and development of oil and gas in the Zhao Dong Block (the "Zhao Dong Block") located in the shallow waters of the Bohai Bay in the People's Republic of China ("China"). The Company obtained a second production sharing contract covering the Zhang Dong Block (the "Zhang Dong Block"), also in the shallow waters of Bohai Bay, effective October 1, 1998. To date the Company has not generated any profits from these operations. The Company's only historic revenues were derived from its financing activities and properties currently held for sale or investment or previously sold. See "Management's Discussion and Analysis of Financial

Condition and Results of Operations." The Company is in the development stage with respect to its operations in China and has not generated any revenues from operations related to its properties and interests in China.

The Zhao Dong Block is located in one of China's major oil-producing basins. Geologic information suggests that a portion of the Zhao Dong Block is an extension of the onshore Dagang oil field complex to the west. Approximately 700 million barrels have already been produced from that field and it is still under production. The Zhao Dong Block is also about 40 miles northwest of the Shengli oil field, the largest in the basin, from which about 4 billion barrels have already been produced. The Shengli oil field is still under production as well. Of course, production in those fields does not ensure that there will be production from the Zhao Dong Block.

In early 1993, XCL became the first foreign company to enter into an onshore Production Sharing Agreement (the "Contract"), with China National Oil and Gas Exploration and Development Corporation ("CNODC") (which is a Chinese state enterprise). The Contract provides for exploration, development, and production of the Zhao Dong Block. CNODC is the arm of the China National Petroleum Company ("CNPC"), also a state enterprise, in charge of all onshore exploration and production activity in China out to five meters in water depth. CNODC operates in this area through its subsidiary, Dagang Oilfield (Group) Co. Ltd. ("Dagang").

The Contract provides that the "Foreign Contractor" (the Company and Apache Corporation ("Apache") as a group, working through a participation agreement) is to pay all exploration costs. The Contract also states that, when a commercial discovery is made, CNODC may choose to participate in development, with up to 51% of all development and operating costs and allocable remainder oil and gas production allocated to CNODC and the remaining interest to the Foreign Contractor. The Foreign Contractor's share is divided equally between XCL and Apache. See "Business -- The Contract" and "Business -- Apache Farmout."

XCL and Apache have successfully tested six of ten wells drilled to date on the Zhao Dong Block, with total test rates exceeding 39,500 barrels of oil per day. Of the four wells not tested, one (the D-3) was proven productive by wire line samples and tests in several sands but was not drill-stem tested, while a second (the F-1) was drilled but not fully evaluated. Drilling activities on the F-1 have been abandoned. Development of the C-D Field for production is now proceeding.

Based on the report of H.J. Gruy and Associates ("Gruy"), the Company's independent petroleum engineers, net proved reserves in the C-D Field are estimated to be 11.76 million barrels as of January 1, 1998, and the estimated present value of future pre-tax net cash flows is \$64.8 million. The standardized measure of discounted future net cash flows determined in accordance with the rules prescribed by FASB No. 69 is \$53.8 million. Future reserve values are based on year end prices and operating costs, production and future development costs based on current costs with no escalation. See "Business -- Oil and Gas Reserves" and "Supplemental Oil and Gas Information" in the Notes to the Consolidated Financial Statements.

The Company's Development Program

The C-D Field was discovered by the drilling of the C-1 and D-1 Wells. The Field has been appraised by the C-2, C-2-2, C-2-2 sidetrack, C-3, D-2, and D-3 Wells. On the basis of the calculated reserves, Apache and XCL have prepared an Overall Development Plan ("ODP") for the Field. The ODP presently projects the drilling of 45 wells, of which 32 are producers, 8 are water injection wells for the purpose of reservoir pressure maintenance to achieve higher levels of recovery of ultimate reserves and 5 are water disposal wells. The ODP has been approved by the Joint Management Committee ("JMC"), which oversees operations on the Zhao Dong Block, and has been approved

by CNPC subject to certain modifications that XCL and Apache are studying. CNODC has given notice that it will participate as to its full 51% share in the C-D Field.

XCL, Apache and CNODC are currently collaborating on engineering studies to refine the ODP, both to reduce capital commitments for development and to accelerate production, and have, as a result, suggested some revisions to the original ODP. It is expected that these studies will assist the parties in determining the most efficient method for development, including the practicability of beginning production before all development operations have been completed. The Company has been informed by CNODC that they desire that production on the Zhao Dong Block begin as soon as practicable and the parties are assessing how that would be commercially feasible. Initial results indicate that 1999 production is possible and the Company, Apache and CNODC have decided to attempt to commence initial production in 1999.

XCL's current estimate (which is subject to revision as the project moves forward) of the costs to develop the reserves in the C-D Field that are identified in the ODP by Apache (the "Operator") (which XCL understands are higher than the reserves identified by XCL's petroleum engineers) is approximately \$185 million (of which XCL's share would be approximately \$45.3 million). This is less than amounts projected by the Operator in the original ODP for several reasons. Cost reductions are expected in part based on design changes that would eliminate one drilling platform and one production platform from the ODP. While formal Chinese approval for these changes has not yet been obtained, all parties believe that such approval can be secured. Further, cost reductions are expected as a result of preliminary bids that suggest that cost estimates in the ODP have been too high. In addition, the initial ODP included estimates of contingencies larger than the industry standard. Finally, cost reductions from the Operator's projections are also based on the assumption that if the project moves forward with dispatch, the current weakness of certain Asian currencies could result in substantial reductions in the costs of steel and fabrication for the project.

The revised ODP design anticipates that once production and loading facilities have been installed in the field, wells will be placed on production as they are drilled. In this case, cash flow from this production would be available to fund part of XCL's capital requirements for the development of the C-D Field. The Company's financial plans include the use of such cash flow as part of the Company's source of funds.

Production tests of the C-4 Well, announced by XCL on October 7, 1997, indicate a combined daily rate from 8 zones of 15,359 barrels per day, and 6,107 Mcf of gas, plus a ninth zone daily rate of 4,600 Mcf and 14 barrels of condensate. This well suggests a new field discovery on the Zhao Dong Block. In August 1998, CNODC, XCL, and Apache commenced drilling a well to appraise the C-4 Well. If this drilling proves successful, early production from the two initial wells in the C-4 Well area may begin by mid-1999; initial feasibility studies indicate that this is possible. The capital costs attributable to such early production are not included in the 1998 work program and budget. Successful appraisal of the C-4 Well could also cause XCL and Apache to move promptly toward development of this area.

The Company's Additional Ventures

The Company is also proceeding with certain other energy related ventures in China, including a joint venture with CNPC United Lube Oil Corporation to engage in the manufacturing, distribution and marketing of lubricating oil in China and Southeast Asian markets and a cooperative venture with the China National Administration of Coal Geology to explore and develop coalbed methane in two areas of China. See "Organizational Chart" below and "Business -- United/XCL Lube Oil Joint Venture" and "-- Coalbed Methane Project." Further, in August 1998 the Company, through its wholly owned subsidiary XCL-Cathay Ltd., signed a production sharing contract with CNODC for the 12,000-acre Zhang Dong Block which was approved in September 1998,

Securities the Resale of Which are Being Registered

This Prospectus offers for resale the following issued and outstanding Securities and Securities to be issued upon exercise or conversion of certain outstanding Securities and Warrants. See "Selling Security Holders."

Amended Series A Preferred Stock

-
- o 294,118 Shares issued in an Equity Offering on May 20, 1997 in which the Company offered privately 294,118 units, each consisting of one share of Amended Series A Preferred Stock and one warrant to buy 21.8 shares of Common Stock (the "Equity Warrants").
 - o 11,816 Shares issued in partial payment of interest payable on the Company's Secured Subordinated Notes due April 5, 2000 (the "Subordinated Debt"), which were paid in full on October 15, 1997.
 - o 726,905 Shares issued on recapitalization of the Company's Series A, Cumulative Convertible Preferred Stock ("Series A Preferred Stock") into shares of Amended Series A Preferred Stock and the payment of accrued and unpaid dividends thereon.
 - o 63,706 Shares issued on recapitalization of the Company's Series E, Cumulative Convertible Preferred Stock ("Series E Preferred Stock") into shares of Amended Series A Preferred Stock and the payment of accrued and unpaid dividends thereon.
 - o 12,917 Shares issued in payment of dividends on the Amended Series A Preferred Stock payable November 1, 1997.
 - o 53,442 Shares issued in payment of dividends on the Amended Series A Preferred Stock payable May 1, 1998.
 - o 56,295 Shares issuable in payment of dividends on the Amended Series A Preferred Stock payable November 2, 1998.

1,219,199 Shares of Amended A Preferred Stock being registered for resale (including in each case listed above shares, if any, not yet issued attributable to fractional shares and tax withholding).

Common Stock

-
- o 1,731,285 Shares of Common Stock currently outstanding issued in private placement transactions between April 1996 and September 30, 1998 as follows:
 - o 451,172 Shares issued in payment of interest payable on Subordinated Debt.
 - o 4,858 Shares issued in payment of a finders fee for Regulation S Offerings conducted in Europe in December 1995, March 1996 and April 1996.
 - o 584,696 Shares issued upon exercise of various stock purchase warrants.
 - o 30,000 Shares issued in settlement of litigation.
 - o 26,666 Shares issued in partial payment of

a consulting fee.

o 633,893 Shares issued upon conversion of all the outstanding shares of the Company's Series F, Cumulative Convertible Preferred Stock ("Series F Preferred Stock").

o 170,383 Shares issuable to meet various contractual obligations of the Company.

o 14,044,255 Shares issuable upon conversion of the outstanding Amended Series A Preferred Stock.

o 6,084,772 Shares issuable upon exercise of the Equity Warrants issued in the Equity Offering on May 20, 1997.

o 6,400,000 Shares issuable upon exercise of warrants (the "Note Warrants") that were issued in a Note Offering on May 20, 1997 in which the Company privately offered 75,000 units, each unit consisting of one 13.50% Senior Secured Note due May 1, 2004 in the principal amount of \$1,000 (collectively, the "Notes") and one Note Warrant to purchase 1,280 shares of Common Stock.

o 1,280,512 Shares issuable upon the exercise of Warrants issued to Jefferies & Co., Inc. ("Jefferies") as an investment banking fee in connection with the Equity and the Note Offerings on May 20, 1997.

o 2,859,514 Shares issuable upon exercise of various outstanding Warrants with exercise prices ranging from \$.15 per share to \$7.50 per share.

o 1,022,000 Shares issuable upon conversion of Amended Series B, Cumulative Convertible Preferred Stock ("Amended Series B Preferred Stock").

33,592,721 Shares of Common Stock being registered for resale (including an indeterminable number of shares issuable in respect of anti-dilution adjustments applicable to the Amended Series A and Amended Series B Preferred Stock and the Warrants).

Terms of the Securities

Common Stock

Common Stock Issued and Outstanding..... 22,995,804 shares
(See "Description of Capital Stock - Common Stock")

Amended Series A Preferred Stock

Amended Series A Preferred Stock Outstanding..... 1,181,614 shares

Dividends..... Dividends are cumulative from May 20, 1997 (the "Issue Date") at the annual rate of \$8.075 per share. Dividends are payable on each May 1 and November 1, when, as and if declared by the Board of Directors. Dividends are payable in additional shares of Amended Series A Preferred Stock (valued at \$85.00 per share) through November 1, 2000, and thereafter in cash or, at the election of the Company, in shares of Amended Series A Preferred Stock (valued at \$85.00 per share). See "Description of Capital Stock -- Preferred Stock -

- Amended Series A Preferred Stock
-- Dividend Rights."

Liquidation Preference..... \$85.00 per share, plus accrued and unpaid dividends. See "Description of Capital Stock -- Preferred Stock -- Amended Series A Preferred Stock -- Liquidation Rights."

Conversion Rights..... Convertible at any time after May 20, 1998, at the option of the holder, unless previously redeemed, into shares of Common Stock at a conversion price of \$7.50 per share of Common Stock. (This is equivalent to a conversion rate of 11.333 shares of Common Stock per share of Amended Series A Preferred Stock.) Conversion price is subject to adjustment upon the occurrence of certain events. See "Description of Capital Stock -- Preferred Stock --- Amended Series A Preferred Stock -- Conversion Rights."

Mandatory Conversion Right..... The Company may, at its election, require the conversion of all the outstanding shares of Amended Series A Preferred Stock at any time after November 20, 1997 that the Common Stock has traded for 20 trading days during any 30 consecutive trading days at a Market Price (as defined below) equal to or greater than 150% of the prevailing conversion price. See "Description of Capital Stock - - Preferred Stock -- Amended Series A Preferred Stock -- Mandatory Conversion Rights."

Special Conversion Rights..... The conversion price of the Amended Series A Preferred Stock will be reduced for a limited period in certain circumstances. In general, the reduction will occur if a Change of Control (as defined below) or a Fundamental Change (as defined below) occurs at a time when the Market Value of the Common Stock is below the then prevailing conversion price. No adjustment will occur upon a Fundamental Change if a majority of the consideration received by the holders of Common Stock consists solely of Marketable Stock (as defined below) and under certain other circumstances. See "Description of Capital Stock -- Preferred Stock -- Amended Series A Preferred Stock -- Special Conversion Rights."

Optional Redemption..... Redeemable, in whole or in part, at the option of the Company, on or after May 1, 2002, initially at a redemption price of \$90.00 per share and, thereafter, at prices declining to \$85.00 per share on and after May 1, 2006, plus all accrued and unpaid dividends, if any, to the redemption date. See "Description of Capital Stock -- Preferred Stock -- Amended Series A Preferred Stock -- Optional Redemption."

Mandatory Redemption..... Mandatorily Redeemable, in whole,

on May 1, 2007, at a redemption price of \$85.00 per share, plus accrued and unpaid dividends to the redemption date, payable in cash or, at the election of the Company, in Common Stock. See "Description of Capital Stock -- Preferred Stock -- Amended Series A Preferred Stock -- Mandatory Redemption."

Voting Rights..... In addition to any special voting rights granted by law, each share of Amended Series A Preferred Stock entitles the holder thereof to cast the same number of votes as the shares of Common Stock then issuable upon conversion thereof on any matter subject to the vote of the Common Stockholders (currently 11 votes per share), and (i) the holders of the Amended Series A Preferred Stock will be entitled to vote as a separate class to elect two directors if the equivalent of three semi-annual dividends payable on the Amended Series A Preferred Stock (whether consecutive or not) are in arrears, which rights will continue until the dividend arrearage has been paid in full, and (ii) the approval of the holders of two-thirds of the then outstanding Amended Series A Preferred Stock will be required for the issuance of any class or series of stock ranking prior to the Amended Series A Preferred Stock as to dividends or liquidation rights and for certain amendments to the Company's Amended and Restated Certificate of Incorporation that adversely affect the rights of holders of the Amended Series A Preferred Stock. See "Description of Capital Stock -- Preferred Stock -- Amended Series A Preferred Stock -- Voting Rights."

Priority of Amended Series A

Preferred Stock.....The Amended Series A Preferred Stock has priority over the Common Stock with respect to the payment of dividends and upon liquidation, dissolution or winding up of the Company.

For additional information regarding the Common Stock and Amended Series A Preferred Stock, see "Description of Capital Stock -- Common Stock" and "-- Preferred Stock -- Amended Series A Preferred Stock."

Risk Factors

See "Risk Factors" for a discussion of certain factors that should be considered in evaluating an investment in the Securities.

Summary Historical Financial Information

The following table represents summary historical consolidated financial data of the Company. The balance sheet data as of the five years ended December 31, 1997, has been derived from the audited consolidated financial statements of the Company. The balance sheet data as of the six month periods ended June 30, 1998 and 1997 has been derived from the unaudited

consolidated financial statements of the Company. The information in this table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Selected Consolidated Financial Data," the Consolidated Financial Statements and the notes thereto included elsewhere in this Prospectus.

<TABLE>
<CAPTION>

Six Months

Year Ended December 31

Ended June 30

		1993(a)	1994(b)	1995(c)	1996(e)	1997(g)(j)
1997(j)	1998(j)	-----	-----	-----	-----	-----

(In thousands, except per share data)						
(Unaudited)						
		<C>		<C>		<C>
		<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:						
Revenues		\$ 8,499	\$ 4,336	\$ 2,480	\$ 1,136	\$ --
--	\$ --					
Operating expenses		2,449	1,341	985	342	--
--	\$ --					
General and administrative expenses		3,840	4,553	4,551	3,487	5,167
1,562	2,915					
Depreciation, depletion and amortization		5,788	3,292	2,266	579	--
--	--					
Other, net		--	--	--	--	2,891
28	72					
Operating loss		(12,518)	(33,875)	(85,673)	(9,793)	(8,058)
(1,590)	(2,987)					
Net interest expense		1,329	1,831	2,998	2,415	8,450
1,646	1,852					
Interest income		141	508	133	8	2,212
498	718					
Net loss		(15,197)	(36,622)	(87,837)	(12,074)	(13,994)
(2,426)	(4,120)					
Net loss attributable to common stock		(19,978)	(41,529)	(92,658)	(17,430)	(27,722)
(5,742)	(8,999)					
Net loss per common share						
Basic		(2.52)	(3.14)	(5.77)	(0.98)	(1.36)
(.29)	(.40)					
Diluted		(2.52)	(3.14)	(5.77)	(0.98)	(1.36)
(.29)	(.40)					
Weighted average common shares outstanding - basic		7,933	13,220	16,047	17,705	20,451
19,511	22,622					
Weighted average common shares outstanding - diluted		7,933	13,220	16,047	17,705	20,451
19,511	22,622					
Deficiency of earnings to combined fixed charges and preferred stock dividends		(i)	(i)	(i)	(i)	(i)
(i)	(i)					
Balance Sheet Data (at end of period):						
Total working capital (deficit)		\$(15,562)	\$ (1,563)	\$ (24,239)	\$ (46,705)	\$ 22,399
(34,468)	\$ 5,972					
Total assets		157,377	149,803	72,336	60,864	119,089
151,890	117,204					
Long-term debt, net of current maturities		53,965 (d)	41,607(d)	15,644	-- (f)	61,310(h)
-- (f)	62,384(h)					
Stockholders' equity		84,609	95,200	16,900	11,041	40,825
34,824	37,799					

(a) Includes provision for impairment of domestic oil and gas properties of \$8 million.

(b) Includes provision for impairment of domestic oil and gas properties of \$25.9 million and provision for write-down of

other assets of \$2.2 million and an extraordinary loss of \$1.7 million.

- (c) Includes provision for impairment of domestic oil and gas properties of \$75.3 million and provision for write-down of other assets of \$4.5 million.
- (d) Includes non-recourse debt of an aggregate \$0.7 million and \$3.7 million as of December 31, 1994 and 1993, respectively, included in the Lutcher Moore Debt. (See "Business -- Domestic Properties -- Lutcher Moore Tract").
- (e) Includes provision for impairment of domestic oil and gas properties of \$3.85 million; provision for write-down of investment of \$2.4 million; and loss on sale of investments of \$0.7 million.
- (f) All of the Company's debt of \$38.02 million at December 31, 1996 and \$104.3 million at June 30, 1997 was classified as currently due.
- (g) Includes extraordinary loss for early extinguishment of debt of \$551,000.
- (h) Long term debt is net of unamortized discount of \$13.7 million and \$12.6 million as of December 31, 1997 and June 30, 1998, respectively, associated with the value allocated to the stock purchase warrants issued with the Company's 13.50% Senior Secured Notes due May 1, 2004.
- (i) The earnings were inadequate to cover combined fixed charges and Preferred Stock dividends. The dollar amount of the coverage deficiency was \$21.3 million in 1993; \$43.3 million in 1994; \$95.7 million in 1995; \$19.8 million in 1996; \$36.1 million in 1997; \$7.4 million for the six months ended June 30, 1997; and \$10.9 million for the six months ended June 30, 1998.
- (j) Revenues and operating expenses associated with oil and gas properties held for sale have become insignificant and, accordingly, are recorded in other costs and operating expenses in the accompanying consolidated statements of operations.

Organizational Chart

[Organizational Chart]

XCL Ltd. (1) (Parent Company)

XCL-China Ltd. (Wholly owned subsidiary)

XCL-China LubeOil, Ltd. (3) (Wholly owned subsidiary)

XCL-China Coal Methane, Ltd. (4) (Wholly owned subsidiary)

XCL-Cathay Ltd. (5) (Wholly owned subsidiary)

XCL-Texas, Inc. (Wholly owned subsidiary)

XCL-Acquisitions, Inc. (Wholly owned subsidiary)

The Exploration Company of Louisiana, Inc. (2) (Wholly owned subsidiary)

XCL-Land Ltd. (2) (Wholly owned subsidiary)

L.M. Holding Associates, L.P., a Louisiana Partnership in Commendam (2)

(1) XCL holds one-half of the Foreign Contractor's interest under a Production Sharing Contract covering the Zhao Dong Block; Apache Corporation holds the other one-half of the Foreign Contractor's interest; CNPC holds an interest of up to 51% of any fields developed under the Production Sharing Contract.

(2) The Exploration Company of Louisiana, Inc. holds a 50% interest and is a limited partner and XCL-Land Ltd. holds a 50% interest and is a general partner in L.M. Holding Associates, L.P., a Louisiana Partnership in Commendam.

(3) XCL-China LubeOil, Ltd. holds a 49% interest in a joint venture with CNPC United LubeOil Corporation for the production and sale of lubricants.

(4) XCL-China Coal Methane, Ltd. holds a Memorandum of Understanding with the China National Administration of Coal Geology (CNACG) regarding the exploration, evaluation, development and utilization of the coalbed methane resource in the Hancheng and Tiafa mining areas.

(5) XCL-Cathay Ltd. holds a Production Sharing Contract covering the Zhang Dong Block; CNPC holds an interest up to 51% of any fields developed under such contract.

RISK FACTORS

In addition to the other information in this Prospectus, the following factors should be carefully evaluated before buying any securities covered by this Prospectus. See also the discussion on page [3] entitled "Disclosure Regarding Forward-Looking Statements."

High Degree of Leverage

The Company is currently highly leveraged. Future operations will be significantly affected by its level of indebtedness. Much of its cash flow from operations will be dedicated to interest payments. Large amounts of money will be required to continue its operations in China. Covenants in the Indenture (the "Indenture") governing the Company's 13.50% Senior Secured Notes due May 1, 2004 (the "Notes") require the Company to meet certain financial tests and limit the Company's ability to dispose of assets or to borrow additional funds. These covenants may affect the Company's business flexibility, and could possibly limit acquisition activity. The Company's interest in the Zhang Dong Block, which is held by XCL-Cathay Ltd., may not be subject to all of the foregoing restrictions.

The Company's earnings to fixed charges ratio and preferred stock is insufficient to cover preferred dividend payments and payments on the Notes. The Company's ability to meet its debt service obligations and to reduce its indebtedness will depend upon its future performance. This, in turn, will depend upon successful completion of the activities called for in the ODP, the Company's access to additional capital, general economic conditions, as well as on financial, business, and other factors, many of which are beyond the Company's control.

Restrictions Imposed by Terms of the Company's Indebtedness

The Indenture restricts, among other things, the Company's ability to incur additional debt, incur liens, pay dividends, or make certain other restricted payments. It also limits the Company's ability to consummate certain asset sales, enter into certain transactions with affiliates, enter into mergers or consolidations, or dispose of substantially all the Company's assets. The Company's ability to comply with such covenants may be affected by events beyond its control. The breach of any of these covenants could result in a default. A default could allow holders of the Notes to declare all amounts outstanding and accrued interest immediately due and payable. Absent such payment, the holders could proceed against any collateral granted to them to secure such indebtedness, which includes all of the stock of the Company's principal operating subsidiary, XCL-China Ltd. ("XCL-China"), which has guaranteed such indebtedness with a full and unconditional guaranty. A foreclosure on the stock of XCL-China could trigger Apache's right of first refusal under the Participation Agreement to purchase such stock or its option to purchase the Company's interest in the Contract. There can be no assurance that the assets of the Company and XCL-China (a "Subsidiary Guarantor"), or any other Subsidiary Guarantors (if, in the future, there are others) would be sufficient to fully repay the Notes and the Company's other indebtedness. See "Description of Existing Debt."

Oil and Gas Properties; Capital Expenditures

The Company's total reserves, as of December 31, 1997 and June 30, 1998, were all classified as proved and undeveloped, on a BOE basis. Recovery of such reserves will require both significant capital expenditures and successful drilling, completion and production operations. The Company will also have additional capital expenditures for exploration activity on the Zhao Dong Block and for activity on the Zhang Dong Block.

The Company plans to generate the additional cash needed through the sale or financing of its domestic assets held for sale, a financing involving the Lutcher Moore Tract, the Zhao Dong Block or the Zhang Dong Block or the completion of additional equity, debt or joint venture transactions. There is no assurance, however, that the Company will be able to sell or finance such assets or to complete other transactions in the future on commercially reasonable terms, if at all, or that it will be able to meet its future contractual obligations. The Indenture limits the Company's ability to obtain additional debt financing, and there can be no assurance that additional debt or equity financing, or additional cash from operations, will be available. If funds are raised on an equity basis, there may be a dilutive effect to current shareholders.

If production from the oil and gas properties commences by mid-1999, as currently anticipated, the Company's proportionate share of the related cash flow will be available to help satisfy cash requirements. However, there is likewise no assurance that such development will be successful and production will commence, and that such cash flow will be available. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity, Capital Resources and Management's Plans" and "Use of Proceeds." The Company's failure to meet certain financial obligations under the Joint Operating Agreement between the Company and Apache (in addition to certain other actions) may trigger Apache's option to purchase the Company's interest in the Contract. See "Business -- Apache Farmout" and "-- Domestic Properties -- Lutcher Moore Tract."

Reliance on Estimates of Proved Reserves and Future Net Revenue

The reserve data included in this Prospectus are only estimates and may not prove to be correct. In addition, estimates of future net revenue from proved reserves are also estimates that may not prove to be correct. In particular, estimates of crude oil and natural gas reserves, and future net revenue from proved reserves described in this Prospectus are based on the assumption that the Zhao Dong Block is developed in accordance with the ODP, modified to accelerate production and reduce costs, and that future crude oil prices for production from the Zhao Dong Block remain at least at the levels assumed for December 31, 1997. These assumptions include an assumption that the Company will receive a premium for the C-D Field oil because of its potential for use as a lubricating oil base stock, the Company's 49% ownership in the CNPC lubricating oil joint venture and the Company's right under the joint venture to market both lubricating oil and lubrication oil feed stock. These assumptions may prove to be inaccurate. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity, Capital Resources and Management's Plans" and "Business -- Oil and Gas Reserves."

Foreign Operations

The Company's future operations and earnings will depend upon the results of the Company's operations in China. If these operations are not successful, the Company's financial position, results of operations and cash flows will suffer greatly.

The success of the Company's operations is subject to many matters beyond management's control, like general and regional economic conditions, prices for crude oil and natural gas, competition, and changes in regulation. Also, since the Company is dependent on international operations, specifically those in China, it will be subject to various additional political, economic and other uncertainties. The Company's operations will be subject to the risks of restrictions on transfer of funds;

export duties, quotas and embargoes; domestic and international customs and tariffs; and changing taxation policies, foreign exchange restrictions, political conditions, and governmental regulations.

The United States government has publicly criticized China from time to time with respect to various matters. The Company cannot predict whether political developments like these will adversely affect the Company's Chinese operations. The Company believes that neither the Chinese nor the U.S. government wants to impair U.S.-Chinese commercial relations. The Company has excellent relations with Chinese governmental authorities in charge of the development of China's energy resources.

In recent months there have been substantial disruptions in several Asian financial markets and many Asian currencies have undergone significant devaluations. These events can be expected to have negative near, and possibly long term, effects on the flow of investment capital into and out of Asian currency denominated assets. It is impossible to predict the ultimate outcome of these events and their possible negative effect on the Company's investments in China.

First Onshore Production Sharing Agreement Between CNODC and a Foreign Company

In early 1993 the Company became the first foreign company to enter into an onshore production agreement with CNODC (although since that time a number of other foreign companies have also done so). Because XCL was the first foreign company to enter into such a contract, there was some uncertainty as to how it would be administered.

Currency/Exchange Rate Fluctuations

For the foreseeable future the Company's only material revenues will be from its oil and gas activities. These revenues will be in U.S. dollars. To the extent that at some future time revenues are paid to the Company in Chinese Renminbi rather than in dollars, the Company's earnings, operations and cash flows would then be subject to currency and exchange rate fluctuations and to restrictions imposed by the Chinese government on the transfer and exchange of funds. If that occurs the Company will evaluate the currency requirements of each venture and, if possible, enter into forward exchange contracts to hedge foreign currency transactions. There can be no assurance, however, that such forward exchange contracts will be available at the time of any such occurrence. The Company does not intend to engage in currency speculation. Renminbi earnings, if any, must be converted to pay dividends or to make other payments to the Company in U.S. dollars or other freely convertible currencies. As of December 1, 1996, as to foreign investment enterprises, the Renminbi became fully convertible for current account items, including profit distributions, interest payments and receipts and expenditures from trade. Conversion into U.S. dollars is based on the rate set by The People's Bank of China (which is based on the previous day's PRC interbank foreign exchange market rate and with reference to currency exchange rates on the world financial markets). Certain ministerial approvals are needed to acquire foreign exchange for a current account transaction. Strict foreign exchange controls continue for capital account transactions (including repayment of loan principal and return of direct capital investments and transactions in investments in negotiable securities). In the past, there have been shortages of U.S. dollars or other foreign currency available for conversion of Renminbi, and it is possible such shortages could recur, or that restrictions on conversion could be reimposed in the future at times when the Company is seeking to convert Renminbi. Prior to 1994, the Renminbi experienced a significant net devaluation against most major currencies, and during certain periods, significant volatility in the market-based exchange rate. Since the beginning of 1994, the Renminbi to U.S. dollar exchange rate has largely stabilized. However, there can be no assurance that the Chinese government will not devalue the Renminbi, that such exchange rate will otherwise remain stable (particularly in

light of the recent currency crisis experienced by a number of other Asian countries), that the Company will continue to be able to remit foreign currency abroad or that the Company will be able to convert sufficient amounts of Renminbi in China's foreign exchange markets to meet its future needs. Additionally, there can be no assurance that approvals for exchange transactions will be available in the future or, if available, will be granted to the Company. The Chinese government has issued certain international loan procedures (the "Procedures") that apply to foreign invested enterprises, including Chinese-foreign equity and cooperative joint ventures. The Procedures may require the approval of China's State Administration of Exchange ("SAFE") for certain international loans to foreign invested enterprises extended in connection with project finance transactions, as well as the terms of such transactions. The Company plans to obtain funds for certain development projects through project finance transactions. There can be no assurance that SAFE approval for such transactions, if necessary, can be obtained at all or on terms advantageous to the Company. The failure of the Company to obtain SAFE approval for such transactions, if required, could adversely affect the Company's ability to fund its operations.

History of Losses

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The Company has experienced recurring losses. For the years ended December 31, 1993, 1994, 1995, 1996 and 1997, the Company recorded net losses of approximately \$15.2 million, \$36.6 million, \$87.8 million, \$12.1 million and \$14 million, respectively. See "Selected Consolidated Financial Data." There can be no assurance that the Company will be profitable in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's Consolidated Financial Statements and the notes thereto included elsewhere in this report.

Qualified Accountants' Report

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In reporting on the Company's audited consolidated financial statements and XCL-China's audited financial statements as of and for the fiscal years ended December 31, 1997 and 1996, the report of the Company's independent 1998 accountants contained an explanatory paragraph indicating factors which create substantial doubt about the Company's and XCL-China's ability to continue as a going concern. Such factors include the Company's ability to generate additional cash flows to satisfy its development and exploratory obligations with respect to its China properties.

Volatility of Oil and Gas Prices; Impact on Company's Profitability

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The Company's revenue, profitability and future rate of growth are substantially dependent upon prevailing prices for crude oil and natural gas. Crude oil and natural gas prices can be extremely volatile and in prior years have been depressed by excess total supplies. Prices are also affected by actions of the United States and foreign governments and international cartels. Further, prices are often seasonal. There can be no assurance that current levels for crude oil and natural gas prices can be sustained. Any substantial or extended decline in such prices would have a material adverse effect on the Company's financial condition and results of operations, including reduced cash flow and borrowing capacity.

Operating Hazards; Uninsured Risks

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The nature of the crude oil and natural gas business involves many operating hazards such as crude oil and natural gas blowouts, explosions, encountering formations with abnormal pressures, cratering and crude oil spills and fires, and inclement weather. Any of these could result in damage to or destruction of crude oil and natural gas wells, destruction of producing facilities, damage to life or property, suspension of

operations, environmental damage and possible liability to the Company. In accordance with customary industry practices, the Company maintains insurance against some, but not all, of such risks and losses. The Company does not maintain any insurance against the risks of expropriation and nationalization of its business interests in China. The occurrence of such an event not fully covered by insurance could have a material adverse effect on the financial condition and results of operations of the Company.

Competition

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The oil and gas industry is marked by strong competition from major oil companies and independent operators in acquiring properties and leases for the exploration for, and production of, crude oil and natural gas. Competition is particularly intense with respect to the acquisition of desirable undeveloped crude oil and natural gas properties. The Company anticipates such competition in connection with any expansion of its activities in China. The principal competitive factors in the acquisition of such undeveloped crude oil and natural gas properties include the staff and data necessary to identify, investigate and acquire interests in such properties, close working relationships with governmental authorities who control acquisition, exploration, production and marketing activities in China, and the financial resources necessary to acquire and develop such properties. Many of the Company's competitors have substantially greater financial resources, staff and facilities.

The principal raw materials and resources necessary for the exploration and production of crude oil and natural gas are interests in prospective properties, drilling rigs and related equipment to explore for such reserves and knowledgeable personnel to conduct all phases of crude oil and natural gas operations. The Company must compete for such raw materials and resources with both major integrated energy companies and independent operators. Although the Company believes that its current operating and financial resources are adequate to preclude any significant disruption of its operations in the immediate future, the continued availability of such materials and resources to the Company cannot be assured.

Depletion of Reserves

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The rate of production from crude oil and natural gas properties declines as reserves are depleted. Except to the extent the Company acquires additional properties containing proved reserves, conducts successful exploration and development activities or, through engineering studies, identifies additional behind-pipe zones or secondary recovery reserves, the proved reserves of the Company will decline as reserves are produced. Future crude oil and natural gas production is therefore highly dependent upon the Company's level of success in acquiring or finding additional reserves.

Government Regulation

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The Company's business is subject to certain Chinese and United States federal, state, and local laws and regulations relating to the exploration for and development, production and marketing of crude oil and natural gas, as well as environmental and safety matters. In addition, the Chinese government regulates various aspects of foreign company operations in China. Such laws and regulations have generally become more stringent in recent years in the United States, often imposing greater liability on a larger number of potentially responsible parties. It is not unreasonable to expect that the same trend will be encountered in China. Because the requirements imposed by such laws and regulations are frequently changed, the Company is unable to predict the ultimate cost of compliance. There is no assurance that laws and regulations enacted in the future will not adversely affect the Company's financial condition and results of operations.

Dependence on Key Personnel

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The Company depends to a large extent on Marsden W. Miller, Jr., its Chairman of the Board and Chief Executive Officer, for its management and business and financial contacts in China and its relationship with Chinese authorities. The Company does not have an employment contract with Mr. Miller or with any other officer or employee, other than employment agreements or similar arrangements with certain operational employees of the Company's subsidiaries. See "Management." The unavailability of Mr. Miller would have a material adverse effect on the Company's business. The Company's success is also dependent upon its ability to retain skilled technical personnel. While the Company has not to date experienced difficulties in employing or retaining such personnel, its failure to do so in the future could adversely affect its business. The Company does not maintain key man life insurance on any of its executives or other personnel.

Limitations on the Availability of the Company's Net Operating Loss Carryforwards

The Company has incurred net operating loss ("NOL") carryforwards as at December 31, 1997 of \$183 million. Use of the NOLs by the Company are subject to limitations under Section 382 of the Internal Revenue Code of 1986 relating to ownership changes. The various stock offerings made by the Company may have triggered those limits. Also uncertainties as to the future use of the NOLs exist under the criteria set forth in Financial Accounting Standards Board ("FASB") Statement No. 109, "Accounting for Income Taxes." The Company established a valuation allowance of \$81.1 million and \$83.6 million for deferred tax assets at December 31, 1996 and 1997, respectively.

Lack of Public Market

There is no current public market for the Amended Series A Preferred Stock other than the limited trading through the Private Offering, Resales and Trading through Automated Linkage ("PORTAL") Market of the National Association of Securities Dealers, Inc. and none is expected to develop.

Possible Volatility of Price of the Common Stock

The market price of the Common Stock and Amended Series A Preferred Stock could be subject to wide fluctuations in response to quarterly variations in the Company's results of operations, changes in earnings estimates by analysts, conditions in the oil and gas industry or general market or economic conditions.

No Cash Dividends

The Company has not paid any cash dividends to date on the Common Stock and there are no plans for cash dividend payments on its Preferred Stock or Common Stock in the foreseeable future. The Indenture also limits cash dividends on the Company's equity securities. Dividends on the Company's Preferred Stock have been paid in kind. In the event of dividend defaults on the outstanding shares of Preferred Stock, under the terms of such Stock the Company would be restricted from paying cash dividends on the Common Stock for so long as such dividend defaults continued. See "Price Range of Common Stock," "Dividend Policy," "Description of Existing Debt" and "Description of Capital Stock - -- Preferred Stock."

Possible Delisting of Common Stock

The AMEX has, since November 1996, continued to review the Company's listing eligibility since the Company has not met certain financial requirements for continued listing. The Company intends to try to satisfy the Exchange's concerns. In the event the Common Stock is delisted from the AMEX, the liquidity of the Securities and the Company's ability to continue funding its activities through the sale of securities may be significantly

impaired.

Certain Anti-takeover Provisions - - - - -

A Change of Control or other Fundamental Change gives holders of Amended Series A Preferred Stock special conversion rights for 45 days. These rights are intended to provide those holders with limited loss protection in certain circumstances. The rights may also render more costly or otherwise discourage certain takeovers or other business combinations. See "Description of Capital Stock -- Preferred Stock -- Amended Series A Preferred Stock -- Special Conversion Rights."

The Company's Amended and Restated Certificate of Incorporation contains provisions that the Board of Directors believes may impede or discourage a takeover of the Company without the support of the incumbent Board. See "Description of Capital Stock -- Common Stock -- Special Charter and By-Law Provisions."

Year 2000 Compliance - - - - -

The Company has conducted a review of its computer systems to identify the systems that could be affected by the "Year 2000" issue and has upgraded certain of its software to software that purports to be Year 2000 compliant. The Year 2000 problem is the result of computer programs being written using two digits (rather than four) to define the applicable year and equipment with time-sensitive embedded components. Any of the Company's programs that have time-sensitive software or equipment that has time-sensitive embedded components may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a major system failure or miscalculations. Although no assurance can be given because of the potential wide scale manifestations of this problem which may affect the Company's business, the Company presently believes that the Year 2000 problem will not pose significant operational problems for its computer systems. The Company is not able to estimate the total costs of undertaking Year 2000 remedial activities, if they will be required. However, based upon information developed to date, it believes that the total cost of Year 2000 remediation will not be material to the Company's cash flow, results of operation or financial condition. The Company also may be vulnerable to other companies' Year 2000 issues. The Company's current estimates of the impact of the Year 2000 problem on its operations and financial results do not include costs that may be incurred as a result of any vendors' or customers' failure to become Year 2000 compliant on a timely basis. The Company intends to initiate formal communications with all of its significant vendors and customers with respect to such persons' Year 2000 compliance programs and status in the fourth quarter of 1998. The Company expects to complete its Year 2000 review and, if required, remediation efforts within a time frame that will enable its computer-based and embedded chip systems to function without significant disruption in the Year 2000. However, there can be no assurance that such other companies will achieve Year 2000 compliance or that any conversions by such companies to become Year 2000 compliant will be compatible with the Company's computer system. The inability of the Company or any of its principal vendors or customers to become Year 2000 compliant in a timely manner could have a material adverse effect on the Company's financial condition or results of operations.

FINANCIAL RESTRUCTURING

The Company has recently taken steps to simplify its capital structure. Effective November 10, 1997, the Company recapitalized and combined the Series A and E Preferred Stock into an aggregate of 790,613 shares of Amended Series A Preferred Stock (including accrued and unpaid dividends paid in kind). As of September 30, 1998 there were 1,181,614 shares of Amended Series A Preferred Stock issued and outstanding with an aggregate liquidation preference of approximately \$100 million. Effective January 16, 1998, the Series F Preferred Stock was mandatorily converted into an aggregate of 633,893 shares of Common Stock. On March 3, 1998, the Company settled litigation instituted by the holder of its Series B, Cumulative Preferred Stock (the "Series B Preferred

Stock"). The holder revoked and withdrew its redemption notice and sold its shares of Series B Preferred Stock and accompanying warrants. The purchasers exchanged the stock and warrants for 44,465 shares of Amended Series B, Cumulative Convertible Preferred Stock ("Amended Series B Preferred Stock") and warrants to purchase 250,000 shares of Common Stock, subject to adjustment, and received 2,620 shares of Amended Series B Preferred Stock in payment of all accrued and unpaid dividends on the Series B Preferred Stock. See "Business -- Litigation." As of September 30, 1998, there were 48,405 shares of Amended Series B Preferred Stock issued and outstanding with an aggregate liquidation preference of approximately \$4.8 million. For a description of the material terms of the Amended Series A Preferred Stock and the Amended Series B Preferred Stock, see "Description of Capital Stock -- Preferred Stock -- Amended Series A Preferred Stock" and "--Amended Series B Preferred Stock."

USE OF PROCEEDS

Each Selling Security Holder will receive all of the net proceeds from the sale of the Securities owned by such Selling Security Holder. The Company will not receive any proceeds from the sale of any Securities, although the Company will receive the proceeds from any exercise of the Warrants. However, there can be no assurance that the Warrants will be exercised. Assuming all of the Warrants are exercised, the net proceeds to the Company would be approximately \$63 million. The proceeds from such Warrant exercises, if any, will be used by the Company to fund its China projects and for general working capital purposes.

CAPITALIZATION

The following table sets forth the total consolidated capitalization of the Company at June 30, 1998. This table should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto and the other financial information included elsewhere in this Prospectus.

(in thousands)

Lutcher Moore Group limited recourse debt	\$	2,074
Total debt, including current maturities:		
13.50% Senior Secured Notes due May 1, 2004, net of unamortized discount		62,384

Total debt	\$	64,458

Shareholders' equity:		
Preferred stock		
Amended Series A Preferred Stock	\$	1,182
Amended Series B Preferred Stock		48
Common Stock (1)		230
Treasury stock (69,470 shares)		(1)
Unearned compensation (2)		(11,702)
Additional paid-in capital		304,195
Accumulated deficit		(256,153)

Total shareholders' equity	\$	37,799

Total capitalization	\$	102,257
		=====

(1) Excludes shares of Common Stock issuable upon conversion of Preferred Stock or exercise of outstanding options and warrants at June 30, 1998. See "Description of Capital Stock."

(2) Represents unearned compensation related to employee stock option awards and is being amortized over the period earned. (See Note 9 to the Consolidated Financial Statements for the year ended December 31, 1997.)

PRICE RANGE OF COMMON STOCK

The Common Stock trades on the AMEX under the symbol "XCL" and on the London Stock Exchange. The following table shows the range of the quarterly high and low sales prices on the AMEX to date during 1998 and for each quarter during 1997 and 1996. On December 17, 1997 the Company effected a one-for-fifteen reverse stock split of its Common Stock (the "Reverse Stock Split"). The high and low prices for the periods shown have been adjusted to reflect that Reverse Stock Split.

1998 -----	High -----	Low -----
First Quarter	\$ 6.50	\$ 3.50
Second Quarter	5.00	3.31
Third Quarter	4.13	2.75
1997 -----		
First Quarter	\$ 5.63	\$ 2.81
Second Quarter	4.69	2.81
Third Quarter	6.56	2.81
Fourth Quarter	13.13	3.85
1996 -----		
First Quarter	\$ 6.60	\$ 2.85
Second Quarter	7.50	2.85
Third Quarter	5.70	1.95
Fourth Quarter	3.75	1.95

On September 30, 1998, the closing price for the Common Stock on the AMEX was \$3.00. As of September 30, 1998, the Company had approximately 3,480 shareholders of record with respect to its Common Stock.

DIVIDEND POLICY

XCL has not paid any cash dividends on the Common Stock to date and has no plans for Common Stock cash dividend payments in the foreseeable future. The payment of future dividends will depend on the Company's future earnings and financial condition. The Company is restricted from paying cash dividends on its equity securities under the terms of the Indenture. Dividends on the Company's Preferred Stock have been paid in kind. In the event of dividend defaults on the outstanding shares of Preferred Stock, under the terms of such Stock the Company would be restricted from paying cash dividends on the Common Stock for so long as such dividend defaults continued. See "Risk Factors -- No Cash Dividends," "Description of the Existing Debt" and "Description of Capital Stock -- Preferred Stock" herein.

OIL AND GAS EXPLORATION
AND PRODUCTION PROPERTIES AND RESERVES

Production, Sales and Cost Data

The following table sets forth certain information regarding the production volumes, revenues, average prices received and average production costs associated with the Company's sale of oil and gas from properties held for sale for the periods indicated.

	Year Ended December 31,		
	1997	1996	1995
	-----	-----	-----
Net Production: (a)			
Gas (MMcf)	72	467	1,474
Oil (MBbl)	4	9	19
Gas equivalent (MMcfe)	95	522	1,588

Oil and gas sales (\$ in 000's)(b)			
Gas	\$ 166	\$ 955	\$ 1,953
Oil and other	70	181	527
	----	-----	-----
Total oil and gas sales	\$ 236	\$ 1,136	\$ 2,480
	=====	=====	=====

Average sales price:			
Gas (\$ per Mcf)	2.28	1.84	1.33
Oil (\$ per Bbl)	18.34	19.80	19.58
Gas equivalent (\$ per Mcfe)	2.47	2.18	1.56

Oil and gas costs (\$ per Mcfe):			
Production expenses and taxes	2.41	0.74	0.71
Depreciation, depletion and amortization of oil and gas properties	0.81	0.96	1.23

- (a) Excludes gas consumed in operations.
(b) Includes plant products recovered from treating and processing operations.

The following table shows the 1997 production of oil and natural gas liquids and natural gas by major fields. All of the Company's net production was attributable to the Cox Field and the Frenier Field located on the Lutcher Moore Tract. (See "Business -- Domestic Properties").

	1997 Net Production			
	(MBbls)		(MMcf)	
Field	Oil	%	Gas	%
-----	-----	-----	-----	-----
Cox Field	--	--	72	100
Frenier Field	4	100	--	--

Oil and Gas Acreage

The oil and gas acreage in which the Company has leasehold or other contractual interests at December 31, 1997, and which are not classified as assets held for sale are summarized in the following table. "Gross" acres are the total number of acres subject to the Contract. "Net" acres are gross acres multiplied by the Company's fractional share of the costs of production after taking into account CNODC's 51% reversionary interest with respect to the 5,911 acres in the C-D Initial Development Area (in which CNODC has elected to participate) and before CNODC's 51% reversionary interest in the remaining gross acres (in which CNODC has not yet elected to participate).

	Undeveloped	
	Gross	Net (a)
	-----	-----
The People's Republic of China	48,677	22,831

- (a) Net undeveloped acreage would be 11,926 acres if CNODC elects to participate for its 51% reversionary interest in the entire Zhao Dong Block.

Drilling Activity

The following tables set forth wells drilled by the Company in the periods indicated.

	Year Ended December 31,					
	1997		1996		1995	
	Gross	Net	Gross	Net	Gross	Net
United States	-----	-----	-----	-----	-----	-----
Exploratory:						
Productive	--	--	--	--	--	--
Nonproductive	--	--	--	--	--	--

Total	--	--	--	--	--	--
Development:						
Productive	--	--	--	--	1	.2
Nonproductive	--	--	--	--	--	--
Total	--	--	--	--	1	.2

Year Ended December 31,

	1997		1996		1995 (a)	
	Gross	Net	Gross	Net	Gross	Net
The People's Republic of China						
Exploratory:						
Productive	2	1.0	1	.5	2	1.0
Nonproductive	1	0.5	--	--	1	.5
Total	3	1.5	1	.5	3	1.5
Development:						
Productive	--	--	--	--	--	--
Nonproductive	--	--	--	--	--	--
Total	--	--	--	--	--	--

(a) Pursuant to the Second Participation Agreement dated May 10, 1995, between XCL and Apache, Apache's interest in the Zhao Dong Block was increased from 33% to 50% of the Foreign Contractor's interest.

Producing Well Data

At December 31, 1997, the Company had interests in 4 producing gas wells (3.45 net) in the Cox Field, which are included in assets held for sale.

Summary of Oil and Gas Reserve Data

The following table sets forth summary information with respect to the Company's estimated proved undeveloped oil reserves and the estimated future net cash flows attributable thereto. Unless otherwise noted, all information in this Prospectus relating to oil reserves and the estimated future net cash flows attributable thereto are based on estimates prepared by the Company's independent petroleum engineers and are shown net to the Company's interest. The estimated future undiscounted net cash flows and the present value of estimated future net cash flows were prepared using constant prices as of the calculation dates. The present value of estimated future net cash flows were discounted at 10% per annum on a pre-tax basis. The following table also sets forth, for comparison purposes, the standardized measure of discounted future net cash flows determined in accordance with the rules prescribed by FASB No. 69. See "Risk Factors -- Reliance on Estimates of Proved Reserves and Future Net Revenue" and "Supplemental Oil and Gas Information" in the Notes to the Consolidated Financial Statements.

	Crude Oil (MBLs)		
	1997(1)	1996 (1)	1995 (1)
Oil and Condensate	11,762	10,579	58
Estimated future pre-tax net revenues (in thousands)	\$119,049	\$142,860	\$46,835
Present value of estimated future net pre-tax revenues (in thousands)	\$ 64,821	\$ 79,062	\$26,040
Standardized measure of discounted future net cash flows (in thousands)	\$ 53,848	\$ 62,606	\$26,040

=====

(1) 1997 and 1996 represent China properties only. 1995 represents U.S. properties being held for sale only.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data of the Company for and at the end of each of the five years ended December 31, 1997 derived from the audited financial statements of the Company included elsewhere in this Prospectus (except for 1994 and 1993 which are not included herein) and from the unaudited financial statements for the six months ended June 30, 1998 and 1997, which have been prepared on the same basis as the audited statements and, in the opinion of Management, reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of that information. The following table should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and notes thereto included elsewhere herein.

</TABLE>
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Six Months

Year Ended December 31

Ended June 30

		1993(a)	1994(b)	1995(c)	1996(e)	1997(g)(j)
1997(j)	1998(j)	-----	-----	-----	-----	-----
		(In thousands, except per share data)			(Unaudited)	
		<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:		<C>	<C>	<C>	<C>	<C>
Revenues		\$ 8,499	\$ 4,336	\$ 2,480	\$ 1,136	\$ --
\$ --	\$ --					
Operating expenses		2,449	1,341	985	342	--
--	--					
General and administrative expenses		3,840	4,553	4,551	3,487	5,167
1,562	2,915					
Depreciation, depletion and amortization		5,788	3,292	2,266	579	--
--	--					
Other, net		--	--	--	--	2,891
28	72					
Operating loss		(12,518)	(33,875)	(85,673)	(9,793)	(8,058)
(1,590)	(2,987)					
Net interest expense		1,329	1,831	2,998	2,415	8,450
1,646	1,852					
Interest income		141	508	133	8	2,212
498	718					
Net loss		(15,197)	(36,622)	(87,837)	(12,074)	(13,994)
(2,426)	(4,120)					
Net loss attributable to common stock		(19,978)	(41,529)	(92,658)	(17,430)	(27,722)
(5,742)	(8,999)					
Net loss per common share						
Basic		(2.52)	(3.14)	(5.77)	(0.98)	(1.36)
(.29)	(.40)					
Diluted		(2.52)	(3.14)	(5.77)	(0.98)	(1.36)
(.29)	(.40)					
Weighted average common shares outstanding - basic		7,933	13,220	16,047	17,705	20,451
19,511	22,622					
Weighted average common shares outstanding - diluted		7,933	13,220	16,047	17,705	20,451
19,511	22,622					

Deficiency of earnings to combined fixed charges and preferred stock dividends	(i)	(i)	(i)	(i)	(i)
(i) (i)					
Balance Sheet Data (at end of period):					
Total working capital (deficit) (34,468) \$ 5,972	\$(15,562)	\$ (1,563)	\$ (24,239)	\$ (46,705)	\$ 22,399
Total assets 151,890 117,204	157,377	149,803	72,336	60,864	119,089
Long-term debt, net of current maturities	53,965 (d)	41,607(d)	15,644	-- (f)	61,310(h)
-- (f) 62,384(h)					
Stockholders' equity 34,824 37,799	84,609	95,200	16,900	11,041	40,825

(a) Includes provision for impairment of domestic oil and gas properties of \$8 million.

(b) Includes provision for impairment of domestic oil and gas properties of \$25.9 million and provision for write-down of other assets of \$2.2 million and an extraordinary loss of \$1.7 million.

(c) Includes provision for impairment of domestic oil and gas properties of \$75.3 million and provision for write-down of other assets of \$4.5 million.

(d) Includes non-recourse debt of an aggregate \$0.7 million and \$3.7 million as of December 31, 1994 and 1993, respectively, included in the Lutcher Moore Debt.

(e) Includes provision for impairment of domestic oil and gas properties of \$3.85 million; provision for write-down of investment of \$2.4 million; and loss on sale of investments of \$0.7 million.

(f) All of the Company's debt of \$38.02 million at December 31, 1996 and \$104.3 million at June 30, 1997 was classified as currently due.

(g) Includes extraordinary loss for early extinguishment of debt of \$551,000.

(h) Long term debt is net of unamortized discount of \$13.7 million and \$12.6 million as of December 31, 1997 and June 30, 1998, respectively, associated with the value allocated to the stock purchase warrants issued with the Notes.

(i) The earnings were inadequate to cover fixed charges. The dollar amount of the coverage deficiency was \$16.5 million in 1993; \$38.5 million in 1994; \$90.8 million in 1995; \$14.5 million in 1996; and \$22.4 million in 1997; \$4.1 million for the six months ended June 30, 1997; and \$6.0 million for the six months. ended June 30, 1998.

(j) Revenues and operating expenses associated with oil and gas properties held for sale have become insignificant and, accordingly, are recorded in other costs and operating expenses in the accompanying consolidated statements of operations.

</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read together with the Consolidated Financial Statements, the notes thereto and the supplemental data included in this Prospectus. References to Notes in this section of the Prospectus are to the notes to the audited Consolidated Financial Statements. See also the discussion on page [3] entitled "Disclosure Regarding Forward-Looking Statements."

Liquidity, Capital Resources and Management's Plans

The Company's management decided in the fourth quarter of 1995 to focus on the Company's operations in China and to sell its other assets. The excellent well test results on the Zhao Dong Block and the Company's reserve assessments support this decision. The Company has focused on (i) raising funds to meet capital requirements for Chinese operations, (ii) selling its other properties and (iii) simplifying its capital structure to make it easier to raise capital. The Company intends to continue these activities and to work with Apache and CNODC to refine the ODP to reduce expenditures and accelerate production. The Company's only historic revenues have been from the Company's financing activities and from properties previously sold and those currently held for sale or investment. The Company is in the development stage with respect to its operations in China and has not generated any revenues from operations related to its properties and interests in China.

The Company has made significant capital expenditures since acquiring its interest in the Zhao Dong Block in 1992. Despite incurring losses since 1992, the Company, because of the high quality of the Zhao Dong Block, has been able to obtain all required funds for the exploration and development of the Zhao Dong Block.

On August 20, 1998, the Company entered into a production sharing contract with CNODC for the 12,000-acre Zhang Dong Block and on September 15, 1998, the contract was approved by the Ministry of Foreign Trade and Economic Cooperation of China, effective October 1, 1998.

Liquidity and Capital Resources

The Company offered and sold \$75 million of Notes and \$25 million of equity on May 20, 1997. During 1997 such funds were used to pay costs of the offering, the Company's 1997 exploration and development costs and \$38 million of debt. At June 30, 1998, the Company had an unrestricted operating cash balance of \$11.4 million and restricted cash held in escrow for the payment of interest on the Notes of \$5.2 million. The Company had net working capital of \$6.0 million. These cash balances are not sufficient to cover the Company's working capital requirements and capital expenditure obligations on the Zhao Dong Block during the remainder of 1998 and through 1999.

As a result of the Company's decision to focus on China and sell its U.S. assets, the Company presently has no source of material revenues. Revenues for 1997 were \$0.2 million versus \$1.1 million in 1996. The Company incurred a loss for fiscal 1997 of \$14.0 million and expects to incur a loss in 1998 as well because production and related cash flow from the Zhao Dong and Zhang Dong Blocks are not expected until 1999. For the six months ended June 30, 1998, the Company had a net loss of \$4.1 million.

Management's Plan

The Company's unrestricted cash will be required for working capital and exploration, development and production expenditures on the Zhao Dong and Zhang Dong Blocks.

With respect to the Zhao Dong Block, CNODC has given written notice that it will participate as to its full 51% share of the C-D Field and has urged that production begin as soon as reasonably practicable. Except for certain exploratory wells on which Apache has an obligation to pay for the Company's costs, the Company is required to fund 50% of all exploration expenditures and 24.5% of all development and production expenditures. The Company estimates that its share of actual development expenditures for the C-D Field for the remainder of 1998 will be

approximately \$2.0 million. The Company estimates that its share of unpaid exploration expenses for the remainder of 1998 will be approximately \$5.0 million. The Company estimates that its share of development expenses for 1999 will be approximately \$22 million. The Company estimates its share of exploration expenses of the remaining two obligatory wells to be drilled in 1999 is approximately \$6.0 million. The Company anticipates that in addition to the two obligatory exploration wells to be drilled in 1999, additional exploration wells may be drilled during 1999. The Company presently projects and plans that these funds will be available from the sale or refinancing of domestic oil and gas properties held for sale and/or investment in land, project financing, increasing the amount of senior secured notes, supplier financing, additional equity, including the exercise of currently outstanding warrants to buy common stock, joint ventures with other oil companies and proceeds from production. Based on continuing discussions with major stockholders, investment bankers, potential purchasers and other oil companies, the Company believes that such required funds will be available. However, there is no assurance that such funds will be available and, if available, on commercially reasonable terms. Any new debt could require approval of the holders of the Company's Notes and there is no assurance that such approval could be obtained. See "Risk Factors."

Due to the successful results of the D-3 and C-4 Wells, the 1998 work program and budget exceed the Company's initial preliminary projections earlier in 1997. This results from the necessity of drilling at least one appraisal well offsetting the C-4 exploratory well and the decision to extend the Contract into its third exploratory period because of the successful drilling of the D-3 and C-4 wells. XCL, Apache, and CNODC are working together to reduce capital costs for the Zhao Dong Block and to determine whether the commencement of production from the C-4 Well area can be accelerated into the first half of 1999. This work has already resulted in reductions of estimated capital costs of approximately \$35 million based on a change in the conceptual design, and a determination that it is possible to commence production from the C-4 well area in the first half of 1999. It is the Company's understanding that the Company, Apache and CNODC have now all agreed to make every effort to achieve initial production in the first half of 1999. The \$28 million estimated to be necessary for exploration and development in 1999 does not include the entire cost of accelerating production from the C-4 Well area into the first part of 1999. The Company estimates this would require additional expenditures of approximately \$960,000, which the Company believes it can obtain from the sources described above.

The Company is the operator of the Zhang Dong Block and, as such, is required to cover the costs of initial appraisal drilling, upgrading production facilities and additional studies of seismic data. The contract commits the Company to drill at least one well during the first year. Under the contract, the Company is entitled to 49% of the production. The Company estimates that its minimum capital requirements over the next year to satisfy the terms of the Zhang Dong contract are approximately \$8 million. Funds are expected to come from the previously mentioned sources.

Longer term liquidity is dependent upon the Company's future performance, including commencement of production in China, as well as continued access to capital markets. In addition, the Company's efforts to secure additional financing could be impaired if its Common Stock is delisted from the AMEX.

If funds for the purposes described above are not available, the Company may be required substantially to curtail its operations or to sell or surrender all or part of its interest in the Zhao Dong or the Zhang Dong Blocks and/or its other interests in China in order to meet its obligations and continue as a going concern.

The Company is not obligated to make any additional capital payments to its lubricating oil and coalbed methane

projects. The Company is in discussions with the Chinese about expansion of their lube oil venture. If these discussions are successfully concluded, additional capital investments will be required by the Company; however, at this time it is not known what the extent or timing for such investments might be. Similarly, if the Company's coalbed methane project becomes active and is successful, the Company may make additional investments in that business. Again, the extent and timing of such investment, if any, is unknown at this time.

Other General Considerations

Pursuant to the Company's December 17, 1997 shareholders' meeting, whereby several compensation plans were approved, the Company recorded unearned compensation of approximately \$12.8 million. This amount will be amortized ratably over future periods of up to five years and is recorded as a non-cash expense in the Statement of Operations. Because certain of these awards are based on market capitalization there may be additional amounts which may become payable. Approximately \$0.9 million of compensation expense was recorded in connection with these awards during 1997. An additional \$0.7 million of compensation expense was recorded in the first six months of 1998.

The Company believes that inflation has had no material impact on its sales, revenues or income during the reporting periods. In light of increased oil and gas exploration activity worldwide, and in the Bohai Bay in particular, increased rates for equipment and services, and limited rig availability may have an impact in the future.

The Company is subject to existing domestic and Chinese federal, state and local laws and regulations governing environmental quality and pollution control. Although management believes that such operations are in general compliance with applicable environmental regulations, risks of substantial costs and liabilities are inherent in oil and gas operations, and there can be no assurance that significant costs and liabilities will not be incurred.

New Accounting Pronouncements

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income," which is effective for the Company's year ending December 31, 1998. SFAS No. 130 establishes standards for the reporting and displaying of comprehensive income and its components. The Company will be analyzing SFAS No. 130 during 1998 to determine what, if any, additional disclosures will be required.

In June 1997, the FASB Issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which is effective for the Company's year ended December 31, 1998. This statement establishes standards for reporting of information about operating segments. The Company will be analyzing SFAS No. 131 during 1998 to determine what, if any, additional disclosures will be required.

Results of Operations

The six month period ended June 30, 1998 compared to the six month period ended June 30, 1997

During the six months ended June 30, 1998 and June 30, 1997, the Company incurred net losses of \$4.1 million and \$2.4 million, respectively.

Revenues and operating expenses associated with oil and gas properties held for sale have become insignificant and accordingly, are recorded in other costs and operating expenses in the accompanying consolidated statement of operations.

Interest expense increased during the six months ended June 30, 1998, when compared with the same period in 1997, because of increased debt and interest rates. Also included in interest expense was amortization of warrant costs and debt issue costs on

the Senior Secured Notes issued in May 1997. Interest capitalized for the comparable periods in 1998 and 1997 increased because the oil and gas property base was larger, thus, reducing net interest expense for the periods.

Preferred Stock dividends were \$4.9 million for the six months ended June 30, 1998, as compared to \$3.3 million for the same period in 1997. The increase is the result of the issuance of additional shares in the equity offering concluded in May 1997. These dividends are paid in additional shares of Preferred Stock at the option of the Company.

Interest income for the six months ended June 30, 1998 and 1997 was \$0.7 million and \$0.5 million, respectively. The increase of \$0.2 million in 1998 resulted from the short-term investment of cash still available from the May 1997 debt and equity offerings.

General and administrative expenses were \$2.9 million for the six months ended June 30, 1998, as compared to \$1.6 million for the same period in 1997. The increase of \$1.3 million during the six month period ended June 30, 1998, was primarily due to increases in non-cash compensation charges related to stock and appreciation options of \$0.7 million (approved by shareholders in December 1997), \$0.4 million in legal and professional fees, and \$0.2 million in public company expenses. Legal and professional fees increased because of additional services and public company expenses associated with holding two shareholder meetings.

1997 compared to 1996
- -----

The Company incurred a loss of \$14 million in 1997, as compared with a loss of \$12 million in 1996. Included in the loss for 1997 is a charge of \$0.9 million for non-cash compensation charges, related to stock and appreciation options, which are classified in general and administrative expenses. In addition, 1997 includes a \$2.8 million provision for estimated settlements in connection with various disputes and litigation matters. Such amount is reflected in Other in the Statement of Operations. In addition, \$0.6 million of non-cash charges relate to early extinguishment of debt.

Interest expense, net of amounts capitalized, increased \$6.0 million in 1997 primarily as a result of increased borrowings and higher interest rates on the new debt. In addition, interest expense includes amortization of \$1.3 million relating to the value assigned to warrants issued with the \$75 million debt offering completed in May 1997.

The net loss for 1996 includes a \$3.85 million noncash charge for the provision of impairment of domestic oil and gas properties classified as held for sale. The loss in 1996 also reflects the effect of a \$2.4 million write-down and \$0.7 million loss on sale of the Company's investments.

Oil and gas revenues from properties held for sale for the year ended December 31, 1997 were approximately \$0.2 million, compared to approximately \$1.1 million during 1996. Revenues will continue to decline as the Company completes its announced program of selling substantially all of its U.S. producing properties. Interest income increased \$2.2 million during the year ended December 31, 1997, compared with 1996. The primary reason for this increase was the interest earned on the \$75 million held in escrow from the Note Offering.

As the Company continues to focus its resources on exploration and development of the Zhao Dong and Zhang Dong Blocks, future oil and gas revenues will initially be directly related to the degree of drilling success experienced. The Company does not anticipate significant increases in its oil and gas production in the short-term and expects to incur operating losses until such time as net revenues from the China projects are realized.

General and administrative expenses increased \$1.4 million during 1997 as compared with 1996, as reflected in the following table.

	1997	1996
	----	----
	(thousands)	
Payroll, benefits and travel	\$ 1,554	\$ 1,683
Non-cash compensation cost	853	--
Legal and professional	1,284	510
Public company and corporate expenses	574	539
Lafayette office expense	304	374
Corporate insurance	341	381
	-----	-----
	\$ 4,910	\$ 3,487
	=====	=====

The increase in legal and professional fees of approximately \$0.8 million were principally related to fees of approximately \$0.2 million on one lawsuit, an increase of approximately \$0.3 million for outside consulting and the remainder of the increase for general and corporate legal and accounting services.

1996 compared to 1995

The Company reported a net loss for fiscal 1996 of \$12.1 million before preferred dividends of \$5.4 million, or a total of \$0.98 per share, compared to a net loss for fiscal 1995 of \$87.8 million before preferred dividends of \$4.8 million, or \$5.77 per share (as adjusted for the Reverse Stock Split). The net loss for 1996 includes a \$3.85 million noncash charge for impairment of domestic oil and gas properties, classified as assets held for sale. The loss in 1996 also reflects a \$2.4 million write-down and \$0.7 million loss on the sale of the Company's investments.

The net loss for 1995 includes a \$75.3 million noncash charge for the provision of impairment of domestic oil and gas properties. The carrying amounts of the Company's properties in Texas were written down by \$16.5 million during 1995, in order to comply with the ceiling limitation prescribed by the Commission. This was principally due to downward revisions in estimated reserves in the second quarter and reduced present values of reserves attributable to delays in development drilling scheduled in the third quarter. During the fourth quarter, to reflect the expected results of its announced program to divest itself of its U.S. oil and gas properties, the Company recorded an additional \$58.8 million noncash write-down, reducing the recorded value of its domestic oil and gas properties to their estimated fair market value. The loss in 1995 also reflects the effects of a \$4.5 million write-down of the Company's other assets and investments.

Oil and gas revenues from properties held for sale in 1996 were \$1.1 million as compared to \$2.5 million in 1995, primarily due to continued reduction in volume sold. The Company does not anticipate material revenues until mid-1999 at the earliest when production in China may commence.

General and administrative expenses for 1996 were \$3.5 million as compared to \$4.6 million in 1995. General and administrative costs are expected to remain relatively unchanged during the upcoming year. Operating costs are expected to decline due to the further disposition of domestic oil and gas properties.

Interest expense decreased in 1996, due primarily to the Company's principal payments on its institutional debt in the first quarter of 1996.

Subsequent Events

Since June 30, 1998, the Company entered into a production sharing contract with CNODC for the 12,000-acre Zhang Dong Block. See "Management's Plans" above. In addition, on August 26, 1998, the Company, Apache and CNODC began drilling the C-5 exploration

well on the Zhao Dong Block and on August 26, 1998, they began drilling the C-4-2 appraisal well on the Zhao Dong Block.

In September 1998, the Company exchanged (i) 15,000 Equity Warrants from the May 20, 1997 Equity Offering, exercisable on or after May 20, 1998 and before May 20, 2004, and entitling the holder to purchase 351,015 shares of Common Stock at a price of \$3.09 per share and (ii) 24,015 Warrants issued on May 20, 1997, in connection with interest payable on the Secured Subordinated Notes due April 15, 2000, exercisable between May 20, 1998 and November 1, 2000, at an exercise price of \$3.09 per share, held by an institutional holder, for new Warrants exercisable on or before September 30, 1998 and entitling the holder to purchase 351,015 shares of restricted Common Stock at a price of \$2.50 per share. On September 17, 1998, the new Warrants were exercised, as a result of which the Company received approximately \$0.9 million and is to issue 351,015 shares of its restricted Common Stock in an exempt private placement. The Warrant Exchange Agreement provides that if at any time on or before March 15, 1999, any other holder of Equity Warrants from the May 20, 1997 Equity Offering is offered an exchange of such Warrants or an amendment to such Warrants to provide for a more favorable exercise provision than offered in the Warrant Exchange Agreement, the party to the Warrant Exchange Agreement shall be entitled to purchase additional shares of Common Stock at a price of \$0.01 per share in an amount that will make its effective exercise price under the Warrant Exchange Agreement equivalent to that provided to such other Warrant holder.

Year 2000 Compliance

The Company has conducted a review of its computer systems to identify the systems that could be affected by the "Year 2000" issue and has upgraded certain of its software to software that purports to be Year 2000 compliant. The Year 2000 problem is the result of computer programs being written using two digits (rather than four) to define the applicable year and equipment with time-sensitive embedded components. Any of the Company's programs that have time-sensitive software or equipment that has time-sensitive embedded components may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a major system failure or miscalculations. Although no assurance can be given because of the potential wide scale manifestations of this problem which may affect the Company's business, the Company presently believes that the Year 2000 problem will not pose significant operational problems for its computer systems. The Company is not able to estimate the total costs of undertaking Year 2000 remedial activities, if they will be required. However, based upon information developed to date, it believes that the total cost of Year 2000 remediation will not be material to the Company's cash flow, results of operations or financial condition.

The Company also may be vulnerable to other companies' Year 2000 issues. The Company's current estimates of the impact of the Year 2000 problem on its operations and financial results do not include costs that may be incurred as a result of any vendors' or customers' failure to become Year 2000 compliant on a timely basis. The Company intends to initiate formal communications with all of its significant vendors and customers with respect to such persons' Year 2000 compliance programs and status in the fourth quarter of 1998. The Company expects to complete its Year 2000 review and, if required, remediation efforts within a time frame that will enable its computer-based and embedded chip systems to function without significant disruption in the Year 2000. However, there can be no assurance that such other companies will achieve Year 2000 compliance or that any conversions by such companies to become Year 2000 compliant will be compatible with the Company's computer system. The inability of the Company or any of its principal vendors or customers to become Year 2000 compliant in a timely manner could have a material adverse effect on the Company's financial condition or results of operations.

The Company's principal business is the exploration for and development and production of crude oil and natural gas. Building on the success of its first such project in China, the joint venture on the Zhao Dong Block (see "Prospectus Summary -- The Company"), the Company's strategy is to expand those operations and, selectively, to enter into additional energy-related joint ventures. Published information shows that the undeveloped energy resources of China are extensive and that China's energy needs are growing at a high rate. The Chinese government, further, has recently encouraged foreign participation in the development of its energy resources, and has demonstrated a willingness to include independent oil and gas exploration companies such as the Company in additional energy-related joint ventures. The Company's excellent relationship with the Chinese energy-related industry representatives should assist it in remaining competitive in that country. See "The Zhao Dong Block," below. On August 20, 1998, the Company entered into a production sharing contract with CNODC, effective October 1, 1998, for the 12,000-acre Zhang Dong Block. See "Zhang Dong Block," below.

To expand its energy-related activities in China, on July 17, 1995 the Company signed a contract with CNPC United Lube Oil Corporation to engage in the manufacturing, distribution, and marketing of lubricating oil in China and in southeast Asian markets. See "United/XCL Lube Oil Joint Venture," below. And on December 14, 1995, the Company signed a Memorandum of Understanding with the China National Administration of Coal Geology ("CNACG"), pursuant to which the parties have begun cooperative exploration and development of coalbed methane in two areas of China. See "Coalbed Methane Project," below.

Corporate History; Address; Employees

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Before 1993, the Company operated primarily in the Gulf Coast area of the United States. Formerly The Exploration Company of Louisiana, Inc., XCL Ltd. was incorporated in Delaware in 1987. It is the successor to a Louisiana corporation of the same name, incorporated in 1981. The Company's principal executive offices are at 110 Rue Jean Lafitte, 2nd Floor, Lafayette, Louisiana 70508. Its telephone number is (318) 237-0325.

As of June 30, 1998, the Company's employees totaled 26. No employees are subject to any union contracts. The Company believes it maintains good relations with its employees.

The Zhao Dong Block

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Geology

The Zhao Dong Block extends from the shoreline of the Dagang oil field complex on Bohai Bay to water depths of approximately 5 meters. It encompasses approximately 197 square km (roughly 50,000 gross acres). Geologic information suggests that a portion of the Zhao Dong Block is a seaward extension of the Dagang oil field complex which is one of China's largest. According to statistics published by Wood McKenzie in the Southeast Asia Report, Dagang has produced over 700 million barrels of oil and has an estimated ultimate recovery of substantially more. The Company has not verified this published information.

Tertiary formations constitute a major portion of the Zhao Dong Block's production, its geology being in many respects similar to the U.S. Gulf Coast. Bohai Bay sediments are however non-marine and oil prone, while the U.S. Gulf Coast sediments are open-marine and gas and condensate prone. Seismic and subsurface data appear to indicate a thick, structured sedimentary section in the contract area. Proximity to producing fields and highly productive test results from the wells which have been drilled suggest excellent source rock.

Seismic

Seismic data were acquired in and around the Zhao Dong Block by shallow water and transition zone seismic crews from 1986 to 1988. While the original processing of the data was fair in reflection continuity, the Company's initial evaluation involved reprocessing 721 km, resulting in dramatic improvement for both structural and stratigraphic interpretation. This reprocessing, plus 390 km of new seismic data (outlined below), make available a current total of 1,111 km of 2D seismic data in and around the Zhao Dong Block.

From 1993 through 1995 the Company acquired an additional 390 km of 2D seismic data shot by Dagang Geophysical, a Chinese firm, all of which assisted the Company in assessing the Zhao Dong Block's potential.

A 1997 3-D seismic program was designed to delineate development well locations in the C-D Field and to better define exploration prospects on the remainder of the Zhao Dong Block. The program covered approximately 100 square km and cost approximately \$5.5 million; the Company's share was approximately \$2.75 million. A similar program (at a comparable cost) will be undertaken in 1998 to cover most of the rest of the Zhao Dong Block.

Drilling Results

Mapping of seismic events on shallow, medium, and deep reflections delineated possibly productive lead areas. Subsequent exploratory drilling resulted in three successful discoveries along the Zhao Bei fault system. Appraisal tests have structurally and stratigraphically delineated the aerial extent of both the "C" and the "D" segments of the C-D Field. Hydrocarbons have been found in the Lower Minghuazhen (Pliocene), the Guantao (Miocene), and the Shahejie (Oligocene) formations. Appraisal drilling commenced in 1998 to delineate the extent of the 1997 C-4 discovery located northeast of the C-D Field. The C-4 well is productive from the Shahejie Formation and, additionally, from Jurassic and Permian Age sediments.

The Company's drilling programs, year by year, have been as follows:

1994 Drilling

Zhao Dong C-1. The first of three Phase 1 exploratory wells, C-1 was spudded in April 1994, and drilled to a depth of 9,843 feet. Oil was tested in two Pliocene sands of the Lower Minghuazhen Formation, from perforations shot between 4,278 and 4,462 feet, and yielded a combined test rate of 2,160 BOPD with no water. Total net pay for the zones tested was 97 feet.

Zhao Dong C-2. Spudded and drilled in October 1994, the C-2 appraisal well was drilled to a depth of 7,134 feet and confirmed the C-1 discovery. Tested from four intervals, between 4,267 and 4,481 feet, the combined rate of three of the zones was 3,640 BOPD with no water. Total net pay for the zones tested was 47 feet.

1995 Drilling

Zhao Dong C-2-2. Drilled directionally in April 1995 to a measured depth of 5,625 feet (5,034 feet true vertical depth), the C-2-2 appraisal was shaled out for prospective sands in the Minghuazhen and then plugged back and sidetracked as C-2-2A.

Zhao Dong C-2-2A. After plugging and abandoning the bottom section of the C-2-2 well, the C-2-2A sidetrack well was drilled structurally updip of the original wellbore to a measured depth of 5,084 feet (4,956 true vertical depth). Although Minghuazhen prospective sands were present and not shaled out, the objective sands were water wet. Accordingly, the well was plugged and abandoned.

Zhao Dong D-1. Designed to test the Ordovician Carbonate section, the D-1 exploratory well reached a depth of 8,784 feet in June 1995. Although no hydrocarbon potential was found in the Ordovician Carbonates, oil was found in the Lower Minghuazhen, proving this shallower section to be productive upthrown to the Zhao Bei fault system. Drill-stem testing, with perforations at 4,185 to 4,205 feet, confirmed hydrocarbons with an initial rate of 1,330 BOPD. The net pay for this zone was 20 feet.

Although the D-1 was designed primarily to test deeper Paleozoic objectives, from 3,523 to 6,268 feet it yielded another 15 sands ranging in age from Pliocene Minghuazhen to Permian with hydrocarbon shows in mudlogs and/or sidewall cores. One Permian sand tested water with a trace of 30 gravity oil; one Minghuazhen sand tested water with 2% oil.

Located on the eastern edge of the C-D structural complex, the D-1 was not optimally placed to explore the shallower hydrocarbon-containing sands. But the fact that it tested 1,330 BOPD from one sand, tested water with smaller amounts of oil from two other sands, and had shows in numerous additional sands, suggests proximity to the limits of a significant oil accumulation. Accordingly, the D-2 well, discussed under 1996 Drilling, below, was designed to appraise the D-1 discovery at a much higher structural position. See also the discussion, immediately below, of a parallel relationship between and among the C-3, C-2, and C-1 wells.

Zhao Dong C-3. Although scheduled to be drilled to 5,004 feet, this appraisal well, drilled in July 1995, reached a total depth of 6,773 feet. Analysis of geological information during drilling had shown that the C-3 was structurally higher than both the C-1 and C-2, and so drilling continued to test the Shahejie Formation until, at approximately 6,595 feet, the Zhao Bei fault was crossed. Eight different sands had drill-stem tests; seven were found to be productive, as compared to only three and two for the C-2 and C-1. (The C-1 and C-2 did however have oil shows in several sands found to be productive in the C-3.) Cumulative rate potential was 5,830 BOPD and 460 Mcfpd; one Shahejie sand tested oil at 1,356 BOPD until water production began. (Initial analysis indicates the water was coned due to pressure draw-down during testing.) Total net pay for the zones tested was 143 feet.

The C-3 thus indicates that Shahejie Formation sands are oil productive with significant appraisal and exploration potential, both in the C-D Field and over much of the as yet undrilled portion of the Zhao Dong Block. Initial seismic stratigraphic analysis indicates additional lacustrine fan systems could be present downdip.

1996 Drilling -----

Zhao Dong D-2. Spudded in November 1996, the D-2 appraisal well was designed to test the Minghuazhen (Pliocene) and Guantao (Miocene) sands upthrown to the Zhao Bei fault system, as well as the Shahejie (Oligocene) Formation downthrown to a bifurcated fault of the same fault system. It was drilled to a measured depth of 7,501 feet (6,180 feet true vertical depth), on an upthrown fault closure approximately 1.5 km west of and structurally higher than the D-1 discovery well.

Five intervals (six drill-stem tests) from perforations at 3,285 to 5,445 feet (3,277 to 4,950 feet true vertical depth) tested at a combined rate of 11,571 BOPD, confirming the lateral productivity of several sands previously seen productive and, in the Guantao Formation, establishing production in several new sands. This well also demonstrated much higher initial flow rates without the need for artificial lift, one zone flowing 4,370 BOPD with 774 Mcfpd of gas, and a second zone flowing 2,471 BOPD with 168 Mcfpd of gas.

Sands seen productive in this well appear to be present over the entire area, adding significantly to the overall

potential of the C-D Field as well as the rest of the Zhao Dong Block. Total net pay for the zones tested was 243 feet.

1997 Drilling

Zhao Dong F-1. Planned as an exploratory well to fulfill Phase I drilling commitments, the F-1 was designed to test an 1,800+ foot thick section of the Shahejie Formation on a four-way dip structural closure. This exploratory well was spudded in October 1996 and directionally drilled, from a drill pad built at the shoreline, to a measured depth of 14,501 feet (10,968 true vertical depth). Severe mechanical problems prevented the well from being fully evaluated, and two sidetrack attempts were unsuccessful. Drilling operations under a turnkey contract have been abandoned. A number of Shahejie sands were encountered, with some apparent oil shows.

Zhao Dong D-3. The second appraisal well for the D-1 discovery, and located approximately 1 km north of the D-1, the D-3 was spudded in June 1997 and drilled to a depth of 5,740 feet. Although no drill-stem tests were performed (since the data collected were sufficient to confirm the productive nature of the reservoirs and since the rig was needed to drill the C-4 Well), using wireline tools, oil was recovered from several sands, most of which had tested oil in the D-2 and D-1 wells, as well as from three new productive sands for the "D" segment. Total net pay for the productive zone was 89 feet. The D-3 Well thus solidified structural interpretation and confirmed productive areas.

Zhao Dong C-4. An exploratory well designed to test Pre-Tertiary and Shahejie Formations, the C-4 was spudded in July 1997, on a separate structure approximately 2 km northeast of the C-1, and was drilled to a depth of 8,993 feet. Eight zones tested at a combined rate of 15,349 BOPD, 6,107 Mcfpd of gas, and 14 barrels of condensate per day. Total net pay for the zones tested was 209 feet.

The C-4 proved the presence and productivity of multiple Oligocene Age Shahejie sands on the Zhao Dong Block's northern portion. The C-4 also found multiple high-quality Cretaceous and Jurassic sands, not encountered in previous drilling, present and productive, indicating that such sands may be present and prospective elsewhere. Significantly, the Shahejie, Cretaceous and Jurassic sands contained higher gravity oil (28 to 38 degree API) and more gas, indicating higher reservoir energy than previously encountered. All zones tested exhibited natural flow.

1998 Drilling

Zhao Dong C-4-2. An appraisal well for the C-4 (the C-4-2), located approximately 1.3 km south of the C-4, was spudded in August 1998. The C-4-2 well is being drilled to delineate the size of the reservoir encountered in the C-4 well. The well is expected to be drilled to a depth of approximately 9,700 feet to test the Shahejie, Cretaceous and Jurassic Sands encountered in the C-4 well.

Zhao Dong C-5. Also in August 1998, the C-5 exploration well located approximately 3 km southwest of the D-2 well commenced drilling. The C-5 well was drilled to a depth of 7,646 feet. No commercial oil and gas was encountered and the well was plugged and abandoned.

Exploration Potential

Reconnaissance seismic surveys on the Zhao Dong Block have led the Company's independent petroleum engineers to identify, in addition to the C-D Field and the C-4 discovery, twenty-six prospective areas with exploratory potential. Seismic data over these prospective areas have been analyzed and the potential reserves are being evaluated.

Future Drilling Plans

The Company, Apache, and CNODC have approved a five-well drilling program for 1998, which will include an appraisal well (the Zhao Dong C-4-2, referred to above, which commenced drilling in August 1998) to appraise the C-4 discovery and four exploratory wells, at least two of which will be in the "C" and "D" segments (and one of which was the Zhao Dong C-5, referred to above). At least two of these wells are expected to be drilled during the 1999 drilling season.

The Contract

The Company acquired the rights to the exploration, development and production of the Zhao Dong Block by executing a Production Sharing Agreement with CNODC, a Chinese state enterprise, effective May 1, 1993 (the "Contract"). The Contract includes the following terms:

The Foreign Contractor (the Company and Apache as a group, working through a participation agreement) must pay for all exploration costs. If a commercial discovery is made and if CNODC exercises its option to participate, development and operating costs and allocable remainder oil and gas production are shared up to 51% by CNODC and the remainder by the Foreign Contractor.

The work under the Contract is divided into three categories, Exploration, Development and Production. Exploration, Development and Production operations can occur concurrently on different areas of the Zhao Dong Block. The Contract is not to continue beyond 30 consecutive years. All exploration work must be completed during the Exploration Period (which expires April 30, 2000). The Production Period for each oil field covered by the Contract is 15 years, starting with the date of first production for that field.

Exploration Period

Work performed and expenses incurred during this period, consisting of three phases totaling seven contract years and beginning as of May 1, 1993, are the exclusive responsibility of the Foreign Contractor. The Contract mandates certain minimal requirements for drilling, seismic and expenditures during each phase of the Exploration Period. The Foreign Contractor has elected to enter the third exploration phase (expiring April 30, 2000). The minimum work requirements for seismic and the minimum expenditures for the balance of the Contract have been met. This leaves only the drilling requirements left to be satisfied. The Foreign Contractor is required to drill three exploratory wells prior to the expiration of the Exploration Period. This will complete its requirements in the Exploration Period. These three wells are approved in the 1998 work program and budget and, subject to rig availability (and, as to one of the wells, location approval), are expected to be drilled in 1998 or 1999.

Development Period

The Development Period for any field discovered during the Exploration Period commences on the date the requisite Chinese governmental authority approves the development plan for an oil and/or gas field. The C-D Field is now in the Development Period.

Production Period

The Production Period for any oil and/or gas field covered by the Contract (the "Contract Area") will be 15 consecutive years (each of 12 months), commencing for each such field on the date of commencement of commercial production (as determined under the terms of the Contract). However, prior to the Production Period, and during the Development Period, oil and/or gas may be produced and sold during a long-term testing period.

Relinquishment

The Company expects that no relinquishment will be required until Exploration Phase 3 has been concluded. After April 30, 2000, the portions of the Contract area, not including areas in which development and/or production activities have been undertaken, must be relinquished.

Termination of the Contract

The Contract may be terminated by the Foreign Contractor at the end of each phase of the Exploration Period, without further obligation. The parties have elected to go into the third phase of the Exploration Period.

Post-Production Operating and Exploration Costs

After commercial production has begun, the operating costs incurred in any given calendar year for an oil field shall be recovered in kind from 60% of that year's oil production. After recovery of operating costs, the 60% is applied to exploration costs. Unrecovered operating costs shall be carried forward.

After recovery of operating and exploration costs for any field, development costs shall be recovered by the Foreign Contractor and CNODC from 60% of the remaining oil production, plus deemed interest at 9%.

Natural gas shall be allocated according to the same general principles, but in order to ensure reasonable benefit for the Foreign Contractor the allocation percentages shall be adjusted in the light of actual economic conditions.

Annual gross production ("AGP") of each oil and gas field shall be allocated in kind in the following sequences and percentages:

(1) 5 percent of AGP shall be allocated to pay Chinese taxes.

(2) The Chinese government shall receive a sliding scale royalty, determined on a field by field basis, calculated as follows (as amended by the Ministry and State Taxation Bureau, effective January 1, 1995):

METRIC TONS OF ANNUAL CRUDE OIL PRODUCTION	ROYALTY RATE
(One metric ton is roughly equivalent to seven barrels of crude oil)	
Up to and including 1,000,000.....	Zero
1,000,000 to 1,500,000	4%
1,500,000 to 2,000,000	6%
2,000,000 to 3,000,000	8%
3,000,000 to 4,000,000	10%
Over 4,000,000.....	12.5%

(3) 60% of AGP shall be deemed "cost recovery oil" and used for cost recovery, first of operating costs, and second for exploration and development costs (including deemed interest). Cost recovery oil shall not be reduced by any royalty due the Chinese government.

(4) After recovery of operating, exploration, and development costs (including deemed interest), the remainder of AGP shall be considered "remainder oil," which shall then be further divided into "allocable remainder oil" and "Chinese share oil." Allocable remainder oil shall be calculated for each field, based upon a sliding scale formula applied to each such field's annual production, and shall be shared by the parties in proportion to their respective interests under the Contract. All oil remaining after the above allocations shall be designated Chinese share oil and allocated to CNODC or other Chinese government designee.

Administration of the Contract; Arbitration

The Contract is administered by the JMC, consisting of an equal number of representatives designated by CNODC and by the Foreign Contractor. Disputes must be resolved, first through negotiation, and then arbitration (though CNODC may have the right to seek resolution in Chinese courts). CNODC has not waived sovereign immunity in any proceedings commenced in China.

If accepted by the parties, arbitration will be conducted by the China International Economic and Trade Commission under its provisional rules. If that is not accepted by the parties, disputes may be arbitrated by a panel of three arbitrators, each party to appoint one and the third appointed by the two thus chosen or, failing such appointment, by the Arbitration Institute of the Stockholm (Sweden) Chamber of Commerce. Arbitration shall be conducted under the rules of the UN Commission on International Trade Law of 1976 (subject however to such rules as expressly provided in the Contract). Awards shall be final and binding on the parties. The Contract is governed by Chinese law.

Apache Farmout

In March 1994, by means of a participation agreement ("Participation Agreement"), the Company farmed out a one-third interest in the Foreign Contractor's interest in the Zhao Dong Block to Apache in exchange for certain cash payments and Apache's agreement to assume its pro rata share of expenditures and liabilities with respect to exploration and development. As required by the Participation Agreement, in June 1994, Apache and the Company entered into a Joint Operating Agreement (the "Operating Agreement"). To further reduce the Company's exploration capital requirements and accelerate the development of the Zhao Dong Block, the Company and Apache entered into an agreement on May 10, 1995 (the "Second Participation Agreement") pursuant to which Apache increased its interest in the Contract to 50% of the Foreign Contractor's interest and assumed operatorship, obligating itself to pay 100% of the costs of drilling and testing four exploratory wells (the "Carried Wells") on the Zhao Dong Block. The drilling and testing of the C-3, D-1, D-2 and F-1 wells will satisfy the obligations regarding the four Carried Wells. All of these wells have been drilled and tested with the exception of the F-1 Well, drilling operations on which have been abandoned. The Company does not believe that such operations on the F-1 Well to date satisfy Apache's obligations to deliver a fourth Carried Well. The amounts advanced by Apache for the Company's share of the Carried Wells are recoverable from a portion of the Company's share of cost recovery revenues from the Zhao Dong Block. In addition, Apache obligated itself to pay the Company 16.667% of the value of the recoverable proved reserves attributable to the portion of the Zhao Dong Block delineated by the drilling of the C-1 and C-2 and C-3 wells, the combined area designated in the agreement as the "C Field," all as agreed to by the Company and Apache in the Second Participation Agreement. Payment for this purchase will be computed in accordance with evaluation methodology as set forth in the Second Participation Agreement and made to the Company from time to time as each segment of the field is placed on production.

In consideration of the above described payments, Apache assumed operatorship of the Zhao Dong Block and increased its interest from 33.33% to 50% of the Foreign Contractor's share. All future exploration expenditures in excess of the Carried Wells will be borne 50% each by the Company and Apache. Under the Operating Agreement, approval of a successor operator requires the vote of not less than 55% of the Foreign Contractor's interest; if the operator reduces its participating interest to less than 25%, a committee established under the Operating Agreement comprised of Apache and XCL (the "Operating Committee") shall vote on whether a successor operator should be named. The appointment of a successor or replacement operator requires government approval. CNODC has the right to become operator of production operations in certain circumstances described in the Contract.

All work under the Contract must be pursuant to a work program and budget approved by the JMC. Each year, the Operating

Committee must submit a proposed work program and budget to the JMC. Operating Committee approval of this work program and budget requires the vote of not less than 55% of the Foreign Contractor's interest. If 55% of the Foreign Contractor's interest does not vote in favor of a proposed work program and budget, the operator must submit the minimum work program and budget necessary to meet the contractual obligations of the Foreign Contractor under the Contract.

Under the Participation Agreement and the Operating Agreement, Apache and the Company each has a right of first refusal with respect to any sale or transfer of interest in the Foreign Contractor's share of the Contract. In addition, under the Participation Agreement Apache and the Company each has a right of first refusal with respect to the sale of 50% or more of outstanding voting capital stock of their respective subsidiaries party to the Contract and the Participation Agreement. In addition, each party has the option to purchase the other party's interest in the Contract upon the occurrence of certain "option events." Option events include the failure more than twice in one year to pay sums due under the Operating Agreement, after receiving written notice of default and failing to cure within any applicable cure period provided by the Operating Agreement (if nonpayment is the subject of dispute and arbitration under the Operating Agreement, it does not constitute a "failure to pay" until an arbitral decision is rendered against the nonpayer), the inability of a party to pay its debts as they fall due or a final unappealable order by a court of competent jurisdiction liquidating the party or appointing a receiver to take possession of all of the party's assets, the transfer of more than 49% of the voting shares of the Apache subsidiary holding Apache's interest in the Zhao Dong Block or XCL-China Ltd. ("XCL-China"), the XCL subsidiary holding XCL's interest in the Zhao Dong Block, by their respective parents, or certain other defaults under the Operating Agreement or the Contract. The consideration to be paid on the exercise of the option to purchase is the fair market value of the interest assigned. If the parties cannot agree on the fair market value of the interest, it is to be determined by arbitration. This option runs only to the benefit of Apache and XCL-China and may not be transferred by either of them to any third party.

United/XCL Lube Oil Joint Venture
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On July 17, 1995, the Company signed a contract with CNPC United Lube Oil Corporation to form a joint venture company to engage in the manufacturing, distribution and marketing of lubricating oil in China and southeast Asian markets. The joint venture has a 30-year life unless extended. The registered capital of the joint venture is \$4.9 million, with the Company to contribute \$2.4 million for its 49% interest, the last installment of which was paid in late 1997. As its investment for 51% of the stock, the Chinese contributed an existing lubricating oil blending plant in Langfang, China, with a Chinese government appraised value of \$2.5 million. The registration of the joint venture was approved by Chinese authorities and the effective date of the joint venture is January 1, 1998. In a letter of intent executed contemporaneously with the contract, the parties have agreed to consider the feasibility of (i) contributing to the joint venture a second existing plant in southwest China and (ii) other projects, including constructing oil terminals on the north and south coasts of China and engaging in upgrading certain existing refineries within China.

The Langfang plant is located 50 km southeast of Beijing. The facility is built on a 10-acre site and has been evaluated on the basis of U.S. Gulf Coast costs at a replacement value of \$7.0 million, without taking into account the land value. The plant currently produces and markets approximately 5,000 metric tons of lube oil per year. Approximately \$1.5 million of the Company's investment has been allocated to the physical upgrading of the facility, including the installation of automated filling lines and packaging systems. Upon completion of the upgrading, the plant's production capacity will be approximately 20,000 metric tons per year, assuming one eight hour shift, five days per week. Additional capacity will be available by adding shifts and expanding the work week. Further capital improvements estimated to cost \$15 million could increase capacity to approximately

100,000 metric tons per year.

It is the Company's opinion that an essential element to the success of the lube oil business in China will be the ability to distribute the product. In order to assure adequate distribution of the joint venture's products, the Company has entered into a memorandum of understanding with the Coal Ministry in China which is expected to be reduced to a formal distribution contract. The Coal Ministry operates 125 major integrated distribution centers throughout China and the Company expects to market the joint venture's products through this system.

Coalbed Methane Project

On March 31, 1995, the Company signed an agreement with the CNACG, pursuant to which the parties will commence cooperation for the exploration and development of coalbed methane in two areas in China. During the study period contemplated by the agreement, the Company will evaluate the properties, after which the parties are expected to enter into a comprehensive agreement as to the specifically designated areas, which may provide the basis for coalbed methane development in other areas of China. On December 14, 1995, the Company signed a Memo of Understanding with CNACG to develop a contract for exploration, development and utilization of coalbed methane in the two areas. The March 31, 1995 agreement expired by its terms on December 31, 1996; however, the Company has been informally advised that CNACG will extend the term of the agreement.

Zhang Dong Block

On August 20, 1998, XCL (through its subsidiary XCL-Cathay Ltd.) signed a production sharing contract with CNODC for the 12,000-acre Zhang Dong Block. On September 15, 1998, the contract was approved by the Ministry of Foreign Trade and Economic Cooperation of China, effective October 1, 1998. The Zhang Dong Block is located North and adjacent to the Zhao Dong Block in the offshore area of Bohai Bay. Dagang Petroleum (the subsidiary of CNPC that operates onshore fields in this area) has drilled and tested nine wells in the offshore block. All but one of these wells have been drilled from an artificial island or a causeway extending into the bay. All nine wells were tested with five having commercial oil production rates, one well with gas production, two wells with low oil production rates and one well which produced water. The Company's review of production information suggests that the wells were drilled with mud weights that were considerably higher than necessary, which damaged the producing formation and restricted the flow rates. Under the contract, the Company is required in the next year at its expense to drill one well, upgrade both the island and the causeway and reprocess and reinterpret certain seismic data. If the Company elects to extend the appraisal phase of the contract beyond the first year, it may do so by committing to an additional two wells during each of the next two-year periods (for a total commitment of five wells over a five-year period). Development costs and production will be shared 49% by the Company and 51% by CNODC. XCL is designated as the operator.

Domestic Properties

U.S. Exploration and Production Activities. The Company has sold substantially all of its U.S. producing properties except for an interest in the Berry R. Cox Field (the "Cox Field") in South Texas and is seeking to sell or joint venture its interest. The Company holds a 60% to 100% working interest in 1,265 acres in this field on which there are currently four producing wells (3.45 net wells). The Company's 1997, 1996 and 1995 annual net sales of natural gas from the Company's interest in the Cox Field was 72,200, 467,000 and 522,000 Mcf, respectively on a sale basis. The December 1997, 1996 and 1995 gas price for the Company's remaining domestic properties was \$2.28, \$1.84 and \$1.33 per Mcf, respectively. During 1996, litigation was instituted against the Company in connection with the Cox Field which has effectively impeded the Company's ability to consummate a sale of such property. Upon resolution of the litigation, the Company will continue its efforts to divest itself of these

properties. See "-- Litigation" below.

Lutcher Moore Tract. The Company holds, in partnership with one of its subsidiaries, a fee interest in a 62,500 acre undeveloped tract of Louisiana fee property located in Ascension, St. James and St. John the Baptist Parishes, Louisiana (the "Lutcher Moore Tract"). Expressions of interest to purchase the property have been received from several parties. The Company is also evaluating the possibility of developing the property into a source of wetland mitigation credits. In connection with the acquisition of the Lutcher Moore Tract, the Company's indirect ownership of such tract is subject to a first mortgage, with a current principal balance of approximately \$1.5 million, and a number of sellers' notes, with an aggregate current principal balance of approximately \$0.5 million (collectively, the "Lutcher Moore Debt"). Recourse by the holder of the first mortgage and the holders of the sellers' notes is limited to the Lutcher Moore Tract, with neither the Company nor its wholly-owned subsidiaries, XCL-Land Ltd. and The Exploration Company of Louisiana, Inc., liable for the debt.

Oil and Gas Reserves

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Based on the report of Gruy, the Company's independent engineering firm, net proved reserves in the C-D Field are estimated to be 11.76 million barrels as of January 1, 1998. CNODC has exercised its option to pay 51% of all development costs and receive 51% of oil production. Consequently, the Company's present value of estimated future pre-tax net cash flows is approximately \$64.8 million. The standardized measure of discounted future net cash flows determined in accordance with the rules prescribed by FASB No. 69 is \$53.8 million. Future reserve values are based on year end prices and operating costs, production and future development costs based on current costs with no escalation. See "Risk Factors -- Reliance on Estimates of Proved Reserves and Future Net Revenue" and "Supplemental Oil and Gas Information" in the Notes to the Consolidated Financial Statements.

Gruy has been preparing reserve estimates for the Company's oil and gas reserves since August 1996. Gruy was selected by the Company for this task based upon its reputation, experience and expertise in this area. Gruy is an international petroleum consulting firm with offices in Houston and Dallas, Texas. Their staff includes petroleum engineers and geologic consultants. Services they provide include reserve estimates, fair value appraisals, geologic studies, expert witness testimony and arbitration. In 1997 the Company paid Gruy approximately \$68,400 in fees for reserve report valuations and other services. No instructions were given and no limitations were imposed by the Company on the scope of or methodology to be used in preparing the reserve estimates.

Offices

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On March 31, 1997, the Company sold its office building located at 110 Rue Jean Lafitte, Lafayette, Louisiana for \$900,000. On the same day, the Company entered into a lease with the purchaser for one floor (approximately 9,500 square feet) of the two-story building for a term of 22 months with an option to extend for an additional eight-month period, at a monthly rental of \$7,500 for the first 21 months and \$6,039 for the last month (which is offset against mortgage payments due from the new owner of the building). The outstanding balance of the underlying mortgage was repaid in full upon the sale of the building. In March 1998, the Company entered into a lease for approximately 3,400 square feet of office space located at 5487 San Felipe, Suite 2110 in Houston, Texas. The lease expires December 31, 2000 and has a monthly rental of \$5,166. On July 15, 1998, the Company entered into a lease for approximately 1,649 square feet of office space located at No. 1013, Office Tower 1, 138 Wang Fu Jing Da Jie, Beijing, China. The lease expires July 15, 2000 (with an option to extend for an additional two years) and has a monthly rental of \$3,297 (payable in Chinese Renminbi).

Litigation

During December 1993, the Company and two of its wholly-owned subsidiaries, XCL-Texas, Inc. and XCL Acquisitions, Inc., were sued in separate lawsuits entitled Ralph Slaughter, Secretary of the Department of Revenue and Taxation, State of Louisiana versus The Exploration Company of Louisiana, Inc. (15th Judicial District, Parish of Lafayette, Louisiana, Docket No. 93-5449); Ralph Slaughter, Secretary of the Department of Revenue and Taxation, State of Louisiana versus XCL-Texas, Incorporated (15th Judicial District, Parish of Lafayette, Louisiana, Docket No. 93-5450); and Ralph Slaughter, Secretary, Department of Revenue and Taxation vs. XCL Acquisitions, Inc. (15th Judicial District, Parish of Lafayette, Louisiana, Docket No. 93-5337) by the Louisiana Department of Revenue for Louisiana State corporate franchise and income taxes for the 1987 through 1991 fiscal years in an aggregate amount (including penalties and interest through September 1, 1993) of approximately \$2.2 million. Statutory interest at the rate of 15% per annum on the principal will continue to accrue from September 1, 1993 until paid. The Louisiana Department of Revenue has also assessed additional Louisiana State franchise tax against the Company and/or XCL Acquisitions, Inc. for the tax years 1991 through 1996 and additional income tax against XCL Acquisitions, Inc. for the tax years 1991 and 1995 on the same basis as those set forth in the lawsuits. The Company protested the assessments and small adjustments were made by the Department of Revenue. The additional income tax assessment for the 1991 and 1995 tax years is \$89,688 and the additional franchise tax assessment for the tax years 1991 through 1996 totals \$1.6 million plus statutory interest of 15% per annum from the due date until paid and penalties not to exceed 25% of the total tax due. The Company believes that these assessments have been adequately provided for in the consolidated financial statements. The Company has filed answers to each of these suits and intends to defend them vigorously. The Company intends to continue to protest the assessments. The Company believes that it has meritorious defenses and has instructed its counsel to contest these claims.

On July 26, 1996, three lawsuits were filed against XCL-Texas, Inc., a wholly-owned subsidiary of the Company, entitled Stroman Ranch Company Ltd., et al. v. XCL-Texas, Inc. (229th Judicial District, Jim Hogg County, Texas, Cause No. 4550), Frank Armstrong, et al. v. XCL-Texas, Inc. (229th Judicial District, Jim Hogg County, Texas, Cause No. 4551), and Stroman Ranch Company Ltd., et al. v. XCL-Texas, Inc. (229th Judicial District, Jim Hogg County, Texas, Cause No. 4552). The lawsuits allege various claims, including a claim that one of the oil and gas leases in the Berry R. Cox Field should be terminated. The Company believes the claims made in the lawsuits are without merit and intends to vigorously defend itself. The lawsuits have prevented the Company from selling its interest in the Cox Field.

In July 1997, China Investment and Development Corporation ("CIDC"), holders of the Company's Series B Preferred Stock sued the Company and each of its directors in an action entitled China Investment and Development Corporation vs. XCL Ltd.; Marsden W. Miller, Jr.; John T. Chandler; David A. Melman; Fred Hofheinz; Arthur W. Hummel, Jr.; Michael Palliser; and Francis J. Reinhardt, Jr. (Court of Chancery of the State of Delaware in and for New Castle County, Civil Action No. 15783-NC). The suit alleged breach of (i) contract, (ii) corporate charter, (iii) good faith and fair dealing and (iv) fiduciary duty with respect to the alleged failure of the Company to redeem CIDC's Series B Preferred shares for a claimed aggregate redemption price of approximately \$5.0 million. Effective December 31, 1997, the Company and CIDC entered into an interim settlement agreement pursuant to which the Company paid CIDC \$1 million as a deposit in anticipation of a final settlement and dismissal of the lawsuit. On March 3, 1998, the final settlement took place and, shortly thereafter, the deposit was returned to XCL. On March 9, 1998, the lawsuit was dismissed with prejudice.

On January 24, 1997, a subsidiary of the Company filed an action captioned L.M. Holding Associates, L.P. v. LaRoche Chemicals, Inc. (23rd Judicial District Court, St. James Parish, Louisiana, No. 24, 338, Section A). The lawsuit claims that LaRoche failed to properly maintain its 8" brine line that runs 10 miles across the subsidiary's property in St. James Parish, Louisiana, discharged brine from this line onto the subsidiary's

property and no longer has the right to operate said line. In 1998, the court issued a preliminary injunction enjoining LaRoche from discharging brine onto the subsidiary's property and enjoining LaRoche from continued operation of the 8" brine line without a scientific system for early detection of leaks and without periodic monitoring of the line. The Company is seeking damages and cancellation of LaRoche's right to operate the brine line. No trial date has been set. The Company intends to vigorously prosecute the lawsuit.

Other than as disclosed above, as of the date hereof, there are no material pending legal proceedings to which either the Company or any of its subsidiaries is a party or to which any of their properties are subject which would have a material adverse effect on the business or properties of the Company, taken as a whole.

MANAGEMENT

Officers of the Company and its wholly owned subsidiaries serve at the pleasure of the Board of Directors and are appointed annually at the meeting of the Board of Directors immediately following the annual meeting of shareholders. The following individuals were officers and directors of the Company and its subsidiaries as of October 1, 1998:

<TABLE>
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Name	Position	Age	Officer Since	Director Since
Marsden W. Miller, Jr.	Chairman of the Board and Chief Executive Officer of the Company and Principal Accounting Officer (1)	57	1981	1981
John T. Chandler	Vice Chairman of the Board of the Company and Chairman and Chief Executive Officer of XCL-China Ltd. (1)(4)	65	1982	1983
Danny M. Dobbs	President and Chief Operating Officer of the Company and President of XCL-China Ltd.(4)	52	1991	--
Benjamin B. Blanchet	Executive Vice President and Director of the Company(1)	45	1997	1997
Richard K. Kennedy	Vice President of Engineering of the Company	44	1989	--
R. Carter Cline	Vice President-Land of the Company	49	1990	--
Herbert F. Hamilton	Executive Vice President Operations, XCL-China Ltd.(4)	62	1995	--
Joseph T. K. Chan	Vice President, XCL-China LubeOil Ltd.(5)	51	1998	--
John H. Haslam	Treasurer of the Company	56	1996	--
Lisha C. Falk	Secretary of the Company	37	1997	--
Fred Hofheinz	Director of the Company, Attorney at Law(2)(3)	60	--	1991
Arthur W. Hummel, Jr.	Director of the Company, Independent Consultant(2)(3)	78	--	1994
Sir Michael Palliser	Director of the Company, Independent Consultant(2)(3)	76	--	1994
Francis J. Reinhardt, Jr.	Director of the Company, Partner in Carl H. Pforzheimer & Co.(2)(3)	68	--	1992
R. Thomas Feters, Jr.	Director of the Company, Independent Consultant (2)(3)	58	--	1997

- (1) Member of the Executive Committee. The Committee met once during 1997 and, subject to certain statutory limitations on its authority, has all of the powers of the Board of Directors while the Board is not in session, except the power to declare dividends, make and alter Bylaws, fill vacancies on the Board or the Executive Committee, or change the membership of the Executive Committee.
- (2) Member of the Compensation Committee. The Committee met twice in 1997. It is charged with the responsibility of administering and interpreting the Company's stock option plans; it also recommends to the Board the compensation of employee-directors, approves the compensation of other executives and recommends policies dealing with compensation and personnel engagements.
- (3) Member of the Audit Committee. The Committee met once in 1997. It reviews with the independent auditors the general scope of audit coverage. Such review includes consideration of the Company's accounting practices, procedures and system of internal accounting controls. The Committee also recommends to the Board the appointment of the Company's independent auditors, and at least annually the Committee reviews the services performed and the fees charged by the independent auditors engaged by the Company.
- (4) XCL-China Ltd. is an International Business Company incorporated under the laws of the British Virgin Islands, wholly owned by the Company, which manages the Company's oil and gas operations on the Zhao Dong Block.
- (5) XCL-China LubeOil Ltd. is an International Business Company incorporated under the laws of the British Virgin Islands, wholly owned by the Company, which holds a 49% interest in a joint venture with CNPC United LubeOil Corporation for the production and sale of lubricants.

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Under the Amended and Restated Certificate of Incorporation, as amended, and Amended and Restated Bylaws of the Company, the Board Directors is divided into three classes of directors serving staggered three-year terms, with one class to be elected at each annual meeting of shareholders and to hold office until the end of their term and until their successors have been elected and qualified. The current Class I directors, whose terms of office expire at the 2000 annual meeting of shareholders, are Messrs. Arthur W. Hummel, Jr., Michael Palliser and Benjamin B. Blanchet; the current Class II directors, whose terms of office expire at the 1998 annual meeting of shareholders, are Messrs. Marsden W. Miller, Jr., R. Thomas Feters, Jr. and Francis J. Reinhardt, Jr.; and the current Class III directors, whose terms of office expire at the 1999 annual meeting of shareholders, are Messrs. John T. Chandler, Fred Hofheinz and Peter F. Ross.

The Board held five meetings in 1997. The average attendance by directors at these meetings was 100%, and all directors attended 100% of the Board and Committee meetings they were scheduled to attend.

Under Delaware law and the Bylaws, incumbent directors have the power to fill any vacancies on the Board of Directors, however occurring, whether by an increase in the number of directors, death, resignation, retirement, disqualification, removal from office or otherwise. Any director elected by the Board to fill a vacancy would hold office for the unexpired term of the director whose place has been filled except that a director elected to fill a newly-created directorship resulting from an increase in the number of directors, whether elected by the Board or shareholders, would hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until his successor is elected and qualified. If the size of the Board is

increased, the additional directors would be apportioned among the three classes to make all classes as nearly equal as possible.

The holders of the Amended Series A Preferred Stock are entitled to cast the same number of votes (voting together with the Common Stock as a single class) as the number of shares of Common Stock issuable upon conversion of the Amended Series A Preferred Stock.

The holders of the Amended Series B Preferred Stock are entitled to cast 50 votes per share (voting together with the Common Stock as a single class).

There are no arrangements or understandings with any directors pursuant to which they have been elected a director nor are there any family relationships among any directors or executive officers.

Biographical Information

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MARSDEN W. MILLER, JR., Chairman, has been Chief Executive Officer and a director since the Company's incorporation in 1981. He has engaged in the independent domestic and international oil business since 1964 on an individual basis, as a stockholder and officer in several companies and as a practicing attorney. In addition to the U.S. and China, he has been involved in various aspects of the oil business in Southeast Asia, Africa, Europe, South America, several former Soviet Republics and Canada. Mr. Miller graduated from Louisiana State University in 1964.

JOHN T. CHANDLER is Vice Chairman of the Board and Chairman and Chief Executive Officer of XCL-China. He joined the Company in June 1982, becoming a director in May 1983. From 1976 until he joined the Company he was the Managing Partner of the Oil and Gas Group of GSA Equity, Inc., New York and director of Executive Monetary Management, Inc., the parent company of GSA Equity, Inc. From 1972 to 1976, he was director and Vice President of Exploration and Production of Westrans Petroleum, Inc. and a director of a number of its subsidiaries. During 1971 and 1972, he was a petroleum consultant and manager of the oil department of Den norske Creditbank in Oslo, Norway. Mr. Chandler was Vice President and Manager of the Petroleum Department of the Deposit Guaranty National Bank in Jackson, Mississippi from 1969 to August 1971 and, from 1967 to February 1969, was a petroleum engineer first for First National City Bank (now known as Citibank, N.A.) and then The Bank of New York. From March 1963 to July 1967, he was employed by Ashland Oil and Refining Company as a petroleum engineer. From 1959 to 1963, he held the same position with United Producing Company, Inc., which was acquired by Ashland Oil.

Mr. Chandler graduated from the Colorado School of Mines with a Professional degree in petroleum engineering and is a Registered Professional Engineer in the States of Colorado and Texas, a member of the Society of Petroleum Evaluation Engineers and a member of AIME.

DANNY M. DOBBS is the President and Chief Operating Officer of the Company effective December 17, 1997. Mr. Dobbs previously served as Executive Vice President and Chief Operating Officer of the Company and prior to that as Vice President-Exploration of XCL Exploration & Production, Inc., a wholly-owned subsidiary of the Company, having joined the Company in 1985 as Senior Exploration Geologist. From 1981 to 1985 Mr. Dobbs was a consulting geologist. From 1976 to 1981, he held the position of Exploration Geologist in the South Louisiana District for Edwin L. Cox in Lafayette, Louisiana. He served in various geologic positions with Texaco, Inc. from 1971 to 1976, his experience encompassing management, structural and stratigraphic mapping, coordination of seismic programs and budget evaluation and preparation. Mr. Dobbs holds B.S. and M.S. degrees in geology from the University of Alabama, Tuscaloosa, Alabama.

BENJAMIN B. BLANCHET is Executive Vice President and director of the Company. Prior to joining the Company in August 1997, and since 1983, he was a partner in the law firm of Gordon, Arata, McCollam & Duplantis, L.L.P. in its Lafayette, Louisiana office. During that time, he practiced in the areas of

commercial litigation, corporate mergers and acquisitions, oil and gas transactions, secured financings, securities, tax and international law matters. Since 1985, he has provided substantial legal services to the Company, and has been the Company's lead attorney in China. He served on the Management Committee of Gordon, Arata, McCollam & Duplantis, L.L.P. from 1991 to 1997 and as the Managing Partner of the firm for four years from 1992 through 1995. He practiced law with the firm of Monroe & Lemann in New Orleans from 1978 through 1983. He is a member of the Louisiana Bar and admitted to practice before the United States Tax Court. Mr. Blanchet holds a B.A. degree, with highest distinction, from the University of Southwestern Louisiana and a J.D., cum laude, from Harvard Law School.

RICHARD K. KENNEDY is Vice President of Engineering and responsible for certain engineering aspects of the Company's oil and gas operations. From 1987, until he joined the Company in 1989, he was an operations engineer for Wintershall Corporation. From 1981 to 1986 he was with Borden Energy, originally as a petroleum engineer and later as regional operations manager. From 1979 to 1981, Mr. Kennedy was employed with Marathon Oil Company as a reservoir engineer, then as a drilling engineer. He was employed with Shell Oil Company as a petroleum engineer and reservoir engineer from 1977 to 1979. Mr. Kennedy graduated from Louisiana Tech University with a B.S. degree in petroleum engineering. He is a registered professional engineer in the State of Louisiana and a member of the Society of Petroleum Engineers.

R. CARTER CLINE is Vice President-Land, having joined the Company in October 1990. He has over 20 years of exploration and management experience. From 1982, until joining the Company, he was employed by Pacific Enterprises Oil Company (USA), successor by merger to Sabine Corporation, as East Gulf Coast Regional Land Manager in Houston, Texas. From 1979 to 1982, he served as Vice President-Land for Dynamic Exploration, Inc. in Lafayette, Louisiana. From 1974 to 1979, he served as Region Landman in Dallas and Division Land Manager in Houston, Texas, for Sabine Corporation, and from 1971 to 1974 was employed by Getty Oil Company in Houston, Texas and New Orleans, Louisiana. Mr. Cline holds a B.B.A. degree in Petroleum Land Management from the University of Texas at Austin and is a Certified Petroleum Landman.

HERBERT F. HAMILTON is Vice President Operations of XCL-China, having joined the Company in 1995. Mr. Hamilton has more than 30 years of experience in the fields of engineering, construction, construction management and consulting on heavy civil works, offshore platforms, submarine pipelines and construction equipment in over 35 countries. From 1990 to 1993, Mr. Hamilton served as Senior Project Manager for Earl and Wright in Houston, Texas. From 1993 to 1994, he served as President and a consultant to Planterra, Inc. in Houston, Texas and from 1994 until joining the Company he was an independent consultant. Mr. Hamilton is a Registered Professional Engineer and holds a B.S. in Architectural Engineering from the University of Texas at Austin.

JOSEPH T. K. CHAN is Vice President of XCL-China LubeOil Ltd., having joined the Company in 1998. Mr. Chan has more than 20 years experience in the oil industry with major American oil companies. From August 1994 until joining the Company, Mr. Chan was an agent and consultant for Asian importers of U.S. made chemical, petrochemical and industrial products. From 1991 to 1994 he was Regional Manager of Sun Oil Far East, Inc. and Head of Technical Support of China Sun Lubeoil joint venture plant in Skekou, China and was responsible for regional sales, marketing and production operations in Asia and the Pacific Rim under Sun Oil Trading, Inc., a wholly owned subsidiary of Sun Oil Corp. From 1988 to 1990, Mr. Chan was Marketing Director to De Huns International Ltd. with chemicals and garment manufacturing investments and operations in China. From 1986 to 1988, he served as General Manager of Sales & Marketing and Technical Services for U.K. based Castrol Oil Hong Kong. Mr. Chan served as Divisional Import Manager for Li & Fung Trading in Taiwan, Marketing Director of CDW Manufacturing Group in Hong Kong and Project Manager of Cha Chi Ming (China Investment) Ltd. from 1982 to 1986. From 1976 to 1981, he served as Industrial Sales &

Marketing Manager for Caltex Oil Hong Kong, a joint venture of Chevron and Texaco in Asia. From 1975 to 1976 he was Senior Sales Engineer and Area Sales Manager for Drew Chemical Corporation. Mr. Chan was employed with Esso Standard Oil Hong Kong as International Sales Supervisor from 1972 to 1975 and as a Marine and Aviation Sales and Technical Representative from 1970 to 1972. Mr. Chan holds a Bachelor of Commercial Science degree from CH University of Hong Kong and has completed the Masters Study Program from Caltex Management Institute in Indonesia. Mr. Chan has also attended comprehensive training in lubeoil engineering from the Esso Research Center in Abington Oxford, and leadership and refinery operations programs with Texaco and Chevron.

JOHN H. HASLAM is Treasurer, having joined the Company in 1990. From 1988 until joining the Company, he was employed by United Gas Pipeline as Credit Manager. From 1986 to 1988, he served as Director of Internal Audit for TransAmerican Natural Gas Corporation. From 1981 to 1986 he was the Audit Manager for ENSTAR Corporation. He was with Getty Oil from 1963 until 1981, as Audit Manager of Joint Venture Operations and various other accounting positions. Mr. Haslam holds a B.B.A. degree in Marketing from Baylor University.

LISHA FALK is Corporate Secretary, having joined the Company in 1981. Since joining the Company Ms. Falk has served in various administrative positions, most recently as Assistant Secretary.

R. THOMAS FETTERS, JR. is an independent oil and gas consultant. He has over 25 years of exploration, production and management experience, both domestic and foreign. From 1995 to 1997 Mr. Fetters was Senior Vice President of Exploration of National Energy Group, Inc., Dallas, Texas, and from February 1990, until September 1995, he was Vice President of Exploration of XCL Ltd., and President of XCL-China Ltd. During 1989, until joining the Company, he served as Chairman and Chief Executive Officer of Independent Energy Corporation. From 1984 to 1989, he served as President and Chief Executive Officer of CNG Producing Company in New Orleans, Louisiana, and from 1983 to 1984 as General Manager of the Planning and Technology Division of Consolidated Natural Gas Service Co. in Pittsburgh, Pennsylvania. From 1966 to 1983, he served in various positions, from Geologist to Exploration Manager, with several divisions of Exxon, primarily in the Gulf Coast region of the U.S. and internationally, in Malaysia and Australia. Mr. Fetters holds B.S. and M.S. degrees in geology from the University of Tennessee.

FRED HOFHEINZ is an attorney at law in Houston, Texas. From 1984 to 1987, he served as President of Energy Assets International Corporation, a fund management company, now a subsidiary of Torch Energy Advisors, serving as a consultant to Torch Energy Advisors until 1989. Mr. Hofheinz also served as the Mayor of Houston, Texas from 1974 to 1978. He, along with his family, developed the Astrodome in Houston, and owned the Houston Astros baseball team until 1974. He is founder and director of United Kiev Resources, Inc., an oil and gas production company operating in the Republic of the Ukraine in the name of its wholly-owned subsidiary, Carpatsky Petroleum Company. Mr. Hofheinz earned a Ph.D. degree in Economics from the University of Texas and his law degree from the University of Houston. He was appointed as a director by the Board at a meeting held March 21, 1991.

ARTHUR W. HUMMEL, JR., a director since April 1994, is the former U.S. Ambassador to the People's Republic of China during the period 1981 to 1985. Since his 1985 retirement from the State Department, after 35 years of service, he has been active in consulting with firms doing business in East Asia, and participating in academic and scholarly conferences in the U.S. and in the East Asia region. He is a member and trustee of many academic, business, and philanthropic organizations involved in international affairs.

Mr. Hummel was born in China. After education in the U.S. he returned to China prior to Pearl Harbor. Interned by the Japanese, he escaped and fought with Chinese guerrillas behind the Japanese lines in north China until the end of the war.

He obtained an M.A. (Phi Beta Kappa) in Chinese studies from

the University of Chicago in 1949, and joined the State Department in 1950. His early foreign assignments include Hong Kong, Japan and Burma. He was Deputy Director of the Voice of America in 1961-1963; Deputy Chief of Mission of the American Embassy in Taiwan, 1965-1968; Ambassador to Burma, 1968-1970; Ambassador to Ethiopia, 1975-1976; Ambassador to Pakistan, 1977-1981; and Ambassador to the Peoples Republic of China, 1981-1985. He was Assistant Secretary of State for East Asia 1976-1977. He has received numerous professional awards from within and outside the Government.

SIR MICHAEL PALLISER, a director since April 1994, was from 1984 to 1993 Chairman of Samuel Montagu & Co. Limited, the London merchant bank which was owned by Midland Bank, of which he was Deputy Chairman from 1987 to 1991, and which is now part of the Hong Kong & Shanghai Banking Corporation. He was Vice Chairman of Samuel Montagu from 1993 to 1996. He is a former Director of BAT Industries, Bookers, Eagle Star, Shell and United Biscuits.

In 1947, he joined the British Diplomatic Service and served in a variety of overseas and Foreign Office posts before becoming head of the Planning Staff in 1964-1966, Private Secretary to the Prime Minister, 1966-1969, Minister in the British Embassy in Paris, 1969-1971, and the British Ambassador and Permanent Representative to the European Communities in Brussels from 1971-1975. He was, from 1975 until his retirement in 1982, Permanent Under-Secretary of State in the Foreign and Commonwealth Office, and Head of the Diplomatic Service. From April to July 1982, he was a special adviser to the Prime Minister in the Cabinet Office during the Falklands War. He was appointed a Member of the Privy Council in 1983. Effective December 31, 1995, Mr. Palliser resigned as President of the China-Britain Trade Group and a director of the UK-Japan 2000 Group, and effective February 29, 1996, he resigned as Deputy Chairman of British Invisibles. Mr. Palliser is a former member of the Trilateral Commission, a director of the Royal National Theatre. He is currently Chairman of the Major Projects Association, designed to assist in and for the handling of major industrial projects. Mr. Palliser also serves as Vice-Chairman of the Salzburg Seminar, a center for intellectual exchange based in Middlebury, Vermont, with its conference center in Salzburg, Austria.

Sir Michael Palliser was educated at Wellington College and Merton College, Oxford. He saw wartime service in the British Army with the Coldstream Guards.

FRANCIS J. REINHARDT, JR., is a partner in the New York investment banking firm of Carl H. Pforzheimer & Co. Mr. Reinhardt has been a partner in the firm for over 30 years and has held various positions, specializing in independent oil and gas securities, mergers and acquisitions, placements participation and institutional sales since 1956. Mr. Reinhardt holds a B.S. degree from Seton Hall University and received his M.B.A. from New York University. Mr. Reinhardt is a member of the New York Society of Security Analysts, a member of and has previously served as president of the Oil Analysts Group of New York, a member and past president of the National Association of Petroleum Investment Analysts and a member of the Petroleum Exploration Society of New York. Mr. Reinhardt also serves as a director of Mallon Resources Corporation, a Nasdaq traded petroleum and mining company, as well as several privately held companies. Mr. Reinhardt was appointed as a director of the Company at a Board meeting held December 11, 1992.

PETER F. ROSS, was appointed Chairman of Dawnay Day Capital Markets in March 1998. Dawnay Day & Co. is a London based private investment banking firm. Mr. Ross retired as Chairman of Henderson Crosthwaite Institutional Brokers on December 31, 1996, after holding that position since 1987. Under Mr. Ross' term as Chairman, Henderson Crosthwaite became one of the leading firms in London in the area of oil and gas placements. From 1977 to 1986 he was head of Henderson Crosthwaite's institutional sales department, with special responsibility for the oil and gas division, until its acquisition by Guinness Mahon Bank in 1986.

Mr. Ross was commissioned into the British Army serving with the 5th Royal Inniskilling Dragoon Guards, his last posting being to Libya where he retired and set up an industrial services business. Following the Islamic Revolution in 1971, he returned to the United Kingdom and joined London stockbrokers Northcote &

Co. In 1974, he joined George Henderson & Co., becoming a partner in 1975, upon the merger with Fenn and Crosthwaite. Mr. Ross was appointed as a director of the Company at a meeting of the Board held April 7, 1998.

Executive Compensation

The following table sets forth information regarding the total compensation of the Chief Executive Officer and each of the four most highly compensated executive officers of the Company at the end of 1997, as well as the total compensation paid to each such individual for the Company's two previous fiscal years. Each of the named individuals has held his respective office throughout the entire fiscal year.

<TABLE>
<CAPTION>

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long Term Compensation				
		Salary (\$)	Bonus (\$)	(1) Other Annual Compen- sation(\$)	Awards		Payouts	
					(2) Restricted Stock Awards (#)	(3) Options/ SARs (#)	LTIP Payout (\$)	All Other Compen- sation(\$)
Marsden W. Miller, Jr. Chairman and Chief Executive Officer	1997	150,000	--	--	1,000,000 110,000	--	--	--
	1996	150,000	--	--	--	--	--	--
	1995	150,000	--	--	--	--	--	--
John T. Chandler(4) Vice Chairman; Chairman and Chief Executive Officer of XCL-China	1997	150,000	--	--	333,333 20,000	133,333 5,000	--	--
	1996	150,000	--	--	--	--	--	--
	1995	150,000	--	--	--	8,000	--	--
Danny M. Dobbs President and Chief Operating Officer	1997	136,875	--	--	--	400,000 25,000	--	--
	1996	135,000	--	--	--	6,466	--	--
	1995	116,250	--	--	--	--	--	--
Richard K. Kennedy Vice President	1997	112,500	--	--	--	266,666 5,000	--	--
	1996	75,000	--	--	--	--	--	--
	1995	75,000	--	--	--	--	--	--
Herbert F. Hamilton(5) Executive Vice President Operations, XCL-China	1997	144,000	--	--	--	--	--	--
	1996	144,000	--	--	--	--	--	--
	1995	98,800	--	--	--	13,333	--	--

</TABLE>

(1) Excludes the cost to the Company of other compensation that, with respect to any above named individual, does not exceed the lesser of \$50,000 or 10% of such individual's salary and bonus.

(2) Represents grants of restricted stock awards under the Long-Term Stock Incentive Plan as amended and restated in 1997 (adjusted as to Common Stock to give effect to the Reverse Stock Split). The first line under 1997 reflects restricted stock awards for shares of Common Stock and the second line reflects restricted stock awards for shares of Amended Series A Preferred Stock. See "Awards to Management."

(3) Represents awards of stock options granted under the Company's Long-Term Stock Incentive Plan as amended and restated in 1997 (adjusted as to Common Stock to give effect to the Reverse Stock Split). The first line under 1997 reflects non-qualified stock options for shares of Common Stock and the second line reflects non-qualified stock options for shares of Amended Series A Preferred Stock. See "Awards to Management."

(4) XCL-China is a wholly-owned subsidiary of the Company which manages the Company's operations on the Zhao Dong Block.

(5) Mr. Hamilton commenced employment with the Company on April 24, 1995. As part of his employment package he was awarded options to purchase 13,333 shares of Common Stock (adjusted to give effect to the Reverse Stock Split).

Mr. Hamilton has been granted additional options in 1998. See "Awards to Management" below.

Stock Options

The Company currently maintains one stock option plan which was adopted by shareholders in 1992 and was amended and restated in 1997. The plan is administered by the Compensation Committee and provides for the granting of options to purchase shares of Common Stock to key employees and directors of the Company, and certain other persons who are not employees of the Company but who from time to time provide substantial advice or other assistance or services to the Company.

On June 2, 1992, shareholders approved the Long-Term Stock Incentive Plan ("1992 LTSIP"). The 1992 LTSIP was adopted with the view of conforming the Company's prior plans to certain regulatory changes adopted by the Commission and affording holders of previously granted options the opportunity to exchange their options for equivalent options under the 1992 LTSIP. By action of the Board of Directors, effective June 1, 1997, the 1992 LTSIP was amended and restated, and certain awards were granted thereunder, all subject to approval by shareholders which was secured at the Company's Special Meeting in Lieu of Annual Meeting of Shareholders held on December 17, 1997.

1997 LTSIP Restatement

Nature of Awards. The 1997 LTSIP Restatement makes available to the Compensation Committee the power to grant certain awards ("Awards") to acquire shares of the Company's Preferred Stock as well as shares of Common Stock. In common with the 1992 LTSIP, the 1997 LTSIP Restatement makes available to the Compensation Committee a number of incentive devices in addition to Incentive Stock Options ("ISOs") (which are not available with respect to Preferred Stock) and Nonqualified Stock Options ("NSOs"), including reload options ("ROs") (which are not available with respect to Preferred Stock), restricted stock awards ("RSAs"), and performance units ("PUs") or appreciation options ("AOs") (which were not authorized under the 1992 LTSIP), each of which is described below and in the 1997 LTSIP Restatement. NSOs to acquire Preferred Stock, a new feature, may include an accrued dividend feature. The Board believes that these award alternatives will enable the Committee to tailor the type of compensation to be granted to key personnel to meet both the Company's and such employee's requirements in the most efficient manner possible.

Number of Awards. For Common Stock Awards, the 1997 LTSIP Restatement authorizes an aggregate of 4 million shares (as adjusted for the Reverse Stock Split) of Common Stock for issuance pursuant to awards granted thereunder, including grants to non-employee directors. For Preferred Stock Awards, the 1997 LTSIP Restatement authorizes an aggregate of 200,000 shares of the Company's Amended Series A Preferred Stock, or any other series of Preferred Stock of the Company as designated by the Committee with respect to an Award.

Description of Awards. As set forth above, and like the 1992 LTSIP, the 1997 LTSIP Restatement authorizes the Compensation Committee to grant NSOs, ISOs, ROs (i.e., the granting of additional options, where an employee exercises an option with previously owned stock, covering the number of shares tendered as part of the exercise price), RSAs (i.e., stock awarded to an employee, subject to forfeiture in the event of a premature termination of employment, failure of the Company to meet certain performance objectives or other conditions), PUs

(i.e., share-denominated units credited to the employee's account for delivery or cash-out at some future date based upon performance criteria to be determined by the Compensation Committee), and "tax-withholding" (i.e., where the employee has the option of having the Company withhold shares on exercise of an award to satisfy tax withholding requirements). AOs (i.e., awards in which payments are based upon appreciation in shares or other criteria determined by the Compensation Committee) are a new feature added to the 1992 LTSIP by the 1997 LTSIP Restatement.

Outside Director Awards. The 1997 LTSIP Restatement also authorizes the Board to grant Awards to non-employee directors and to set the terms and conditions of such Awards, without the restrictions previously set forth in the 1992 LTSIP which were required by certain federal securities law rules since abolished.

Administration of Plan. In keeping with the provisions of the 1992 LTSIP, the Compensation Committee will develop administration guidelines from time to time which will define specific eligibility criteria, the types of awards to be employed, whether such awards relate to Common Stock or Preferred Stock, and the value of such awards. Specific terms of each Award will be provided in individual Award agreements granted each Award recipient. Key employees and other individuals who in the judgment of the Committee may provide a valuable contribution to the success of the Company and its affiliates will be eligible. The Committee may establish different general Award eligibility criteria for Awards involving Preferred Stock which may require a higher level of management responsibility and authority.

Change in Control Provisions. The 1997 LTSIP Restatement contains change-in-control provisions which provide that the threshold for determining if a "change in control of XCL" has occurred as a result of a person or entity acquiring Company stock has been lowered from 30% to 20% (disregarding the acquisition of such stock by certain shareholders of the Company). The 1997 LTSIP Restatement retains the 1992 LTSIP's provisions pursuant to which a "change in control of XCL" will be deemed to occur as a result of certain contested Board of Director elections. If a "change in control of XCL" occurs pursuant to the provisions described above, ISOs and NSOs then outstanding will become exercisable in full, the forfeiture restrictions on any RSAs to the extent then applicable will lapse and amounts payable with respect to PUs and AOs then outstanding will become payable in full. Also, under certain Awards made under the 1997 LTSIP Restatement (see discussion below) the occurrence of a "change in control of XCL" could obligate the Company with respect to making payments with respect to Awards in cash rather than in kind, or in obligating the Company to repurchase individuals' shares of Common Stock or Preferred Stock received under certain 1997 LTSIP Restatement Awards. Under certain circumstances which are unforeseen at this time, the existence of the change in control protections for individuals receiving Awards under the 1997 LTSIP Restatement and resulting obligations to the Company may impede the consummation of a change in control of the Company.

Option Exercise Price. Under the 1997 LTSIP Restatement, the Compensation Committee shall determine the option price of all NSOs and ISOs; provided, however, in the case of ISOs, the option price shall not be less than the fair market value of the Common Stock on the date of grant. Such "fair market value" is the average of the high and low prices of a share of Common or Preferred Stock traded on the relevant date, as reported on the Exchange, or other national securities exchange, or an automated quotation system, or pursuant to a good faith determination by the Board of Directors, if not so traded in a public market.

The 1997 LTSIP Restatement does not extend the term of the 1992 LTSIP and, therefore, the 1997 LTSIP Restatement will terminate (and no further awards thereunder will be granted after) June 2, 2002. In view of the fact that there is no public market for the Amended Series A Preferred Stock, the fair market value of the Amended Series A Preferred Stock on November 10, 1997, determined in good faith by the Board of Directors based upon the last bid price of the Amended Series A Preferred Stock in the PORTAL Market, as reported to the Company by Jefferies, was \$80.00 per share.

On June 5, 1997, the Board made certain Awards under the 1997 LTSIP Restatement. These Awards were approved by the shareholders of the Company in connection with the approval of the 1997 LTSIP Restatement voted on at the Special Meeting of Shareholders.

Effective June 1, 1997, M. W. Miller, Jr. was granted an Appreciation Option with respect to appreciation in the Company's total market capitalization (as defined) from and after June 1, 1997. See "Appreciation Option for M.W. Miller, Jr." below for a more detailed discussion of such grant.

The closing price of the Company's Common Stock on the AMEX on a recent date is set forth on the cover page of this Prospectus.

The following tables set forth, for those persons named in the "Summary Compensation Table," information on stock options granted during 1997 and all stock options outstanding as of December 31, 1997, adjusted to reflect the Reverse Stock Split. The closing price on the AMEX on June 2, 1997 for the Common Stock was \$0.21875 (which price is not adjusted to reflect the Reverse Stock Split), and the fair market value of the Amended Series A Preferred Stock, based upon last sales price information in the PORTAL Market of the National Association of Securities Dealers, Inc. as supplied by Jefferies, was \$85.00 on June 2, 1997. Mr. Miller's Appreciation Option (described below) is not included because of the indeterminate nature of the Award.

Option/SAR Grants in Last Fiscal Year

<TABLE>
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(a)	Individual Grants			Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term				
	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
Name		Options/ SARs Granted(#)	% of Total Options/ SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Share)	Expiration Date	0% (\$)	5% (\$)	10% (\$)
----		-----	-----	-----	-----	-----	-----	-----
Marsden W. Miller, Jr. (1)	33,601,492	110,000*	64.7	85.00	June 1, 2007	--	5,880,165	
John T. Chandler (2)	1,634,758	133,333+	6.7	3.75	June 1, 2007	--	212,641	
	1,527.341	5,000*	2.9	85.00	June 1, 2007	--	267,280	
Danny M. Dobbs (3)	4,904,287	400,000+	20.0	3.75	June 1, 2007	--	637,294	
Richard K, Kennedy (4)	3,269,516	266,666+	13.3	3.75	June 1, 2007	--	425,282	
	1,527,341	5,000*	2.9	85.00	June 1, 2007	--	267,280	
Herbert F. Hamilton (5)	-	--	--	--	--	--	--	--

*Amended Series A Preferred Stock
+Common Stock
</TABLE>

(1) Effective June 1, 1997, M. W. Miller, Jr. was granted an NSO to purchase 110,000 shares of Amended Series A

Preferred Stock for an option exercise price of \$85.00 per share (aggregate purchase price of \$9,350,000). Such NSO is exercisable as follows: as to 27,500 shares on June 1, 2000; as to 66,000 shares on June 1, 2001, and as to 16,500 shares on June 1, 2002. Mr. Miller's NSO will expire on June 1, 2007 or, if earlier, the date his employment is terminated by the Company for cause or the date he voluntarily terminates his employment without good reason.

(2) Effective June 1, 1997, John T. Chandler was granted an NSO to purchase 133,333 shares of Common Stock (adjusted for the Reverse Stock Split) for an option exercise price (adjusted for the Reverse Stock Split) of \$3.75 per share (aggregate purchase price of approximately \$500,000) and an NSO to purchase 5,000 shares of Amended Series A Preferred Stock for an option exercise price of \$85.00 per share (aggregate purchase price of \$425,000). Such Common Stock NSO is exercisable as follows: as to 44,445 shares on June 1, 1999; as to 44,444 shares on June 1, 2000, and as to 44,444 shares on June 1, 2001. Such Amended Series A Preferred Stock NSO is exercisable as follows: as to 1,250 shares on June 1, 2000; as to 1,750 shares on June 1, 2001; and as to 2,000 shares on June 1, 2002. Mr. Chandler's Common Stock NSO and his Amended Series A Preferred Stock NSO will each expire on June 1, 2007 or, if earlier, the date his employment is terminated by the Company for cause or the date he voluntarily terminates his employment without good reason.

(3) Effective June 1, 1997, Danny M. Dobbs was granted an NSO to purchase 400,000 shares of Common Stock (adjusted for the Reverse Stock Split) for an option exercise price (adjusted for the Reverse Stock Split) of \$3.75 per share (aggregate purchase price of \$1,500,000) and an NSO to purchase 25,000 shares of Amended Series A Preferred Stock for an option exercise price of \$85.00 per share (aggregate purchase price of \$2,125,000). Such Common Stock NSO is exercisable as follows: as to 133,334 shares on June 1, 1999; as to 133,333 shares on June 1, 2000; and as to 133,333 shares on June 1, 2001. Such Amended Series A Preferred Stock NSO is exercisable as follows: as to 6,250 shares on June 1, 2000; as to 8,750 shares on June 1, 2001; and as to 10,000 shares on June 1, 2002. Mr. Dobbs' Common Stock NSO and his Amended Series A Preferred Stock NSO will each expire on June 1, 2007 or, if earlier, the date his employment is terminated by the Company for cause or the date he voluntarily terminates his employment without good reason.

(4) Effective June 1, 1997, Mr. Richard Kennedy was granted an NSO to purchase 266,666 shares of Common Stock (adjusted for the Reverse Stock Split) at an exercise price (adjusted for the Reverse Stock Split) of \$3.75 per share (aggregate purchase price of approximately \$1,000,000), and an NSO to purchase 5,000 shares of Amended Series A Preferred Stock at an exercise price of \$85.00 per share (aggregate purchase price of \$425,000). Such Common Stock NSO is exercisable as follows: as to 88,890 shares on June 1, 1999; as to 88,888 shares on June 1, 2000; and as to 88,888 shares on June 1, 2001. Mr. Kennedy's Common Stock NSO will expire on June 1, 2007 or, if earlier, the date his employment is terminated by the Company for cause or the date he voluntarily terminates his employment without good reason. Such Amended Series A Preferred Stock NSO is exercisable as follows: as to 1,250 shares on June 1, 2000; as to 1,750 shares on June 1, 2001; and as to 3,000 shares on June 1, 2002. Mr. Kennedy's Amended Series A Preferred Stock NSO will expire on August 1, 2007 or, if earlier, the date his employment is terminated by the Company for cause or the date he voluntarily terminates his employment without good reason.

(5) Effective June 30, 1998, Mr. Hamilton was granted an NSO to purchase 150,000 shares of Common Stock at an exercise price of \$3.75 per share. These options are not included in the table shown above.

<TABLE>
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Aggregated Option/SAR Exercises in Last Fiscal Year
and Fiscal Year-End Option/SAR Values

(a)	(b)	(c)	(d)	(e)
	Shares		Number of Securities	Value of Unexercised

Name	Acquired on Exercise	Value Realized	Underlying Unexercised		in-the-Money	
			Options/SARs at Fiscal Year-End(#)		Options/SARs Fiscal Year-End(\$)(4)(5)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Marsden W. Miller, Jr.	--	--	334,994 (1)	--	--	--
	--	--	-- (2)	110,000 (2)	--	--
			160,000 (3)	--	--	--
John T. Chandler	--	--	75,330 (1)	133,333 (1)	--	--
	--	--	-- (2)	5,000 (2)	--	558,332
			74,999 (3)	--	--	--
Richard K. Kennedy	--	--	16,629 (1)	266,666 (1)	--	1,116,664
	--	--	-- (2)	5,000 (2)	--	--
Danny M. Dobbs	--	--	22,653 (1)	402,155 (1)	--	1,675,000
	--	--	-- (2)	25,000 (2)	--	--
			38,799 (3)	--	--	--
Herbert F. Hamilton	--	--	13,332 (1)	--	--	--

(1) Represents options to purchase shares of Common Stock exercisable under the Company's stock option plans at December 31, 1997 (as adjusted to reflect the Reverse Stock Split).

(2) Represents options to purchase shares of Amended Series A Preferred Stock exercisable under the Company's 1997 LTSIP Restatement at December 31, 1997.

(3) Represents the aggregate number of five-year stock purchase warrants, received (a) upon surrender of an employment agreement with the Company, determined based upon a formula whereby each of the individuals was to be offered a warrant, based upon the length of time of employment with the Company, for a maximum of two shares of Common Stock for each dollar of compensation remaining to be paid to such individual under his agreement (based upon the product of his highest monthly base salary and the number of months remaining under his contract), at an exercise price of \$18.75 per share, and (b) for each dollar of salary reduction for the 15-month period commencing January 1, 1993 through March 31, 1994, as based on the same formula and at the same exercise price used in the granting of warrants upon surrender of employment agreements. See "Employment Agreements; Termination of Employment and Change-in-Control Arrangements" below.

(4) At December 31, 1997, the Company's Common Stock price was lower than the option and/or warrant exercise prices (as adjusted to reflect the Reverse Stock Split) with the exception of options granted effective June 1, 1997.

(5) At December 31, 1997, the Company's Amended Series A Preferred Stock price was equal to the option exercise price.

These options were all awarded under the Company's stock option plans or the exchange of stock purchase warrants for the surrender of employment agreements, all of which are described above. Additional options have been granted to Mr. Hamilton in 1998.

Appreciation Option for M.W. Miller, Jr.

Pursuant to the 1997 LTSIP Restatement, the Board approved an Appreciation Option for M. W. Miller, Jr., which was approved by shareholders at the December 17, 1997 Special Meeting of the Shareholders. The Board determined that the Appreciation Option to M. W. Miller, Jr. was in the best interests of the Company and its shareholders, and is required in order to retain the services of Mr. Miller, who has been instrumental in developing the Company's China activities and in successfully concluding the

Company's Offerings. The Appreciation Option would also provide Mr. Miller with additional incentive to increase the value of the Company based upon its market capitalization, thereby directly benefiting the shareholders of the Company by increasing the value of their investments in the Company.

<TABLE>
<CAPTION>

Long-Term Incentive Plans
Awards in Last Fiscal Year

(a) Name -----	(b) Number of Shares, Units or Other Rights -----	(c) Performance or Other Period Until Maturation or Payout -----	Estimated Future Payouts Under Non-Stock Price Based Plans -----		
			(d) Threshold (\$ or #) -----	(e) Target (\$ or#) -----	(f) Maximum (\$ or #) -----
Marsden W. Miller, Jr.	(1)	(1)	(1)	(1)	(1)

</TABLE>

(1) The Appreciation Option Agreement provides Mr. Miller with the right, upon his payment of the Exercise Price (as defined below), to additional compensation (payable in cash or in shares of Common Stock or Preferred Stock or a combination thereof, as elected by the Company) based upon 5% of the difference between the market capitalization of the Company as of June 1, 1997 and the market capitalization of the Company as of the date that Mr. Miller exercises the Appreciation Option. For purposes of the Appreciation Option, the Company's market capitalization is the total fair market value of the Company's outstanding shares of Common Stock, Preferred Stock and outstanding options and warrants. In general, fair market value is determined based on the trading price of marketable securities and by the Board of Directors as to the fair market value for securities for which there is no ready market. Fair market value as of the date of exercise of the Option is based on the average fair market value of the 30-day period immediately preceding the date of the Appreciation Option exercise. On June 1, 1997 and December 31, 1997, the aggregate market capitalization of the Company was \$161,547,223 and \$177,572,416, respectively. Upon exercise of his Option, in the event the Company elects to settle the Option with shares of Stock, Mr. Miller must pay the Company twenty percent (20%) of the amount he is entitled to receive upon exercise of the Appreciation Option (before any reduction as hereinafter set forth), or any increment thereof, up to an aggregate maximum of \$5 million (the "Exercise Price") in cash. In the event the Company elects to settle the Option in cash, the amount of cash Mr. Miller will receive will be reduced by the amount of the Exercise Price. Because Mr. Miller's Appreciation Option contemplates compensation determined with reference to increases in the Company's market capitalization without restriction, there is no effective limit on the amount of compensation which may become payable thereunder. Mr. Miller may exercise his Appreciation Option as of any June 1 or December 1 commencing June 1, 2002, upon 45 days written notice, in whole or in 10% increments. In the event that Mr. Miller exercises his Appreciation Option for less than the total amount available thereunder, the percentage increment as to which it is exercised will cease to be available to create additional compensation opportunity for Mr. Miller based upon subsequent appreciation in the Company's market capitalization. Mr. Miller's Appreciation Option expires on June 1, 2007 and will remain exercisable at any time prior to such expiration notwithstanding his termination of employment with the Company unless such employment is terminated by the Company for "cause" or is terminated by Mr. Miller without "good reason." In keeping with the provisions of the 1997 LTSIP Restatement discussed in "1997 LTSIP Restatement - Change of Control Provisions," in the event of a "change in control of XCL" the Appreciation Option will become immediately exercisable and the Company will be obligated to pay Mr. Miller, in cash, upon any exercise of his Appreciation Option, at least 40% of the net amount payable. This obligation may impede the consummation of a change of control of the Company.

Material Federal Income Tax Effects

The following is a general summary of the material federal income tax effects to the Company under current law of the various awards which may be granted under the 1997 LTSIP Restatement. These descriptions do not purport to cover all potential tax consequences.

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), limits deductibility of certain compensation for the Company's Chief Executive Officer and the additional four executive officers of the Company who are highest paid and employed at year end to \$1 million per year unless certain conditions are met which result in compensation being characterized as "performance-based." Awards under the Plan will not satisfy the conditions necessary to cause the compensation earned under them to qualify as "performance-based" compensation, which is not subject to the deductibility limit of Section 162(m) of the Code. It is the position of the Board of Directors that the approach necessary for the design of incentive compensation that will satisfy the criteria under Section 162(m) of the Code would compromise the best interests of the Company and its shareholders.

Certain provisions in the 1997 LTSIP Restatement may afford the recipient of an Award under the 1997 LTSIP Restatement with special protections or payments which are contingent upon a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the Company's assets. To the extent that they are triggered by the occurrence of any such event, these special protections or payments may constitute "parachute payments" which, when aggregated with other "parachute payments" received by the recipient, could result in the recipient receiving "excess parachute payments." The Company would not be allowed a deduction for any such "excess parachute payments" and the recipient of such "excess parachute payments" would be subject to a nondeductible 20% excise tax upon such payments in addition to income tax otherwise owed with respect to such payments.

Section 401(k) Plan

In 1989, the Company adopted an employee benefit plan under Section 401(k) of the Internal Revenue Code for the benefit of employees meeting certain eligibility requirements. The Company has obtained a favorable determination from the Internal Revenue Service regarding the tax-favored status of this plan. Employees can contribute up to 10% of their compensation. The Company, at its discretion and subject to certain limitations, may contribute up to 75% of the contributions of each participant. The Company did not make any contributions to the 401(k) Plan in 1997.

Compensation of Directors and Other Arrangements

The Company reimburses its directors for travel and lodging expenses incurred in attending meetings of the Board of Directors. Effective January 1, 1990, directors (other than Messrs. Hummel and Palliser and those directors who are officers of the Company) were paid an annual retainer of \$18,000 plus a fee of \$1,000 for each Board meeting attended. In addition, such directors were paid a fee of \$1,000 for each committee meeting attended.

In April 1994, the Company entered into separate consulting agreements with Messrs. Hummel and Palliser, upon their becoming directors. Each of the agreements is terminable by either of the parties thereto upon written notice and provides that the individuals will render consulting services to the Company in their respective areas of expertise. Pursuant to the terms of the agreements, each of those directors receives compensation at the rate of \$50,000 per annum, which includes the compensation they would otherwise be entitled to receive as directors and for attending meetings of the Board. In addition, pursuant to the terms of the 1992 LTSIP, Messrs. Hummel, Palliser, Reinhardt and

Hofheinz, each a non-employee director, were each granted stock options for 6,666 shares of Common Stock exercisable at prices ranging from \$18.75 to \$31.59 per share (adjusted for the Reverse Stock Split).

In June 1997, the Company entered into a consulting agreement with Mr. Feters, a director of the Company. The agreement is for a one-year term ending July 31, 1998, to continue thereafter on a month to month basis. The agreement may be terminated by either party on thirty days written notice. Pursuant to the terms of the agreement, Mr. Feters is to consult with the Company on all aspects of the Company's exploration, development and production projects. For his services Mr. Feters is to receive \$30,000 per annum, which is in addition to the compensation he receives as a director for attending meetings of the Board. In addition to the above compensation, Mr. Feters is entitled to receive a finder's fee on certain specifically identified projects.

Effective June 1, 1997, Messrs. Hummel, Palliser, Reinhardt, Hofheinz and Feters were each granted nonqualified stock options to purchase 66,666 shares of Common Stock (adjusted for the Reverse Stock Split) exercisable at \$3.75 (adjusted for the Reverse Stock Split) per share under the 1997 LTSIP Restatement. See "Stock Options - 1997 LTSIP Restatement - Awards to Management" herein.

Benjamin B. Blanchet, in his capacity as Executive Vice President, is entitled to a salary of \$80,000 per year for up to 80 hours per month of services.

Effective August 1, 1997, the Company entered into a Services Agreement with Mr. Blanchet. The Agreement is terminable by either party at any time without cause. Under the Agreement, Mr. Blanchet is engaged to act as counsel to the Company to perform from time to time such services as the Company may request of him in that capacity. In general, compensation for services under the Services Agreement will be at the rate of \$175 per hour for up to 80 hours per month. Also, under the Services Agreement, the Company has agreed to provide Mr. Blanchet with office space, supplies, secretarial assistance, a library allowance, professional liability insurance, reimbursement for continuing legal education expenses and bar dues. Under the Services Agreement, Mr. Blanchet may, except as prohibited by law or the Louisiana Rules of Professional Responsibility, represent other clients and engage in business for his own account.

In connection with his employment by the Company, Mr. Blanchet received from the Company a \$100,000 loan to replace benefits that he forfeited when he withdrew as a partner of Gordon, Arata, McCollam & Duplantis, L.L.P. to become Executive Vice President of the Company. The loan is to be repaid over eight years from annual bonus payments equal to interest, at the rate of 6.5% per annum, plus one-eighth of the original principal balance to be paid by the Company to Mr. Blanchet each year and shall be forgiven in its entirety if (i) the Company shall fail to pay timely any such bonus payment, shall breach the Services Agreement or shall terminate his employment without "cause" or (ii) Mr. Blanchet terminates his employment with "good reason," in either case as such terms are defined in the note evidencing such loan. In January 1998 a bonus payment of \$12,500 was paid to Mr. Blanchet and used by him to pay the first installment on the note.

Effective August 1, 1997, Benjamin B. Blanchet was granted an NSO to purchase 400,000 shares of Common Stock for an option exercise price of \$3.75 per share (aggregate purchase price of \$1,500,000.00). Such Common Stock NSO is exercisable as to 133,334 shares on August 1, 1999; as to 133,333 shares on August 1, 2000 and as to 133,333 shares on August 1, 2001. On that same date Mr. Blanchet was granted an NSO to purchase 25,000 shares of Amended Series A Preferred Stock for an option exercise price of \$85.00 per share (aggregate purchase price of \$2,125,000). Such Amended Series A Preferred Stock NSO is exercisable as to 6,250 shares on August 1, 2000; as to 8,750 shares on August 1, 2001 and as to 10,000 shares on August 1, 2002. Mr. Blanchet's NSOs will expire on August 1, 2007 or, if earlier, the date his employment is terminated by the Company for cause or the date he voluntarily terminates his employment without good reason.

Effective June 30, 1998, Mr. Ross was granted nonqualified stock options to purchase 66,666 shares of Common Stock exercisable at \$3.75 per share under the 1997 LTSIP Restatement.

During 1997 all regular employees were provided health insurance, a portion of the premium for which is paid by the Company, and life and disability insurance based upon a factor of the employee's base salary.

Employment Agreements; Termination of Employment and Change-in-Control Arrangements

Effective April 1, 1994, Messrs. M.W. Miller, Jr., J.T. Chandler, D.M. Dobbs, and R.C. Cline, in their capacities as executive and administrative officers of the Company and its various subsidiaries, agreed to surrender their employment agreements in consideration of the issuance of five-year warrants to purchase Common Stock at an exercise price of \$18.75 per share (adjusted for the Reverse Stock Split), subject to customary anti-dilution adjustments. The number of warrants issued to such individuals was determined based upon a formula whereby each of the individuals was offered a warrant to purchase, based upon the length of time of employment with the Company, a maximum of two shares of Common Stock for each dollar of compensation remaining to be paid to such individual under his agreement (based upon the product of his highest monthly base salary and the number of months remaining under his agreement). Accordingly, Mr. Miller received warrants to purchase 125,000 shares; Mr. Chandler, 68,333 shares; Mr. Dobbs, 38,333 shares; and Mr. Cline, 16,666 shares, all adjusted for the Reverse Stock Split.

Effective January 1, 1989, the Company adopted a policy addressing severance upon separation from the Company. Under this policy benefits due upon a change-in-control as therein defined range from three months salary for employees with less than one year of service to 24 months salary for employees with more than 10 years of service.

Report on Repricing of Options/SARs

During the fiscal year ended December 31, 1997, there were no repricings of stock options awarded to any of the named executive officers.

Compensation Committee Interlocks and Insider Participation

For the year ended December 31, 1997, the following nonexecutive directors of the Company, served as members of the Compensation Committee of the Board of Directors: Messrs. M. Palliser, A.W. Hummel, Jr., F. Hofheinz (Chairman) and F.J. Reinhardt, Jr. None of the members of the Compensation Committee were formerly, nor are any members currently, officers or employees of the Company or any of its subsidiaries.

Compensation Committee Report on Executive Compensation

The Compensation Committee of the Board of Directors ("Committee") establishes the general compensation policies of the Company, establishes the compensation plans and specific compensation levels for executive officers and certain other managers, and administers the Stock Option Plans and Long Term Stock Incentive Plan. The Committee currently consists of four independent, nonemployee directors: Messrs. F. Hofheinz, who serves as Chairman, M. Palliser, Arthur W. Hummel, Jr. and Francis J. Reinhardt, Jr.

Compensation Policies and Philosophy

The Committee has determined that the compensation program of the Company should not only be adequate to attract, motivate and retain executives, key employees and other individuals who the Company believes may make significant contributions to the Company's results, but should also be linked to the value delivered to shareholders as reflected in the price of the

The Committee believes that the cash compensation of executive officers, as well as other key employees, should be competitive with other similarly situated companies while, within the Company, being fair and discriminating on the basis of personal performance. In general, in establishing total cash compensation for its executives, the Committee has taken into account the median cash compensation of executives employed by competitors including some of the companies reflected in the peer group identified in the Performance Graph set forth below, which the Committee believes represent the Company's most direct competition for executive talent. The Committee receives recommendations from management as to executive compensation and, in light of the Company's performance and the economic conditions facing the Company, determines appropriate compensation levels for recommendation to the Board of Directors. The Committee does not assign relative weights to individual factors and criteria used in determining executive compensation and does not use quantifiable targets in determining compensation. For 1997, the Company did not retain the services of a compensation consulting firm.

Awards of stock options are intended both to retain executives, key employees and other individuals who the Company believes may make significant contributions to the Company's results and to motivate them to improve long-term stock market performance. Options are granted at or above the prevailing market price and will have value only if the price of the Company's Common Stock increases.

Effective January 1, 1994, Section 162(m) of the Internal Revenue Code of 1986 (the "Code") generally denies a tax deduction to any publicly held corporation for compensation that exceeds \$1 million paid to certain senior executives in a taxable year, subject to an exception for "performance-based compensation" as defined in the Code and subject to certain transition provisions. Gains on the exercise of nonqualified stock options granted through December 31, 1994, will be tax deductible under the transition rules. Restricted stock awards by definition granted after February 17, 1993, are not deductible. At present the Committee does not intend to recommend amendment to the Stock Option Plans to meet the restrictive requirements of the Code.

The Committee believes that annual incentive awards should be commensurate with performance. It further believes that in order to meet this objective it needs to have the ability to exercise its judgment or discretion to evaluate performance against qualitative criteria. It is the Committee's opinion that the benefits to the Company of the use of a qualitative approach to the compensation of senior executives such as the Chairman outweigh the nonmaterial loss of a portion of the deductions associated with that compensation.

In recognition of the efforts and sacrifices of management that had enabled the Company in mid-1997 to be on track to meet its 1997 goals, the need to retain existing management and the need to attract qualified and competent personnel, in June 1997, the Board of Directors reassessed the need for adjusting management's compensation to provide for additional incentives to management. As a result of this reassessment, the Board of Directors approved amendments to and a restatement of the Company's 1992 LTSIP subject to shareholders approval, which was obtained on December 17, 1997. These amendments generally made available to the Committee the authority to grant Awards to executives employed by the Company entitling such executives to acquire shares of the Company's Preferred Stock and Common Stock. They also made available to the Committee the authority to grant appreciation awards. As described in greater detail in "Awards to Management," the Board of Directors made, subject to the approval of the shareholders of the Company, which was obtained on December 17, 1997, certain Awards under the 1997 LTSIP Restatement effective as of June 1, 1997 (except for awards to the CFO and an Executive Vice President which were effective October 6 and August 1, 1997, respectively). The Committee believes that the 1997 LTSIP Restatement and the Awards granted thereunder effectively encourage retention and continuity of management, appropriately reward management for its past performance and align the interests of management with those of

the Company's shareholders by providing management with the opportunity to share in the creation of the Company's value.

On December 17, 1997, the Committee reviewed the Company's 1997 financial results and 1997 nonfinancial goals and determined that, in light of (i) the Company's continued successful drilling results in the Zhao Dong Block in the Bohai Bay in China, (ii) the fact that top officials in China's oil industry have indicated that the Company will be offered additional exploration and development rights in China and (iii) the Company's successful placement in May 1997 of \$100 million of Preferred Stock and Notes, the proceeds of which allowed the Company to commence achieving its objectives in China, the Company's financial and operating goals for 1997 had been met and exceeded.

Company Performance and Chief Executive Officer Compensation

The Committee, in connection with determining the appropriate compensation for Marsden W. Miller, Jr. as Chief Executive Officer ("CEO"), took into account the financial condition of the Company, including its liquidity requirements. It determined that the CEO had been successful in disposing of assets and raising capital throughout the year. Taking into consideration the performance of the CEO, as well as the Company's current cash position and near term requirements, the adoption of the 1997 LTSIP Restatement and the NSO and Appreciation Option awarded to the CEO under the 1997 LTSIP Restatement, the Committee decided that the 1997 awards should serve in lieu of a cash salary increase or bonus to the CEO for the present time.

Compensation of Other Executive Officers

The Committee, in consultation with the CEO, applied the information and other factors outlined above in reviewing and approving the compensation of the Company's other executive officers.

December 17, 1997

COMPENSATION COMMITTEE

Fred Hofheinz, Chairman
Arthur W. Hummel
Michael Palliser
Francis J. Reinhardt, Jr.

Shareholder Return Performance Presentation

Set forth below is a line graph comparing the percentage change in the cumulative total shareholder return on the Company's Common Stock against the AMEX Market Value Index for the years 1993 through 1997, with a peer group selected by the Company for the past five fiscal years. The peer group consists of the same independent oil and gas exploration and production companies used in last year's comparison, namely: Alta Energy Corporation; Amerac Energy Corporation (formerly Wolverine Exploration Company); Bellwether Exploration Company; Brock Exploration Corporation; Tom Brown, Inc.; Caspen Oil, Inc.; Chemfirst Inc. (formerly First Mississippi Corporation); Cobb Resources Corporation; Coda Energy, Inc.; Comstock Resources, Inc.; Crystal Oil Company; DeKalb Energy Company; Edisto Resources Company; Energen Corporation; Forest Oil Corporation; Geodyne Resources, Inc.; Global Natural Resources, Inc.; Goodrich Petroleum Corporation (formerly Patrick Petroleum Company); Hallador Pete Company; Hondo Oil & Gas Company; Kelley Oil & Gas Partners; Louis Dreyfus Natural Gas (formerly American Exploration Company); Magellan Petroleum Corporation; Maynard Oil Company; Monterey Resources, Inc. (formerly McFarland Energy, Inc.); MSR Exploration Limited; Numac Energy, Inc.; Pacific Enterprises; Penn Virginia Corporation; Plains Resources, Inc.; Presidio Oil; Wainoco Oil Corporation; Wichita River Oil; and Wiser Oil Company. The relevant information with respect to the peer group was furnished by Standard & Poors Compustat Service. The graph assumes that the value of the investment in the Company's Common Stock and the peer group stocks were \$100 on January 1, 1992 and that all dividends were reinvested.

[Shareholder Return Performance Presentation Graph]

	1993 Return	1994 Return	1995 Return	1996 Return	1997 Return
XCL	49.96	72.18	27.73	16.62	24.82
Peer Group	121.87	121.48	153.45	183.12	217.52
AMEX	119.52	108.63	137.32	146.10	171.48

SECURITY OWNERSHIP
OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

The following table sets forth as of September 30, 1998, the individuals or entities known to the Company to own more than 5 percent of the Company's outstanding shares of voting securities. As of that date there were 22,926,333 shares of Common Stock, excluding 69,471 shares held as treasury stock; 1,181,614 shares of Amended Series A Preferred Stock; and 48,405 shares of Amended Series B Preferred Stock issued and outstanding. Except as otherwise indicated, all shares are owned both of record and beneficially.

<TABLE>
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Name and Address of Beneficial Owner	Common Stock (1)		Amended Series A Preferred Stock(2)		Amended Series B Preferred Stock (3)	
	Number of Shares	Percent of Class	Number of Shares	Percent of Class	Number of Shares	Percent of Class
Cumberland Associates 1114 Avenue of the Americas New York, New York 10036	2,070,669	(4) 8.30	146,793	12.42	--	--
KAIM Non-Traditional, L.P. 1800 Avenue of the Stars, 2nd Floor Los Angeles, California 90026	4,248,406	(4)(5) 16.11	275,256	(6) 23.29	48,405	100
Mitch Leigh 29 West 57th Street New York, New York 10019	1,987,539	(4)(7) 10.03	--	--	--	--
Marsden W. Miller, Jr. 110 Rue Jean Lafitte, 2nd Floor Lafayette, Louisiana 70508	1,665,713	(4)(8) 7.11	--	--	--	--
Putnam Investment Management, Inc. 25 Braintree Hill Office Park Braintree, MA 02184	8,882,773	(4)(9) 27.79	195,869	16.58	--	--

(1) This table includes shares of Common Stock issuable upon conversion of the shares of Amended Series A Preferred Stock. Each share of Amended Series A Preferred Stock is convertible into approximately 11 shares of Common Stock.

(2) The holders of Amended Series A Preferred Stock are entitled to cast the same number of votes as the shares of Common Stock then issuable upon conversion thereof (currently 11 votes) on any matter subject to the vote of Common Stockholders.

(3) Each share of Amended Series B Preferred Stock is convertible into approximately 26.3 shares of Common Stock, if the Common Stock issuable on conversion has not been registered and 21 shares of Common Stock, if the Common Stock issuable on conversion has been registered, subject to adjustment, on or after August 31, 1998. Each share of Amended Series B Preferred Stock is entitled to 50 votes per share.

(4) Includes shares issuable upon the exercise of

outstanding stock purchase warrants exercisable within the next 60 days.

(5) Includes 16,874 shares owned by Richard A. Kayne, a director, CEO and President of Kayne Anderson Investment Management, Inc., the general partner of KAIM Non-Traditional, L.P. ("KAIM LP"). The shares over which Mr. Kayne has sole voting and dispositive power are held by him directly or by accounts for which he serves as trustee or custodian. The shares over which Mr. Kayne and KAIM LP have shared voting and dispositive power are held by accounts for which KAIM LP serves as investment adviser (and, in some cases as general partner). KAIM LP disclaims beneficial ownership of these shares, except to the extent that they are held by it or attributable to it by virtue of its general partner interests in certain limited partnerships holding such shares. Mr. Kayne disclaims beneficial ownership of the shares reported, except those shares attributable to him by virtue of his limited and general partner interests in such limited partnerships and by virtue of his indirect interest in the interest of KAIM LP in such limited partnerships.

(6) Includes 2,610 shares owned by Richard Kayne, a director, CEO and President of Kayne Anderson Investment Management, Inc., the general partner of KAIM Non-Traditional, L.P. ("KAIM LP") The shares over which Mr. Kayne has sole voting and dispositive power are held by him directly or by accounts for which he serves as trustee or custodian. The shares over which Mr. Kayne and KAIM LP have shared voting and dispositive power are held by accounts for which KAIM LP serves as investment adviser (and, in some cases as general partner). KAIM LP disclaims beneficial ownership of these shares, except to the extent that they are held by it or attributable to it by virtue of its general partner interests in certain limited partnerships holding such shares. Mr. Kayne disclaims beneficial ownership of the shares reported, except those shares attributable to him by virtue of his limited and general partner interests in such limited partnerships and by virtue of his indirect interest in the interest of KAIM LP in such limited partnerships.

(7) Includes 118,732 shares owned by Mr. Leigh's wife. Does not include shares and warrants held in custodial and trust accounts for Mr. Leigh's minor children, which Mr. Leigh does not control. Mr. Leigh disclaims beneficial ownership of all shares held by his wife and minor children.

(8) Includes shares issuable upon the exercise of stock options exercisable within the next 60 days; and 1,000,000 shares of restricted stock subject to certain forfeiture provisions.

(9) Putnam Investment Management, Inc. has shared voting and investment power over securities held by accounts for which Putnam Investment Management, Inc. serves as investment adviser.

</TABLE>

Security Ownership of Management

The following table sets forth information concerning the shares of the Company's Common Stock owned beneficially by each director of the Company, and all directors and executive officers as a group as of September 30, 1998. As of that date there were 22,926,333 shares of Common Stock issued and outstanding, excluding 69,741 shares of Common Stock held as treasury stock, and 1,181,614 shares of Amended Series A Preferred Stock issued and outstanding. The mailing address for all such individuals is XCL Ltd., 110 Rue Jean Lafitte, 2nd Floor, Lafayette, Louisiana 70508.

<TABLE>
<CAPTION>

Name of Beneficial Owner	Common Stock		Amended Series A Preferred Stock	
	Number of Shares	Percent of Class	Number of Shares	Percent of Class

Marsden W. Miller, Jr.	1,665,713	(1)(2)(3)(4)	7.11	--	--	
John T. Chandler	533,709	(1)(2)(3)(4)	2.31	20,000	(2)	0.02
Benjamin B. Blanchet	200	(5)	--	--	--	
Fred Hofheinz	23,332	(3)	0.10	--	--	
Arthur W. Hummel, Jr.	23,332	(3)	0.10	--	--	
Sir Michael Palliser	23,332	(3)	0.10	--	--	
Francis J. Reinhardt, Jr.	57,464	(3)(6)	0.25	--	--	
R. Thomas Fetters, Jr.	79,365	(4)	0.34	--	--	
Peter F. Ross	--	(3)	--	--	--	
All directors and officers of the Company as a group (17 persons)	2,810,427	(1-6)	12.24	20,000	(2)	0.02

- (1) Includes 133,333 shares which are subject to an option granted under agreement dated October 1, 1985 in favor of John T. Chandler. Such shares are also included in Mr. Chandler's holding inasmuch as the option is presently exercisable. For purposes of the total holdings of the group, the shares are included solely in Mr. Miller's share holdings.
- (2) Includes shares of restricted stock awarded to Messrs. Miller and Chandler which are subject to certain forfeiture provisions.
- (3) Includes shares of Common Stock which may be acquired pursuant to options which are exercisable within 60 days.
- (4) Includes shares of Common Stock which may be acquired pursuant to stock purchase warrants exercisable within 60 days.
- (5) Represents shares of Common Stock owned by Mr. Blanchet's children. Mr. Blanchet disclaims beneficial ownership of these shares.
- (6) Includes 6,666 shares of Common Stock owned by Carl H. Pforzheimer & Co. of which Mr. Reinhardt is a general partner and 13,333 shares owned by Petroleum and Trading Corporation of which Mr. Reinhardt is an officer and director. Mr. Reinhardt disclaims beneficial ownership of the shares owned by Petroleum and Trading Corporation.

</TABLE>

DESCRIPTION OF EXISTING DEBT

General

The Company's only outstanding long-term indebtedness is represented by the Notes issued in connection with the Note Offering concluded on May 20, 1997. The Notes are limited in aggregate principal amount to \$75 million. The Notes represent senior obligations of the Company and rank pari passu in right of payment with all indebtedness of the Company and senior to any indebtedness that is expressly subordinated to the Notes. The Notes are secured by (i) a pledge of all the capital stock of XCL-China and any other future restricted subsidiary and (ii) the subsidiary guarantees of XCL-China (which has given a full and unconditional guaranty) and any other Subsidiary Guarantor. The Notes will mature on May 1, 2004. The Notes bear interest at the rate of 13.50% per annum, payable semiannually on May 1 and November 1 of each year, commencing November 1, 1997.

The Notes were issued pursuant to the terms of the Indenture with Fleet National Bank as the original Trustee. The Trustee is now State Street Bank and Trust Company of Connecticut N.A. The terms of the Indenture are also governed by certain provisions contained in the Trust Indenture Act of 1939, as amended. The Indenture contains customary representations and warranties by the Company as well as certain affirmative and negative covenants briefly described elsewhere in this Prospectus. See "Risk Factors -- Restrictions Imposed by Terms of the Company's Indebtedness."

The Company also had \$2.1 million in limited recourse debt outstanding as of June 30, 1998, which was collateralized by the Lutch Moore Tract. Expressions of interest to purchase the property have been received from several parties and the Company is presently evaluating such proposals with the possible intent to sell the property. The Company is also evaluating the possibility of developing the property into a source of wetland mitigation credits. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business -- Domestic Properties -- Lutch Moore Tract."

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of XCL consists of 500,000,000 shares of common stock, par value \$0.01 per share ("Common Stock"), and 2,400,000 shares of preferred stock, par value \$1.00 per share ("Preferred Stock"), 70,000 of which have been designated Amended Series B, Cumulative Convertible Preferred Stock, and 2,085,000 of which have been designated Amended Series A, Cumulative Convertible Preferred Stock.

Common Stock

General

As of September 30, 1998, there were 22,926,333 shares of Common Stock outstanding, excluding 69,471 shares held in treasury, held by approximately 3,480 stockholders of record. Common Stock is not redeemable, does not have any conversion rights and is not subject to call. Holders of shares of Common Stock have no preemptive right to maintain their percentage of ownership in future offerings or sales of stock of XCL. Holders of shares of Common Stock have one vote per share in all elections of directors and on all other matters submitted to a vote of stockholders of XCL. The holders of Common Stock are entitled to receive dividends, if any, as and when declared from time to time by the Board of Directors of XCL out of funds legally available therefor (subject to restrictions in the Indenture and any credit agreement). Upon liquidation, dissolution, or winding up of the affairs of XCL, the holders of Common Stock will be entitled to participate equally and ratably, in proportion to the number of shares held, in the net assets of XCL available for distribution to holders of Common Stock. The shares of Common Stock currently outstanding are, and the shares of Common Stock underlying the Warrants offered hereby when issued will be, fully paid and nonassessable.

Effective December 17, 1997, the Company effected a one-for-fifteen reverse stock split of its outstanding shares of Common Stock.

The United States registrar and transfer agent for the Common Stock is ChaseMellon Shareholder Services, L.L.C., Overpeck Centre, 85 Challenger Road, Ridgefield Park, New Jersey 07660 (Telephone No. 1-800-851-9677). The transfer agent for the Common Stock in the United Kingdom is IRG plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ, England (Telephone No. 0181-478-8241).

Special Charter and By-Law Provisions

General Effect. The Board of Directors of the Company believes that certain provisions in its Amended and Restated Certificate of Incorporation, as amended ("Certificate of Incorporation") and the Amended and Restated By-Laws of XCL (the "By-Laws") will effectively reduce the possibility that a third party could effect a sudden or surprise change of majority control of the Company's Board of Directors or successfully complete a takeover of XCL without the support of the incumbent Board of Directors.

Certain provisions in the Certificate of Incorporation and By-Laws of XCL may have significant effects on the ability of the stockholders of XCL to change the composition of the incumbent Board of Directors and to benefit from certain transactions that are opposed by the incumbent Board of Directors.

XCL has adopted a number of provisions in its Certificate of Incorporation and By-Laws that might discourage certain types of transactions that involve an actual or threatened change of control of XCL. The provisions may make it more difficult and time consuming to change majority control of the Board of Directors, and thus reduce the vulnerability of XCL to an unsolicited offer to acquire XCL, particularly an offer that does not contemplate the acquisition of all of XCL's outstanding shares. As more fully described below, the Board believes that, as a general rule, such unsolicited offers are not in the best interests of XCL and its stockholders at this time.

The Board of Directors of XCL believes that the threat of removal of XCL's management, in the case of a takeover bid, severely curtails its ability to negotiate effectively with a potential purchaser of XCL or its subsidiaries. In such a situation, management is deprived of the time and information necessary to evaluate the takeover proposal, to study alternative proposals, and to help ensure that the best transaction involving XCL is ultimately undertaken. The Board believes a takeover of XCL without prior negotiation with XCL's management would be detrimental to XCL and its stockholders. Consequently, the Board thinks that the benefits of protecting its ability to negotiate with the proponent of an unfriendly or unsolicited proposal to take over or restructure XCL outweigh the disadvantages of discouraging such proposals. The Certificate of Incorporation makes it more difficult for a holder of a substantial block of Common Stock to acquire control of, or to remove, the incumbent Board and could thus have the effect of entrenching incumbent management. At the same time, the anti-takeover provisions help ensure that the Board, if confronted by a surprise proposal from a third party who has recently acquired a block of Common Stock, will have sufficient time to review the proposal and alternatives to it and to seek better proposals for its stockholders, employees, suppliers, customers, and others.

The anti-takeover provisions are intended to encourage persons seeking to acquire control of XCL to initiate such an acquisition through arm's-length negotiations with XCL's management and Board of Directors. The Certificate of Incorporation could have the effect of discouraging a third party from making a tender offer or otherwise attempting to obtain control of XCL, even though such an attempt might be beneficial to XCL and its stockholders.

Fair Price Provision. The purchaser in corporate takeovers often pays cash to acquire a controlling equity interest in a corporation and then arranges a transaction to acquire the balance of the shares for a lower price or less desirable consideration (frequently securities of the purchaser that do not have an established trading market at the time of issue) or both. This practice is known as "two-tier pricing" and tends (and may be designed) to cause stockholders to accept the initial offer for fear of becoming minority stockholders in a controlled corporation or being forced to accept a lower price or less favorable consideration for their shares. To alleviate this problem, XCL has included in its Certificate of Incorporation a provision (the "Fair Price Provision") designed to assure that all stockholders of XCL will receive substantially the same price for their shares in transactions in which XCL is acquired in two or more steps.

The Fair Price Provision discourages two-step acquisitions of XCL by requiring that mergers and certain other business combinations involving XCL and any Interested Stockholder (as hereinafter defined) either (1) meet certain minimum price and procedural requirements, (2) be approved by a majority of the members of XCL's Board of Directors who are unaffiliated with the Interested Stockholder and who were directors before the Interested Stockholder became a 20% stockholder, (3) be approved by the favorable vote of at least 67% of the voting power of the Voting Stock and a majority of the outstanding shares of Voting Stock (as hereinafter defined) held by persons who are neither Interested Stockholders nor affiliates of Interested Stockholders, or (4) be approved by the holders of at least 80% of the outstanding shares of Voting Stock.

The Fair Price Provision is designed to prevent a purchaser from utilizing two-tier pricing and similar tactics in an

attempted takeover of XCL. It has the overall effect of making it more difficult to acquire and exercise control of XCL and may provide officers and directors with enhanced ability to retain their position in the event of a takeover bid. It is not designed to prevent or discourage all tender offers for control of XCL. The Fair Price Provision does not preclude an offeror from making a tender offer for some of the shares of XCL's stock without proposing a Business Combination (as defined below) in which the remaining shares of stock are purchased. Except for the restrictions on Business Combinations, the Fair Price Provision will not prevent a holder of a controlling interest of the XCL Common Stock from exercising control over XCL or increasing its interest in XCL. The Board will support or oppose any future takeover proposal, whether or not the proposal satisfies the fair price requirements for the Fair Price Provision, if the Board determines that its support or opposition is in the best interests of XCL's stockholders.

The Fair Price Provision will not limit the ability of a third party to effect a Business Combination, as long as such third party owns (or can obtain the affirmative votes of) at least 80% of the outstanding shares of all classes of capital stock entitled to vote generally in the election of directors (the "Voting Stock").

Certain Definitions Used in the Fair Price Provision. An "Interested Stockholder" is defined in the Fair Price Provision as anyone who is the beneficial owner of 20% or more of the Voting Stock, and includes any person who, in a transaction not involving a public offering, is an assignee of or has succeeded to any shares of Voting Stock of XCL that were at any time within the prior two-year period beneficially owned by an Interested Stockholder. The term "beneficial owner" includes persons directly and indirectly owning or having the right to acquire or vote the stock. The Board of Directors of XCL considers that a 20% holding, which is four times the minimum ownership requirement imposed in connection with various reporting requirements under the Exchange Act for stockholders of public companies, is appropriate to define an Interested Stockholder.

A "Business Combination" includes the following transactions: (1) a merger or consolidation of XCL or any subsidiary with an Interested Stockholder or with any other company or entity that is, or after such merger or consolidation would be, an affiliate of an Interested Stockholder; (2) the sale or other disposition by XCL or a subsidiary of assets having an aggregate fair market value equal to 10% or more of the net assets of XCL or more if an Interested Stockholder (or an affiliate thereof) is a party to the transaction; (3) the issuance or transfer of stock or other securities of XCL or of a subsidiary to a person or entity that, immediately before such issuance, is an Interested Stockholder (or an affiliate thereof) in exchange for cash or property (including stock or other securities) having an aggregate fair market value equal to 10% or more of the net assets of XCL; (4) the adoption of any plan or proposal for the liquidation or dissolution of XCL proposed by or on behalf of an Interested Stockholder (or an affiliate thereof); or (5) any reclassification of securities, recapitalization, merger with a subsidiary or other transaction that has the effect, directly or indirectly, of increasing the proportionate share of the outstanding stock (or securities convertible into stock) of any class of XCL or any of its subsidiaries owned by an Interested Stockholder or affiliate.

A "Disinterested Director" is a member of the Board of Directors of XCL who is not affiliated with or a nominee of an Interested Stockholder and was a director of XCL immediately before the time the Interested Stockholder became an Interested Stockholder, and any successor to such Disinterested Director who is not affiliated with or a nominee of an Interested Stockholder and was recommended for nomination or election to the Board by a majority of the Disinterested Directors then on the Board.

Requirements for Certain Business Combinations Without the Fair Price Provision. If XCL's Certificate of Incorporation did not include the Fair Price Provision, mergers, consolidations, the sale of substantially all of the assets of XCL, the adoption of a plan of dissolution of XCL and reclassification of securities and recapitalizations of XCL involving amendments to the Certificate of Incorporation would require approval by the

holders of a majority of the voting power of the Voting Stock. Certain other transactions, such as sales of less than substantially all of the assets of XCL, certain mergers involving a wholly owned subsidiary of XCL and recapitalizations and reclassifications not involving amendments to the Certificate of Incorporation would not require stockholder approval.

Requirements for Certain Business Combinations Under the Fair Price Provision. Under the Fair Price Provision, it will be a condition to a Business Combination with an Interested Stockholder that the transaction either (1) meet certain price criteria and procedural requirements (discussed below), or (2) be approved by a majority of the Disinterested Directors, or (3) be approved by the favorable vote of at least 67% of the voting power of the Voting Stock and a majority of the outstanding shares of Voting Stock held by persons who are neither Interested Stockholders or affiliates of Interested Stockholders, or (4) be approved by the favorable vote of at least 80% of the voting power of the Voting Stock. If the minimum price criteria and procedural requirements are met or the requisite approval of the Disinterested Directors is obtained with respect to a particular Business Combination, then the normal requirements of Delaware law will apply, and only a majority vote of the outstanding Voting Stock will be required or, for certain transactions as noted above, no stockholder vote will be necessary. If the minimum price criteria and procedural requirements are not met or the requisite approval of the Disinterested Directors is not obtained, or the requisite vote of shareholders not affiliated with the Interested Stockholder is not obtained, then a Business Combination with an Interested Stockholder will require an 80% stockholder vote. One consequence of the Fair Price Provision, therefore, is that additional time and expense would be required to effect certain Business Combinations due to the need to hold a special stockholders' meeting.

Exceptions to Higher Vote Requirements under the Fair Price Provision. The 80% affirmative stockholder vote contemplated by the Fair Price Provision will be required only if (1) the minimum price criteria and procedural requirements described under (a) and (b) below are not satisfied or (2) the transaction is not approved by a majority of the Disinterested Directors or (3) the requisite vote of shareholders not affiliated with the Interested Stockholder is not obtained.

(a) Minimum Price Criteria. In a Business Combination involving cash or other consideration paid to XCL's stockholders, the consideration must be either cash or the same type of consideration used by the Interested Stockholder in acquiring the largest portion of its Voting Stock before the first public announcement of the terms of the proposed Business Combination (the "Announcement Date"). In addition, the fair market value (calculated in accordance with the Fair Price Provision) of the consideration to be paid on the date the Business Combination was consummated (the "Consummation Date") must meet certain minimum price criteria described herein.

In the case of payments to holders of Common Stock and Preferred Stock, the fair market value per share of such payments must be at least equal in value to the higher of (1) the highest price per share (including brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Stockholder in acquiring any shares of such class or series of stock during the two years before the Announcement Date (even if the Interested Stockholder was not an Interested Stockholder at the time of any such acquisitions) or in the transaction in which it became an Interested Stockholder (whichever is higher), or (2) the fair market value per share of such class or series of stock on the Announcement Date or on the date on which the Interested Stockholder became an Interested Stockholder (the "Determination Date"), whichever is higher; provided, however, the holders of Preferred Stock shall be entitled to receive an amount at least equal to the highest preferential amount payable upon dissolution, liquidation or winding up of XCL applicable thereto if the Interested Stockholder has not previously purchased shares of Preferred Stock or such price paid for Preferred Stock is lower than such preferential amount. If the Interested Stockholder purchased any shares of Common Stock during the two-year period before the Announcement Date, the minimum price might be fixed based on a purchase occurring as long as two years before the Announcement Date. If the Determination Date was more

than two years before the Announcement Date, then the minimum price could be set as of such earlier date. If the Interested Stockholder did not purchase any shares of Common Stock during the two-year period before the Announcement Date or in the transaction on the Determination Date in which it became an Interested Stockholder (e.g., if it became an Interested Stockholder through the acquisition of shares of another class of Voting Stock), the minimum price would be as determined under (2) above.

For example, if the acquisition by an Interested Stockholder of its Common Stock interest was by cash purchases in open market transactions and the highest price paid per share of Common Stock during the previous two years (including in the transaction in which it became an Interested Stockholder) was \$5.00, and assuming that the fair market values per share of Common Stock on the Determination Date and on the Announcement Date were \$4.00 and \$4.50, respectively, the amount required to be paid to the holders of Common Stock would be the amount per share in cash equal to the higher of (1) \$5.00 (the highest price paid), and (2) \$4.50 (fair market value on the Announcement Date). Accordingly, in order to comply with the Fair Price Provision's minimum price criteria, the Interested Stockholder would be required to pay at least \$5.00 per share in cash to holders of Common Stock in the Business Combination. If the Interested Stockholder did not purchase any shares of Common Stock during the two-year period before becoming an Interested Stockholder (e.g., if it became an Interested Stockholder through the acquisition of shares of another class of Voting Stock), the minimum price payable under the Fair Price Provision for shares of Common Stock would be the fair market value on the Announcement Date or on the Determination Date, whichever is higher, resulting in a price, in the foregoing example, of \$4.50 per share in cash. All such prices shall be subject to an appropriate adjustment in the event of any stock dividend, stock split, subdivision, combination of shares or similar event.

In the case of payments to holders of any class or series of XCL's Voting Stock other than Common Stock, the fair market value per share of such payments must be at least equal to the higher of (a) the highest price per share determined with respect to such class or series of stock in the same manner as described in clauses (1) and (2) of the preceding paragraphs, or (b) the highest preferential amount per share to which the holders of such class or series of Voting Stock are entitled in the event of a voluntary or involuntary liquidation of XCL.

Under the minimum price requirements, the fair market value of non-cash consideration to be received by holders of shares of any class of Voting Stock in a Business Combination is to be determined in good faith by the Board of Directors of XCL.

Under the Fair Price Provision, the Interested Stockholder is required to meet the minimum price with respect to each class of stock before proposing the Business Combination. If the minimum price criteria and the procedural requirements (discussed below) are not met with respect to each class of Voting Stock, then an 80% vote of stockholders will be required to approve the Business Combination unless the transaction is approved by the favorable vote of at least 67% of the voting power of the Voting Stock and a majority of the outstanding shares of Voting Stock held by persons who are neither Interested Stockholders nor affiliates of Interested Stockholders, or by a majority of the Disinterested Directors.

If the proposed Business Combination does not involve receipt by the other stockholders of XCL of cash or other property, such as a sale of assets or an issuance of XCL's securities to an Interested Stockholder, then the price criteria discussed above will not apply and an 80% vote of stockholders will be required unless the transaction is approved by the favorable vote of at least 67% of the voting power of the Voting Stock and a majority of the outstanding shares of Voting Stock held by persons who are neither Interested Stockholders nor affiliates of Interested Stockholders, or by a majority of the Disinterested Directors.

(b) **Procedural Requirements.** Under the Fair Price Provision, unless the Business Combination is approved by a majority of the Disinterested Directors, the Business Combination

will be subject to the 80% stockholder vote requirement, even if it satisfies the minimum price criteria, in each of the following situations:

(1) If XCL, after the Interested Stockholder became an Interested Stockholder, (i) reduced the rate of dividends paid on the Common Stock (unless such reduction was necessary to reflect any subdivision of the Common Stock), or (ii) failed to increase the rate of dividends as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of Common Stock, unless such reduction was approved by a majority of the Disinterested Directors. This provision is designed to prevent an Interested Stockholder from attempting to depress the market price of the Common Stock before proposing a Business Combination by reducing dividends on the Common Stock, and thereby reducing the consideration required to be paid pursuant to the minimum price provisions of the Fair Price Provision.

(2) If the Interested Stockholder acquired any additional shares of Voting Stock except in the transaction pursuant to which it became an Interested Stockholder. This provision is intended to prevent an Interested Stockholder from purchasing additional shares of Voting Stock without compliance with the provisions of the Fair Price Provision.

(3) If the Interested Stockholder, at any time after it became an Interested Stockholder, whether in connection with the proposed Business Combination or otherwise, received the benefits of any loss or other financial assistance or tax advantage provided by XCL (other than proportionately as a stockholder). This provision is intended to deter an Interested Stockholder from self-dealing or otherwise taking advantage of its equity position in XCL by using XCL's resources to finance the proposed Business Combination or otherwise for its own purposes in a manner not proportionately available to all stockholders.

Under the Fair Price Provision, unless the Business Combination is approved by a majority of the Disinterested Directors, to avoid the 80% stockholder vote requirement even if the other conditions described above are met, a proxy or information statement disclosing the terms and conditions of the proposed Business Combination and complying with the requirements of the proxy rules promulgated under the Exchange Act will have to be mailed to all stockholders of XCL at least 30 days before the consummation of a Business Combination. This provision is intended to ensure that XCL's stockholders will be fully informed of the terms and conditions of the proposed Business Combination even if the Interested Stockholder is not otherwise legally required to disclose such information to stockholders.

NONE OF THE MINIMUM PRICE OR PROCEDURAL REQUIREMENTS DESCRIBED ABOVE WILL APPLY IN THE CASE OF A BUSINESS COMBINATION APPROVED BY A MAJORITY OF THE DISINTERESTED DIRECTORS OR THE FAVORABLE VOTE OF 67% OF THE OUTSTANDING SHARES AND A MAJORITY OF THE SHARES HELD BY PERSONS WHO ARE NEITHER THE INTERESTED STOCKHOLDER NOR AFFILIATES OF THE INTERESTED STOCKHOLDER, AND, IN THE ABSENCE OF SUCH APPROVAL, ALL OF SUCH REQUIREMENTS WILL HAVE TO BE SATISFIED TO AVOID THE 80% STOCKHOLDER VOTE REQUIREMENT.

Classified Board. XCL's Board of Directors is divided into three classes of directors serving staggered three-year terms, with one class of directors to be elected at each annual meeting of shareholders to hold office until the end of their term or until their successors have been elected and qualified. Directors may not be removed without cause except upon the affirmative vote of the holders of 67% of the outstanding shares of Voting Stock. This provision makes it more difficult to effect an involuntary change in incumbent management.

No Cumulative Voting. Neither the Certificate of Incorporation nor the By-Laws permit cumulative voting. Thus, a purchaser of a block of Common Stock representing less than a majority of the outstanding shares will have no assurance of proportional representation on the Board of Directors.

No Action by Stockholder Consent. Delaware law provides that, unless a corporation's certificate of incorporation denies the right, stockholders may act by a written consent executed by the holders of a majority of the outstanding shares of voting stock without holding a special or annual meeting of stockholders. The Certificate of Incorporation prohibits action that is required or permitted to be taken at any annual or special meeting of stockholders of XCL from being taken by the written consent of stockholders without a meeting unless authorized by a majority of the Disinterested Directors. The intent of this provision is to provide an open forum at a stockholders' meeting for all stockholders to have a chance to attend and be heard. This provision could have an anti-takeover effect and tend to entrench management by forcing the holder or holders of a majority of the outstanding stock to exercise their prerogatives of majority ownership only by voting at a stockholders' meeting rather than by written consent.

Supermajority Voting. The Fair Price Provision may be altered, amended, or repealed only if the holders of 80% or more of the outstanding shares of Voting Stock entitled to vote thereon or 67% or more of the outstanding shares voting together with a majority of the outstanding shares held by persons other than the Interested Stockholder and its affiliates, vote in favor of such action. The other anti-takeover provisions and certain other provisions in the Certificate of Incorporation may be altered, changed, amended, or repealed only if the holders of 67% or more of the outstanding shares of voting stock of XCL entitled to vote thereon vote in favor of such action. Without this supermajority voting, the beneficial effects of the provisions requiring such greater percentage of vote could be nullified by subsequent amendments approved by a vote of the holders of only a majority of Common Stock.

Preferred Stock

General

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Under the Certificate of Incorporation, the Board of Directors of XCL may direct the issuance of up to 2,400,000 shares of Preferred Stock, in one or more series and with rights, preferences, privileges, and restrictions, including, without limitation, dividend rights, voting rights, conversion rights, terms of redemption, and liquidation preferences, that may be fixed or designated by the Board of Directors without any further vote or action by XCL's stockholders. The following description of Preferred Stock sets forth certain general terms and provisions of the two series of Preferred Stock which are currently issued and outstanding. As discussed elsewhere in this Prospectus, effective November 10, 1997, the Company amended, recapitalized and combined the outstanding shares of Series A Preferred Stock and Series E Preferred Stock into shares of Amended Series A Preferred Stock which, together with the Amended Series A Preferred Stock issued in the Equity Offering, constituted a single class of approximately \$93 million (in aggregate liquidation preference) of Amended Series A Preferred Stock at that time. The shares of Amended Series A Preferred Stock currently outstanding have an aggregate liquidation preference of approximately \$101 million. Effective January 16, 1997, the Series F Preferred Stock was mandatorily converted into 633,893 shares of Common Stock. On March 3, 1998, the Series B Preferred Stock was sold by the holder thereof, and the purchasers exchanged the shares of Series B Preferred Stock for an aggregate 44,465 shares of Amended Series B Preferred Stock. In addition, such purchasers were issued an additional 2,620 shares (in the aggregate) of Amended Series B Preferred Stock in payment of accrued and unpaid dividends on the Series B Preferred Stock. The shares of Amended Series B Preferred Stock currently outstanding have an aggregate liquidation preference of approximately \$4.8 million. The description of Preferred Stock set forth below and the description of the terms of a particular series of Preferred Stock do not purport to be complete and are qualified in their entirety by reference to the Certificate of Incorporation and the certificate of designation relating to that series.

The rights, preferences, privileges, and restrictions of the Preferred Stock of each series shall be as stated in the

Certificate of Incorporation and, to the extent not stated therein, may be fixed by the certificate of designation relating to such series, which shall specify the terms of the Preferred Stock as follows:

(a) the maximum number of shares to constitute the series and the distinctive designations thereof;

(b) the annual dividend rate, if any, on shares of the series and the date or dates from which dividends shall commence to accrue or accumulate, and whether dividends shall be cumulative;

(c) the price at and the terms and conditions on which the shares of the series may be redeemed, including the time during which shares of the series may be redeemed, the premium, if any, over and above the par value thereof, and any accumulated dividends thereon that the holders of shares of the series shall be entitled to receive upon the redemption thereof, which premium may vary at different dates and may also be different with respect to shares redeemed through the operation of any retirement or sinking fund;

(d) the liquidation preference, if any, over and above the par value thereof, and any accumulated dividends thereon, that the holders of shares of the series shall be entitled to receive upon the voluntary or involuntary liquidation, dissolution, or winding up of the affairs of XCL;

(e) whether or not the shares of the series shall be subject to operation of a retirement or sinking fund, and, if so, the extent and manner in which any such retirement or sinking fund shall be applied to the purchase or redemption of the shares of the series for retirement or for other corporate purposes, and the terms and provisions relative to the operations of such retirement or sinking fund;

(f) the terms and conditions, if any, on which the shares of the series shall be convertible into, or exchangeable for, shares of any other class or classes of capital stock of XCL or any series of any other class or classes, or of any other series of the same class, including the price or prices or the rate or rates of conversion or exchange and the method, if any, of adjusting the same, provided that shares of such series may not be convertible into shares of a series or class that has prior or superior rights and preferences as to dividends or distribution of assets of XCL upon voluntary or involuntary dissolution or winding up of the affairs of XCL;

(g) the voting rights, if any, on the shares of the series; and

(h) any or all other preferences and relative, participating, optional, or other special rights, or qualifications, limitations, or restrictions thereof.

Amended Series A Preferred Stock

On May 20, 1997, the Company issued 294,118 shares of Amended Series A Preferred Stock in connection with the Equity Offering. In subsequent transactions through September 30, 1998, the Company has issued an additional 887,507 shares of Amended Series A Preferred Stock including shares issued in payment of dividends on the Amended Series A Preferred Stock.

Dividend Rights

Holders of the Amended Series A Preferred Stock are entitled to receive when, as and if declared by the Board of Directors, out of the funds of the Company legally available therefor, an annual dividend of \$8.075 per share, payable semi-annually on May 1 and November 1 in each year, commencing November 1, 1997. Dividends are payable in additional shares of Amended Series A Preferred Stock (valued at \$85.00 per share) through November 1,

2000, and thereafter in cash, or at the Company's election, in shares of Amended Series A Preferred Stock (valued at \$85.00 per share). Dividends on the Amended Series A Preferred Stock are cumulative from May 20, 1997, and will be payable, when, as and if declared, to holders of record on the applicable record date as shall be fixed by the Board of Directors. Dividends in arrears may be declared and paid at any time, without reference to any regular dividend payment date, to holders of record on such date not exceeding 60 days preceding the payment date thereof, as may be fixed by the Board of Directors. Accrued but unpaid dividends will not bear interest. Dividends payable for any partial semi-annual period will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

If dividends are not paid in full on all outstanding shares of the Amended Series A Preferred Stock and any other capital stock of the Company ranking on a parity with the Amended Series A Preferred Stock as to dividends, all dividends declared on the Amended Series A Preferred Stock and such other parity stock may only be declared and paid pro rata so that in all cases the amount of dividends declared per share on the Amended Series A Preferred Stock and such other parity stock will bear to each other the same ratio that accrued and unpaid dividends per share on the shares of the Amended Series A Preferred Stock and such other parity stock bear to each other. So long as they are outstanding, the Company's existing shares of Series B Preferred Stock shall rank on a parity with the Amended Series A Preferred Stock as to dividends or upon liquidation, dissolution and winding up. Unless full cumulative dividends on all outstanding shares of the Amended Series A Preferred Stock have been paid, no dividends (other than in Common Stock or other stock ranking junior to the Amended Series A Preferred Stock as to dividends and upon liquidation, dissolution or winding up) may be paid, declared or set aside for payment, or any other distributions made on the Common Stock or on any other stock of the Company ranking junior to the Amended Series A Preferred Stock as to dividends or upon liquidation, dissolution or winding up, nor may any Common Stock or any other stock of the Company ranking junior to or on a parity with the Amended Series A Preferred Stock be redeemed, purchased or otherwise acquired for any consideration by the Company (except by conversion into or exchange for stock of the Company ranking junior to the Amended Series A Preferred Stock as to dividends and upon liquidation, dissolution or winding up).

Under Delaware law, the Company may declare and pay dividends or make other distributions on its capital stock only out of surplus, as defined in the Delaware General Corporation Law (the "DGCL"). On June 30, 1998, the Company had available surplus of approximately \$48 million. The payment of dividends and any future operating losses will reduce such surplus of the Company, which may adversely affect the ability of the Company to continue to pay dividends on the Amended Series A Preferred Stock. In addition, no dividends or distributions may be declared, paid or made if the Company is or would be rendered insolvent by virtue of such dividend or distribution, and the Indenture limits the Company's ability to pay cash dividends. See "Dividend Policy."

Conversion Rights

The holder of any shares of Amended Series A Preferred Stock will have the right, at the holder's option, to convert any or all of such shares into Common Stock at any time after the Initial Conversion Date at a conversion price ("Conversion Price") of, initially, \$0.50 per share (subject to adjustment as described below), or an initial effective conversion rate ("Conversion Rate") of 170 shares of Common Stock for each share of Amended Series A Preferred Stock (subject to adjustment as described below), except that if the Amended Series A Preferred Stock is called for redemption, the conversion right will terminate as to the shares called for redemption at 5:00 p.m., New York City time, on the business day prior to the date fixed for such redemption. Except as provided in the next paragraph, no payments or adjustments in respect of dividends on shares of Amended Series A Preferred Stock surrendered for conversion, whether paid or unpaid and whether or not in arrears, or on account of any dividend on the Conversion Stock issued upon conversion, shall be made by the Company upon the conversion of

any shares of Amended Series A Preferred Stock, at the option of the holder, including any conversion described under "-- Special Conversion Rights" below. The holder of record of shares of Amended Series A Preferred Stock on a dividend record date who surrenders such shares for conversion during the period between such dividend record date and the corresponding dividend payment date will be entitled to receive the dividend on such dividend payment date notwithstanding the conversion of such shares; provided, however, that, unless such shares, prior to such surrender, had been called for redemption on a redemption date during the period between such dividend record date and such dividend payment date, such shares must be accompanied, upon surrender for conversion, by payment from the holder to the Company of an amount equal to the dividend payable on such shares on that dividend payment date. No fractional shares of Common Stock will be issued upon conversion but, in lieu thereof, an appropriate amount will be paid in cash based on the Market Price (as defined below) for the shares of Common Stock on the day of such conversion. No adjustment in the Conversion Price will be required unless such adjustment would require an increase or decrease of at least one percent (1%) in the Conversion Price; provided, however, that any adjustment which is not made will be carried forward and taken into account in any subsequent adjustment.

If the Company, by dividend or otherwise, declares or makes a distribution on its Common Stock referred to in clause (d) or (e) of the next paragraph, the holders of Amended Series A Preferred Stock, upon the conversion thereof subsequent to the close of business on the date fixed for the determination of stockholders entitled to receive such distribution and prior to the effectiveness of the Conversion Price adjustment in respect of such distribution, will be entitled to receive for each share of Common Stock into which Amended Series A Preferred Stock is so converted the portion of the evidences of indebtedness, shares of capital stock, cash and assets so distributed applicable to one share of Common Stock; provided, however, that the Company may, with respect to all holders so converting, in lieu of distributing any portion of such distribution not consisting of cash or securities of the Company, pay such holder cash equal to the fair market value thereof (as determined by the Board of Directors).

The Conversion Price and the Conversion Rate will be subject to adjustment in certain events including, without duplication, (a) dividends (and other distributions) payable in Common Stock to all holders of Common Stock; (b) the issuance to all holders of Common Stock of rights or warrants, entitling holders of such rights or warrants to subscribe for or purchase Common Stock at less than the current Market Price; (c) subdivisions and combinations of Common Stock; (d) distributions to all holders of Common Stock of evidences of indebtedness of the Company, shares of capital stock, cash or assets (including securities, but excluding those rights, warrants, dividends and distributions referred to above and dividends and distributions paid exclusively in cash); and (e) distributions to all holders of Common Stock consisting of cash, but excluding (i) cash that is part of a distribution referred to in (d) above and (ii) any quarterly cash dividend to the extent it does not exceed the amount per share of Common Stock of the next preceding quarterly cash dividend (as adjusted to reflect any of the events referred to in clauses (a) through (d) of this sentence), or all of any such quarterly cash dividend if the amount thereof per share of Common Stock multiplied by four does not exceed 15% of the current Market Price of the Common Stock on the trading day next preceding the date of declaration of such dividend. As a result of the Reverse Stock Split, effective December 17, 1997 the initial Conversion Price and the initial Conversion Rate were adjusted to \$7.50 and 11.333 shares, respectively.

The Company from time to time may voluntarily reduce the Conversion Price (or increase the Conversion Rate) by any amount for any period of at least 20 days, in which case the Company will give at least 15 days' notice of such reduction (or increase), if the Board of Directors of the Company has made a determination that such reduction (or increase) would be in the best interests of the Company, which determination will be conclusive.

If the Company is party to any transaction pursuant to which

the Common Stock is converted into the right to receive other securities, cash or other property, including by way of recapitalization or reclassification (other than changes in par value, subdivisions or combinations of outstanding shares), consolidation, merger or sale of all or substantially all of its assets to, any person, then upon consummation of such transaction the Amended Series A Preferred Stock shall be convertible for the kind and amount of shares of stock and other securities and property that the holder of the Amended Series A Preferred Stock would have owned immediately after any such transaction if the holder had converted his shares immediately prior to the effective date thereof (which shares of stock and other securities and property may not necessarily be of equal value to the Common Stock).

The term "Market Price" of the Common Stock for any day means the last reported sale price, regular way, on such day, or, if no sale takes place on such day, the average of the reported closing bid and asked prices on such day, regular way, in either case reported on the AMEX Consolidated Transaction Tape, or, if the Common Stock is not listed or admitted to trading on the AMEX on such day, on the principal national securities exchange on which the Common Stock is listed or admitted to trading, if the Common Stock is listed on a national securities exchange, or the National Market Tier of The NASDAQ Stock Market ("NASDAQ NSM") or, if not listed or admitted to trading on such quotation system, on the principal quotation system on which the Common Stock may be listed or admitted to trading or quoted or, if not listed or admitted to trading or quoted on any national securities exchange or quotation system, the average of the closing bid and asked prices of the Common Stock in the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated, or similar generally accepted reporting service, or, if not so available in such manner, as furnished by any AMEX member firm selected from time to time by the Board of Directors of the Company for that purpose or, if not so available in such manner, as otherwise determined in good faith by the Board of Directors of the Company.

Mandatory Conversion Rights

The Amended Series A Preferred Stock may be converted, in whole and not in part, at the election of the Company, at the then prevailing Conversion Price at any time after November 20, 1997, provided that the Company is current in the payment of dividends to the conversion date, that the Common Stock shall have been traded on the AMEX or other national securities exchange on which the Common Stock is then listed or on the Nasdaq NSM for 20 trading days during any 30 consecutive trading day period at a Current Market Price (as defined below) equal to or greater than 150% of the prevailing Conversion Price, subject to adjustment in the same manner and for the same events as the Conversion Price. The term "Current Market Price" of the Common Stock for any day means the reported closing bid price, regular way, on such day, as reported on the AMEX, or, if the Common Stock is not listed or admitted to trading on the AMEX on such day, on the principal national securities exchange on which the Common Stock is listed or admitted to trading, if the Common Stock is listed on a national securities exchange, or the NASDAQ NSM or, if the Common Stock is not quoted or admitted to trading on such quotations system, on the principal quotation system in which the Common Stock may be listed or admitted to trading or quoted or, if not listed or admitted to trading or quoted on any national securities exchange or quotation system, the average of the closing bid and asked prices of the Common Stock in the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated, or similar generally accepted reporting service, or, if not so available in such manner, as furnished by any AMEX member firm selected from time to time by the Board of Directors of the Company for that purpose or, if not so available in such manner, as otherwise determined in good faith by the Board of Directors of the Company, which determination shall be conclusive.

Special Conversion Rights

The Amended Series A Preferred Stock has a special conversion right that becomes effective upon the occurrence of

certain types of significant transactions affecting ownership or control of the Company or the market for the Common Stock. The purpose of the special conversion right is to provide (subject to certain exceptions) loss protection upon the occurrence of a Change in Control (as defined below) or a Fundamental Change (as defined below) at a time when the Market Value (as defined below) of the Common Stock is less than the then prevailing Conversion Price. In such situations, the special conversion right would, for a limited period, reduce the then prevailing Conversion Price to the Market Value of the Common Stock.

The special conversion right is intended to provide loss protection to investors in certain circumstances while not giving holders a veto power over significant transactions affecting ownership or control of the Company. Although the special conversion right may render more costly or otherwise inhibit certain proposed transactions, its primary purpose is not to inhibit or discourage takeovers or other business combinations. Each holder of Amended Series A Preferred Stock will be entitled to a special conversion right if a Change of Control or Fundamental Change occurs. A Change of Control will occur if a person or group acquires more than 50% of the Common Stock. A Fundamental Change is, generally, a sale of all or substantially all of the Company's assets or a transaction in which at least 66% of the Common Stock is transferred for, or is converted into, any other assets. However, if the majority of the value of the consideration received in a transaction by holders of Common Stock is Marketable Stock or if the holders of Common Stock hold a majority of the voting stock of the Company's successor, the transaction will not be a Fundamental Change, and holders of the Amended Series A Preferred Stock will not have special conversion rights as a result of such transaction. In addition, the special conversion right arising upon a Change of Control shall only be applicable with respect to the first Change of Control that occurs after the first date of issuance of any shares of Amended Series A Preferred Stock. The full definitions of the terms "Change of Control" and "Fundamental Change" appear below.

A special conversion right will permit a holder of Amended Series A Preferred Stock, at the holder's option during the 30-day period described below, to convert all, but not less than all, of the holders' Amended Series A Preferred Stock at a Conversion Price equal to the Market Value of the Common Stock. A holder exercising a special conversion right will receive Common Stock if a Change of Control occurs and, if a Fundamental Change occurs, will receive the same consideration received for the number of shares of Common Stock into which the holder's Amended Series A Preferred Stock would have been convertible at the Market Value of the Common Stock. In either case, however, the Company or its successor may, at its option, elect to provide the holder with cash equal to the Market Value of the number of shares of Common Stock into which the holder's Amended Series A Preferred Stock is convertible.

The Company will mail to each registered holder of Amended Series A Preferred Stock a notice setting forth details of any special conversion right occasioned by a Change of Control or Fundamental Change within 30 days after the event occurs. A special conversion right may be exercised only within the 30-day period after the notice is mailed and will expire at the end of that period. Exercise of a special conversion right is irrevocable, and all Amended Series A Preferred Stock tendered for conversion will be converted at the end of the 30-day period mentioned in the preceding sentence.

Amended Series A Preferred Stock that is not converted pursuant to a special conversion right will continue to be convertible pursuant to the general conversion rights described above.

The special conversion right is not intended to, and does not, protect holders of Amended Series A Preferred Stock in all circumstances that might affect ownership or control of the Company or the market for the Common Stock, or otherwise adversely affect the value of an investment in the Amended Series A Preferred Stock. The ability to control the Company may be obtained by a person even if that person does not, as is required to constitute a Change of Control, acquire a majority of the Company's voting stock. The Company and the market for the Common Stock may be affected by various transactions that do not

constitute a Fundamental Change. In particular, transactions involving transfer or conversion of less than 66% of the Common Stock may have a significant effect on the Company and the market for the Common Stock, as could transactions in which holders of Common Stock receive primarily Marketable Stock or continue to own a majority of the voting securities of the successor to the Company. In addition, if the special conversion right arises as the result of a Fundamental Change, the special conversion right will allow a holder exercising a special conversion right to receive the same type of consideration received by the holders of Common Stock and, thus, the degree of protection afforded by the special conversion right may be affected by the type of consideration received.

As used herein, a "Change of Control" with respect to the Company shall be deemed to have occurred at the first time after the first issuance of any Amended Series A Preferred Stock that any person (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) including a group (within the meaning of Rule 13d-5 under the Exchange Act), together with any of its Affiliates or Associates (as defined below), files or becomes obligated to file a report (or any amendment or supplement thereto) on Schedule 13D or 14D-1 pursuant to the Exchange Act disclosing that such person has become the beneficial owner of either (a) 50% or more of the shares of Common Stock then outstanding or (b) securities representing 50% or more of the combined voting power of the Voting Stock (as defined below) of the Company then outstanding, provided that a Change of Control shall not be deemed to have occurred with respect to any transaction that constitutes a Fundamental Change. An "Affiliate" of a specified person is a person that directly or indirectly controls or is controlled by or is under common control with, the person specified. An "Associate" of a person means (i) any corporation or organization other than the Company or any subsidiary of the Company, of which the person is an officer or partner or is, directly or indirectly, the beneficial owner of 10% or more of any class of equity securities; (ii) any trust or estate in which the person has a substantial beneficial interest or as to which the person serves as trustee or in a similar fiduciary capacity; and (iii) any relative or spouse of the person or any relative of the spouse, who has the same home as the person or who is a director or officer or the person or any of its parents or subsidiaries.

As used herein, a "Fundamental Change" with respect to the Company means (a) the occurrence of any transaction or event in connection with which all or substantially all of the Common Stock is exchanged for, converted into, acquired for or constitutes solely the right to receive cash, securities, property or other assets (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification or otherwise) or (b) the conveyance, sale, lease, assignment, transfer or other disposal of all or substantially all of the Company's property, business or assets; provided, however that a Fundamental Change shall not be deemed to have occurred with respect to either of the following transactions or events: (i) any transaction or event in which more than 50% (by value as determined in good faith by the Board of Directors of the Company) of the consideration received by holders of Common Stock consists of Marketable Stock (as defined below) or (ii) any consolidation or merger of the Company in which the holders of Common Stock immediately prior to such transaction own, directly or indirectly, (1) 50% or more of the common stock of the sole surviving corporation (or of the ultimate parent of such sole surviving corporation) outstanding at the time immediately after such consolidation or merger and (2) securities representing 50% or more of the combined voting power of the surviving corporation's Voting Stock (or the Voting Stock of the ultimate parent of such surviving corporation) outstanding at such time. The phrase "all or substantially all" as used in this definition in reference to the Common Stock means 66% or more of the aggregate outstanding amount. Depending upon the circumstances, there may be some uncertainty under Delaware law as to whether a specific transaction constitutes a sale of "all or substantially all" of the property, business or assets of a company. This uncertainty may make it difficult for a holder to determine whether or not a "Fundamental Change" has occurred, and thus whether such holder is entitled to a special conversion right in respect of the shares of Amended Series A Preferred Stock held by such holder.

As used herein, "Voting Stock" means, with respect to any person, capital stock of such person having general power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of such persons (irrespective of whether or not at the time capital stock or any other class or classes shall have or might have voting power by reason of the happening of any contingency).

As used herein, "Market Value" of the Common Stock or any other Marketable Stock is the average of the last reported sales prices of the Common Stock or such other Marketable Stock, as the case may be, for the five business days ending on the last business day preceding the date of the Fundamental Change or Change of Control; provided, however, that if the Marketable Stock is not traded on any national securities exchange or similar quotation system as described in the definition of "Marketable Stock" during such period, then the Market Value of such Marketable Stock is the average of the last reported sales prices per share of such Marketable Stock during the first five business days commencing on the day after the date on which such Marketable Stock was first distributed to the general public and traded on the New York Stock Exchange ("NYSE"), the AMEX, the NASDAQ NSM or any similar system of automated dissemination of quotations of securities prices in the United States.

As used herein, "Marketable Stock" means Common Stock or common stock of any corporation that is the successor (or the ultimate parent of such successor) to all or substantially all of the business or assets of the Company as a result of a Fundamental Change, which is (or will, upon distribution thereof, be) listed or quoted on the NYSE, the AMEX, the NASDAQ NSM or any similar system of automated dissemination of quotations or securities prices in the United States.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of the Company, after payment or provision for payment of the debts and other liabilities of the Company, the holders of the Amended Series A Preferred Stock shall be entitled to receive, out of the remaining net assets of the Company available for distribution to stockholders, liquidating distributions in the amount of \$85.00 per share, plus an amount equal to all dividends accrued and unpaid on each such share (whether or not declared) to the date fixed for distribution, before any distribution is made to holders of the Common Stock or any other class of stock of the Company ranking junior to the Amended Series A Preferred Stock. After receiving payment of the full amount of the liquidating distribution to which they are entitled, the holders of shares of Amended Series A Preferred Stock will not be entitled to any further participation in any remaining assets of the Company. If upon liquidation, dissolution or winding up of the Company, the amounts payable with respect to the Amended Series A Preferred Stock and any other capital stock ranking as to such distribution on a parity with the Amended Series A Preferred Stock with respect to such distributions ("Parity Stock") are not paid in full, the holders of the Amended Series A Preferred Stock and of such other Parity Stock will share ratably in any such distribution of assets in proportion to the full respective preferential amounts to which they are entitled. Currently, the Amended Series B Preferred Stock constitutes Parity Stock. See "-- Description of Existing Capital Stock -- Preferred Stock." Neither the consolidation or merger of the Company with another corporation nor a sale, conveyance, lease, transfer or exchange of all or substantially all of the Company's assets will be considered a liquidation, dissolution or winding up of the Company for these purposes.

Optional Redemption

The Amended Series A Preferred Stock will not be redeemable prior to May 1, 2002. On or after such date, the Amended Series A Preferred Stock may be redeemed for cash, in whole or in part, at the option of the Company at any time or from time to time, on not less than 30 nor more than 60 days' notice, at the following prices per share during the 12-month period beginning on May 1 of the year indicated:

Year	Redemption Price
----	-----
2002	\$90.00
2003	88.75
2004	87.50
2005	86.25
2006 and thereafter	85.00

together, in each case, with an amount equal to all dividends (whether or not declared) accrued and unpaid to the date of redemption.

If fewer than all the outstanding shares of Preferred Stock are to be redeemed, the Company will select those to be redeemed ratably or by lot in a manner determined by the Board of Directors. All dividends upon the shares of Preferred Stock called for redemption shall cease to accrue and all rights of the holders thereof as shareholders of the Company (except the right to receive the redemption price, including any accrued and unpaid dividends to the date of redemption, without interest upon the presentation of certificates representing the redeemed shares) shall terminate on the date of redemption.

Mandatory Redemption

The Amended Series A Preferred Stock will be mandatorily redeemed, in whole, on May 1, 2007, upon not less than 30 nor more than 60 days' notice, at a redemption price of \$85.00 per share, plus accrued and unpaid dividends (whether or not declared) to the redemption date, payable in cash or, at the election of the Company, in shares of Common Stock, valued at the average of the Market Price over the 20 trading days preceding the date of notice of redemption.

Voting Rights

In addition to any special voting rights granted by law and the class voting rights described in the following two paragraphs, the holders of Amended Series A Preferred Stock will be entitled to vote with the holders of Common Stock on all matters on which the holders of Common Stock are entitled to vote. Further, each share of the Amended Series A Preferred Stock will entitle the holder thereof to cast the same number of votes as the full shares of Common Stock then issuable upon conversion thereof.

Whenever dividends on the Amended Series A Preferred Stock are in arrears in an amount equal to or exceeding three semi-annual dividends (whether or not consecutive and whether payable in cash or shares of Amended Series A Preferred Stock), the number of directors of the Company will automatically be increased by two and the holders of the Amended Series A Preferred Stock (voting separately as a class) will be entitled to elect the additional two directors until all dividends that were accrued and unpaid have been paid or declared and funds or shares, as the case may be, set aside to provide for payment in full. Upon any termination of such rights to vote for directors, the term of office of all directors so elected shall terminate.

Without the affirmative vote or consent of the holders of at least two-thirds of the number of shares of Amended Series A Preferred Stock then outstanding, the Company may not (a) create or issue or increase the authorized number of shares of any class or classes or series of stock ranking senior to the Amended Series A Preferred Stock, either as to dividends or upon liquidation, dissolution or winding up, or (b) alter, change or repeal any of the powers, rights or preferences of the holders of the Amended Series A Preferred Stock so as to affect adversely such powers, preferences or rights of the Amended Series A Preferred Stock. Accordingly, the voting rights of the holders of Amended Series A Preferred Stock could, under certain circumstances, operate to restrict the flexibility the Company would otherwise have in connection with any future issuances of equity securities or changes to its capital structure.

Miscellaneous

The Preferred Stock, when designated, issued and paid for, will be fully paid and nonassessable. The Preferred Stock has no preemptive rights and is not subject to any sinking fund.

Amended Series B Preferred Stock

On March 4, 1998, in connection with settlement of litigation instituted by the holder of the Company's Series B Preferred Stock, the holder thereof sold its 44,465 shares of Series B Preferred Stock and associated warrants. The purchasers, in a simultaneous transaction exchanged the shares of Series B Preferred Stock for Amended Series B Preferred Stock and warrants to purchase 250,000 shares of Common Stock, subject to adjustment. The Amended Series B Preferred Stock is entitled to 50 votes per share on all matters on which Common Stockholders are entitled to vote and separately as a class on certain matters; has a liquidation preference of \$100 per share plus accumulated dividends and ranks senior to the Common Stock and pari passu with the Amended Series A Preferred Stock with respect to the payment of dividends and distributions on liquidation; is convertible by the holders thereof at any time after the earlier of the effective date of the registration under the Securities Act of the conversion stock or August 31, 1998, at \$4.75 if the conversion stock has been registered or at \$3.80 if the conversion stock is unregistered; is redeemable at the option of the holder at any time after December 20, 2001 at \$100.00 per share plus accrued and unpaid dividends, payable at the Company's election in shares of Common Stock; and bears a fixed cumulative dividend at an annual rate of \$9.50 per share, payable semi-annually in either cash, shares of Common Stock, or additional shares of Amended Series B Preferred Stock, at the Company's option.

Shares Eligible for Future Sale

As of September 30, 1998, there were reserved an aggregate of (i) 4,991,691 shares of Common Stock subject to outstanding options; (ii) 14,840,593 shares issuable upon conversion of the Company's outstanding Amended Series A Preferred Stock; (iii) 1,250,000 shares issuable upon conversion of the Company's outstanding Amended Series B Preferred Stock; (iv) 17,060,604 shares issuable upon exercise of the Company's outstanding warrants; (v) 104,375 shares reserved for sale to fund working capital for the Company's China projects; (vi) 60,690 reserved for sale to fund general working capital requirements of the Company; and (vii) 387,388 shares issuable in connection with contractual obligations. The Company would receive a total of approximately \$63.2 million if all options and warrants were exercised and all stock reserved for sale was sold at \$3.00 per share.

Additionally, the Company will have approximately 438 million shares of Common Stock available for issuance at such times and upon such terms as may be approved by the Company's Board of Directors. No prediction can be made as to the effect, if any, that future sales or the availability of shares for sale will have on the market price of the Common Stock prevailing from time to time. Nevertheless, sales of substantial amounts of Common Stock of the Company in the public market could adversely affect the prevailing market price of the Common Stock and could impair the Company's ability to raise capital through sales of its equity securities.

Approximately 6.8 million shares of Common Stock (including shares issuable upon exercise of outstanding options and warrants and conversion of convertible securities, the "Restricted Shares") are held by executive officers and directors of the Company and affiliates of the Company and may be sold pursuant to an effective registration statement covering such shares or pursuant to Rule 144 of the Securities Act, subject to the restrictions described below.

In general, under Rule 144, as currently in effect, a person (or persons whose shares are aggregated), including an affiliate,

who has beneficially owned Restricted Shares for a least one year, is entitled to sell within any three-month period, a number of shares that does not exceed the greater of (i) 1% of the then outstanding shares of the Company's Common Stock or (ii) an amount equal to the average weekly reported volume of trading in such shares during the four calendar weeks preceding the date on which notice of such sale is filed with the Commission. Sales under Rule 144 are also subject to certain manner of sale limitations, notice requirements and the availability of current public information about the Company. Restricted Shares properly sold in reliance on Rule 144 are thereafter freely tradable without restrictions or registration under the Securities Act, unless thereafter held by an affiliate of the Company. In addition, affiliates of the Company must comply with the restrictions and requirements of Rule 144, other than the one-year holding period requirement, in order to sell shares of Common Stock which are not Restricted Shares. As defined in Rule 144, an "affiliate" of an issuer is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, such issuer. If two years have elapsed since the later of the date of any acquisition of Restricted Shares from the Company or from any affiliate of the Company, and the acquiror or subsequent holder thereof is deemed not to have been an affiliate of the Company at any time during the three months preceding a sale, such person would be entitled to sell such shares in the public market pursuant to Rule 144(k) without regard to volume limitations, manner of sale restrictions, or public information or notice requirements.

MATERIAL UNITED STATES INCOME TAX CONSIDERATIONS

The following discussion is a summary of material federal income tax considerations relevant to the purchase, ownership and disposition of the Amended Series A Preferred Stock and the Common Stock, but does not purport to be a complete analysis of all the potential tax effects thereof. The discussion is based upon the Internal Revenue Code of 1986 (the "Code"), Treasury regulations, and Internal Revenue Service ("IRS") rulings and judicial decisions now in effect, all of which are subject to change at any time by legislative, judicial or administrative action. No information is provided herein with respect to state and local taxes or estate and gift tax considerations. This information is directed to the original investors who hold the Amended Series A Preferred Stock and the Common Stock as "capital assets" within the meaning of Section 1221 of the Code. In addition, this discussion does not address the tax consequences to certain holders as to whom special rules apply (including life insurance companies, tax exempt organizations, banks and dealers in securities). The Company has not sought, nor does it intend to seek an opinion from tax counsel, or a ruling from the IRS that the tax consequences described in the following discussion will be accepted by the IRS. This discussion does not purport to address all federal income tax aspects that may be relevant to holders in light of their particular circumstances. Each prospective investor should consult and should rely on his own tax advisor concerning the tax consequences to him of the purchase, ownership and disposition of the Amended Series A Preferred Stock and the Common Stock.

Taxation of the Amended Series A Preferred Stock and Common Stock

Dividends on Amended Series A Preferred Stock or Common Stock

Dividends paid on the Amended Series A Preferred Stock or Common Stock will be taxable under Section 301 of the Code as ordinary income to the extent of the Company's current and accumulated "earnings and profits" (as defined in the Code). Dividends received by corporate holders of the Amended Series A Preferred Stock or Common Stock out of such earnings and profits generally will qualify, subject to the limitations under Sections 246(c) and 246A of the Code, for the 70% dividends received deduction allowable to corporations under Section 243 of the Code (although the benefits of such deduction may be reduced or

eliminated by the corporate alternative minimum tax). Under Section 246(c) of the Code, to be eligible for the dividends received deduction, a corporate holder must hold its shares of Amended Series A Preferred Stock or Common Stock for at least 46 days during the 90-day period beginning 45 days before the date on which the shares became ex-dividend (91 days during the 180-day period beginning 90 days before the shares became ex-dividend in the case of a preferred dividend attributable to a period or periods aggregating more than 366 days). A taxpayer's holding period for these purposes is suspended during any period in which the taxpayer has an option to sell, is under a contractual obligation to sell, has made (and not closed) a short sale of, or has granted an option to buy, substantially identical stock or securities, or holds one or more other positions with respect to substantially similar or related property that diminish the risk of loss from holding such stock. Under Section 246A of the Code, the dividends received deduction may be reduced or eliminated if a holder's shares of Amended Series A Preferred Stock or Common Stock are debt financed.

Section 1059 of the Code requires a corporate stockholder to reduce its basis (but not below zero) in the Amended Series A Preferred Stock or Common Stock by the nontaxed portion (generally the portion eligible for the dividends received deduction described above) of any "extraordinary dividend" if the Amended Series A Preferred Stock or Common Stock has not been held for more than two years before the date of announcement or agreement with respect to such dividend. In addition, a corporate holder of Amended Series A Preferred Stock or Common Stock would recognize additional gain on the disposition of such stock equal to any nontaxed portions of any extraordinary dividend that would have reduced such holder's basis but for the limitation on reducing basis below zero. An "extraordinary dividend" generally is a dividend that (a) equals or exceeds 5% in the case of preferred stock, or 10% in the case of common stock, of the holder's adjusted basis in such stock, treating all dividends having ex-dividend dates within a period of 85 consecutive days as one dividend or (b) exceeds 20 percent of the holder's basis in such stock, treating all dividends having ex-dividend dates within a period of 365 consecutive days as one dividend, provided that in either case fair market value of the stock on the day before the ex-dividend date, if it can be established by the holder, may be substituted for the stock basis. In addition, an amount treated as a dividend in the case of a redemption of the Amended Series A Preferred Stock that is either non-pro rata as to all stockholders or in partial liquidation would also constitute an "extraordinary dividend" without regard to the length of time the Amended Series A Preferred Stock has been held. Special rules apply with respect to a "qualified preferred dividend," which would include any fixed dividend payable with respect to the Amended Series A Preferred Stock, provided it is not in arrears as to dividends when acquired and the actual rate of return on the Amended Series A Preferred Stock does not exceed 15% calculated by reference to the lower of the holder's basis in the Amended Series A Preferred Stock or its liquidation preference. The extraordinary dividend rules will not apply to a qualified preferred dividend if the holder has held the Amended Series A Preferred Stock for more than five years. If the holder disposes of the Amended Series A Preferred Stock before it has been held for more than five years, the aggregate reduction in basis will not exceed the excess of the qualified preferred dividends paid during the period the Amended Series A Preferred Stock was held by the holder over the qualified preferred dividends which would have been paid during such period on the basis of the Amended Series A Preferred Stock's stated rate of return calculated by reference to the lower of the holder's basis in the Amended Series A Preferred Stock or its liquidation preference.

To the extent that a distribution on Amended Series A Preferred Stock or Common Stock exceeds the current and accumulated earnings and profits of the Company, such distribution will be treated as a nontaxable return of capital which reduces the holder's basis in its Amended Series A Preferred Stock or Common Stock. Any such distribution in excess of a holder's basis will be treated as short-term or long-term capital gain, depending on whether the Amended Series A Preferred Stock or Common Stock has been held for more than one year.

At the present time, the Company has no accumulated earnings

and profits for federal income tax purposes, and it is uncertain whether and to what extent the Company will have current or accumulated earnings and profits in the future. Accordingly, there can be no assurance that distributions to corporate holders of the Amended Series A Preferred Stock or Common Stock will qualify for the dividends received deduction.

Redemption Premium on Amended Series A Preferred Stock

Under Section 305 of the Code and applicable Treasury regulations, if the redemption price of redeemable preferred stock exceeds its issue price and part (or all) of such excess is considered an unreasonable redemption premium, the entire amount of such excess is treated as distributed over the period during which the preferred stock cannot be redeemed. The amount treated as distributed each year would be determined on a constant yield to maturity basis that would result in the allocation of a lesser amount of distributions to the early years and a greater amount to the later years of such period. Any such constructive distribution would be classified as a dividend, a non-taxable recovery of basis or an amount received in exchange for the Amended Series A Preferred Stock pursuant to the rules summed up under " -- Dividends on Amended Series A Preferred Stock or Common Stock." Any such constructive distribution would be taken into account for purposes of applying the extraordinary dividend rules discussed above.

Under recently issued Treasury Regulations, a redemption premium that would be paid in the event of an issuer call is considered unreasonable only if, based on all the facts and circumstances as of the issue date, redemption pursuant to the call is more likely than not to occur. Even if a redemption is considered more likely than not to occur, the redemption premium is not subject to the current inclusion rule if it is solely in the nature of a penalty for premature redemption. A redemption premium is considered a penalty for premature redemption only if it is paid as a result of changes in economic or market conditions over which neither the issuer nor the holder has legal or practical control.

Under a safe harbor, a redemption is not treated as more likely than not to occur if (i) the issuer and holder are not "related," (ii) there are no plans, arrangements, or agreements that effectively require or are intended to compel the issuer to redeem the stock (other than a mandatory redemption right exercisable by the holder), and (iii) exercise of the call right would not reduce the yield of the stock, as determined under principles similar to the principles of section 1272(a) of the Code and the Treasury Regulations under sections 1271 through 1275. The Company anticipates that any call of the Amended Series A Preferred Stock will fall within this safe harbor, although no assurance can be given that it will fall within the safe harbor.

Assuming that the redemption does not fall within the safe harbor discussed above, the Company believes, based upon the facts and circumstances existing at the time of issuance, that it is not more likely than not that the redemption will occur. The Company further believes that, even if the IRS were to treat the redemption as more likely than not to occur, the redemption premium should be considered a penalty paid for premature redemption of the Amended Series A Preferred Stock.

Redemption or Sale of Amended Series A Preferred Stock

A redemption of Amended Series A Preferred Stock for cash will be treated, under Section 302 of the Code, as (i) a distribution treated as a taxable dividend, (ii) a nontaxable recovery of basis, or (iii) an amount received in exchange for the Amended Series A Preferred Stock pursuant to the rules described under " -- Dividends on Amended Series A Preferred Stock or Common Stock," unless the redemption (a) results in a "complete termination" of the stockholder's interest in the Company under Section 302(b)(3) of the Code; (b) is "substantially disproportionate" with respect to the stockholder under Section 302(b)(2) of the Code; or (c) is "not essentially equivalent to a dividend" under Section 302(b)(1) of the Code. In determining whether any of these tests have been met, shares considered to be owned by the stockholder by reason of certain

constructive ownership rules in Sections 302(c) and 318(a) of the Code, as well as shares actually owned, must be taken into account. If any of these tests are met, the redemption of the Amended Series A Preferred Stock for cash would be treated as a sale or exchange for tax purposes.

A redemption will be "not essentially equivalent to a dividend" as to a particular stockholder if it results in a meaningful reduction in that stockholder's interest in the Company. If, as a result of the redemption of the Amended Series A Preferred Stock, a stockholder of the Company, whose relative interest in the Company is minimal and who exercises no control over corporate affairs, suffers a reduction in his proportionate interest in the Company (taking into account shares constructively owned by the stockholder and, in certain events, dispositions of the stock that occur contemporaneously with the redemption), that stockholder should be regarded as having suffered a meaningful reduction in his interest in the Company.

If, under the foregoing rules, a redemption of Amended Series A Preferred Stock is treated as a sale or exchange, rather than as a distribution, or if the Amended Series A Preferred Stock is sold, the holder would recognize taxable gain or loss equal to the difference between the amount realized and the holder's tax basis in the Amended Series A Preferred Stock. For these purposes, the amount realized will generally be measured by the amount of cash and the fair market value of any other property received. The holder's initial cost basis in the Amended Series A Preferred Stock will be that portion of the initial Equity Unit price that is allocated to the Amended Series A Preferred Stock based upon the relative fair market values of the Amended Series A Preferred Stock and the Warrants. Each holder should consult his tax adviser regarding the determination of the initial cost basis of the Securities comprising the Units.

If a redemption of Amended Series A Preferred Stock is treated as a distribution, the amount of the distribution will generally be measured by the amount of cash and the fair market value of any other property received. The stockholder's basis in the redeemed Amended Series A Preferred Stock will be transferred to any remaining stockholdings in the Company.

A distribution to a corporate stockholder in redemption of Amended Series A Preferred Stock that is treated as a dividend may also be considered an "extraordinary dividend" under Section 1059 of the Code. See "-- Dividends on Amended Series A Preferred Stock or Common Stock." A redemption that is treated as a dividend that is not pro rata as to all stockholders may be treated as an extraordinary dividend without regard to the period during which the stockholder held the Amended Series A Preferred Stock.

Conversion of Amended Series A Preferred Stock Into Common Stock

In general, no gain or loss will be recognized for federal income tax purposes on conversion of Amended Series A Preferred Stock solely into shares of Common Stock, except with respect to any cash received in lieu of fractional shares of Common Stock. If dividends on the Amended Series A Preferred Stock are in arrears at the time of conversion, however, a portion of the Common Stock received in exchange for Amended Series A Preferred Stock could be viewed under Section 305(c) of the Code as a distribution with respect to the Amended Series A Preferred Stock, taxable as a dividend. The tax basis for Common Stock received on conversion will be equal to the tax basis of the Amended Series A Preferred Stock converted, reduced by the portion of basis allocable to any fractional share exchanged for cash. The holding period of the shares of Common Stock will include the holding period of such Amended Series A Preferred Stock.

Adjustment of Conversion Price

Section 305 of the Code treats holders of convertible securities as having received a constructive distribution (taxable as a dividend to the extent of the issuing corporation's current or accumulated earnings and profits) when certain

adjustments are made to the conversion price and conversion ratio of such securities. For example, a constructive distribution results when the conversion price is adjusted to reflect certain taxable distributions with respect to the stock into which preferred stock is convertible. Adjustment of the Conversion Price and the Conversion Ratio at which the Amended Series A Preferred Stock can be converted (which may occur under certain circumstances) could cause the holders thereof to be viewed under Section 305 of the Code as having received a deemed distribution taxable as a dividend whether or not such holders exercise their conversion rights.

Foreign Holders

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The following discussion is a summary of material United States federal income tax consequences to a Foreign Person that holds a Security. The Company has not sought, nor does it intend to seek, an opinion from tax counsel or a ruling from the IRS with respect to the matters addressed in the following discussion. The term "Foreign Person" means a nonresident alien individual or foreign corporation, but only if the income or gain on the Security is not "effectively connected with the conduct of a trade or business within the United States." If the income or gain on the Security is "effectively connected with the conduct of a trade or business within the United States," then the nonresident alien individual or foreign corporation will be subject to tax on such income or gain in essentially the same manner as a United States citizen or resident or a domestic corporation, as discussed herein, and in the case of a foreign corporation, may also be subject to the branch profits tax.

In general, gain (to the extent it is not "effectively connected with the conduct of a trade or business within the United States") recognized by a Foreign Person upon the redemption, sale, exchange or other taxable disposition of a share of Amended Series A Preferred Stock or of shares of Common Stock will not be subject to United States federal income tax unless such Foreign Person is an individual present in the United States for 183 days or more during the taxable year in which the disposition occurs and certain other requirements are met, or unless the Company was a United States real property holding corporation at any time during the five years preceding the disposition while the Foreign Person held an interest in the Company. Although the Company has previously been treated as a United States real property holding corporation for United States federal income tax purposes because of its ownership of substantial real estate assets in the United States, the Company believes that it is not presently a United States real property holding corporation because the fair market value of its United States real property interests now constitutes less than 50% of the total fair market value of its real estate assets, including its Chinese assets. If the Company were again to become a United States real property holding corporation in the future, either because of a change in the fair market values of its current properties or through acquisitions of real property interests, a Foreign Person who holds Amended Series A Preferred Stock or Common Stock would generally be subject to United States federal income tax on any gain recognized from sale or other disposition of Amended Series A Preferred Stock or Common Stock, unless the Common Stock is traded on an established securities market and a Foreign Person does not directly or constructively own Amended Series A Preferred Stock or Common Stock with a fair market value on the date of acquisition of more than 5% of the fair market value of the outstanding Common Stock on such date. If subject to United States federal income tax, the gain would be treated as effectively connected with the conduct of a trade or business within the United States and the sale or other disposition generally would be subject to withholding tax equal to 10% of the amount realized therefrom.

Distributions paid on the Amended Series A Preferred Stock or Common Stock to a Foreign Person (other than distributions that constitute income effectively connected with a United States trade or business) will be subject to United States federal income tax withholding at a rate of 30% of the amount of the distribution (unless the rate is reduced by an applicable tax treaty). If the Company derives at least 80% of its gross income from the active conduct of a trade or business outside the United States for a period of three years prior to the taxable year of

the distribution (or for the taxable year of the distribution if the Company has no gross income for such three-year period), then distributions to Foreign Holders of Amended Series A Preferred Stock or Common Stock will not be subject to withholding.

Any Foreign Person that recognizes gain upon the redemption, sale, exchange or other taxable disposition of a share of Amended Series A Preferred Stock or of shares of Common Stock or receives a dividend on the Common Stock that is "effectively connected with the conduct of a trade or business with the United States" will be subject to tax in essentially the same manner as a U.S. person, as discussed above. A Foreign Person that is a foreign corporation engaged in a U.S. trade or business also may be subject to the branch profits tax with respect to such gain or dividend.

Backup Withholding
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A noncorporate holder may be subject, under certain circumstances, to backup withholding at a 31% rate with respect to payments received with respect to the Amended Series A Preferred Stock and the Common Stock. This withholding generally applies only if the holder (i) fails to furnish his, her or its social security or other taxpayer identification number ("TIN"), (ii) furnishes an incorrect TIN, (iii) is notified by the IRS that he, she or it has failed to report properly payments of interest and dividends and the IRS has notified the Company that he, she or it is subject to backup withholding, or (iv) fails, under certain circumstances, to provide a certified statement, signed under penalty of perjury, that the TIN provided is his, her or its correct number and that he, she or it is not subject to backup withholding. Any amount withheld from a payment to a holder under the backup withholding rules is allowable as a credit against such holder's federal income tax liability, provided that the required information is furnished to the IRS. Certain holders (including, among others, corporations and foreign individuals who comply with certain certification requirements) are not subject to backup withholding. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

SELLING SECURITY HOLDERS

An aggregate of up to 1,219,199 shares of Amended Series A Preferred Stock may be offered by certain Selling Security Holders. As of July 31, 1998, the Selling Security Holders, none of whom has a material relationship with the Company or any of its predecessors or affiliates except as set forth herein, were as follows: [TO BE COMPLETED BY AMENDMENT]

<TABLE>
<CAPTION>

Preferred Stock Owned After Name of Selling Security Holder Offering	Shares of Amended Series A		Shares of Amended Series Maximum Number	A
	Preferred Stock Beneficially Owned Prior to the Offering	Percent	of Shares to be Sold in the Offering	Beneficially the
----- -----	----- -----	----- -----	----- -----	----- -----
Arbco Associates, L.P. 0.00%	113,567	9.31	113,567	--
The Bank of New York Nominees 0.00%	28,418	2.33	28,418	--
Cumber International 0.00%	15,138	1.24	15,138	--
Cumberland Partners 0.00%	153,765	12.61	153,765	--
Evanston Insurance Company 0.00%	16,758	1.37	16,758	--

Foremost Insurance Company 0.00%	19,502	1.60	19,502	--
Hallco, Inc. 0.00%	29,317	2.40	29,317	--
Hare & Co. 0.00%	14,079	1.15	14,079	--
Kayne Anderson Non-Traditional Investments, L.P. 0.00%	85,949	7.05	85,949	--
Lone Star Partners, L.P. 0.00%	20,828	1.71	20,828	--
Longview Partners 0.00%	24,236	1.99	24,236	--
Mees Pierson Nominees UK Limited 0.00%	29,676	2.43	29,676	--
J. Edgar Monroe Foundation 0.00%	12,234	0.99	12,234	--
MSS Nominees Limited 0.00%	23,776	1.95	23,776	--
Offense Group Associates, L.P. 0.00%	54,290	4.45	54,290	--
Opportunity Associates, L.P. 0.00%	34,530	2.83	34,530	--
Putnam Advisory Company 0.00%	14,892	1.22	14,892	--
Putnam Investment Management Inc. 0.00%	205,172	16.83	205,172	--
TCW Shared Opportunity Fund II L.P. 0.00%	28,924	2.37	28,924	--
Topa Insurance Company 0.00%	15,685	1.29	15,685	--
T. Rowe Price Strategic Partners II Fund 0.00%	59,915	4.91	59,915	--
Vidacos Nominees Limited A/C BAR 0.00%	11,870		11,870	--
Less than 1% holders 0.00%				--
Total	1,219,199			

</TABLE>

An aggregate of up to 33,592,721 shares of Common Stock may be offered by certain Selling Security Holders. As of July 31, 1998, the Selling Security Holders, none of whom has a material relationship with the Company or any of its predecessors or affiliates except as set forth herein, were as follows: [TO BE COMPLETED BY AMENDMENT]

<TABLE>
<CAPTION>

Name of Selling Security Holder	Shares of Common Stock Beneficially Owned Prior to the Offering		Maximum Number of Shares to be Sold in the Offering	Shares of Common Stock Beneficially Owned After the Offering	
	Number	Percent		Number	Percent
Arbco Associates, L.P.	2,047,549	8.30	2,021,388	26,161	0.11
The Bank of New York Nominees Boland Machine & Manufacturing Co.	21,705	0.09	21,705	--	--
Butler Partners	27,777	0.12	27,777	--	--
Construction Specialists, Inc.	108,526	0.47	108,526	--	--
Patrick B. Collins					
Daniel O. Conwill, IV	136,447	0.59	136,447	--	--
Cumber International	171,559	0.74	171,559	--	--
Cumberland Partners	1,798,619	7.19			
Dornbush Family, L.P.	35,838	0.16	35,838	--	--
EnCap Investments, L.P.	62,675	0.27	4,858	57,817	0.25
Evanston Insurance Company	208,136	0.90	208,136	--	--
Fidelity Summer Street Trust	347,593	1.49	347,593	--	--
Foremost Insurance Company	307,239	1.33	305,026	2,213	0.01
Hallco, Inc.	332,250	1.43	332,250	--	--
Hare & Co.					
Darlene F. Hart	8,000	0.03	4,000	4,000	0.02
ING (U.S.) Capital Corporation	633,333	2.71	466,666	166,667	0.71
JEFCO	653,053	2.77	653,053	--	--

Kayne Anderson Non-Traditional Investments, L.P.	1,615,464	6.64	1,648,193	240,706	0.99
Kayne Anderson Offshore Limited	154,700	0.67	111,290	43,410	0.19
Shauvik Kundagrami	10,240	0.04	10,240	--	--
Abby Leigh					
David Leigh Trust	14,444	0.06	14,444	--	--
Mitch Leigh					
Rebecca Leigh Trust	14,444	0.06	14,444	--	--
Lone Star Partners, L.P.	278,710	1.20	278,710	--	--
Longhorn Partners	27,777	0.12	27,777	--	--
Longview Partners	274,667	1.18	274,667	--	--
Joseph L. Maly, Jr.	20,480	0.09	20,480	--	--
Robert H. Matthews	4,000	0.02	4,000	--	--
Kathy Costner-McIlhenny	20,000	0.09	20,000	--	--
Mees Pierson Nominees UK Limited					
J. Edgar Monroe Foundation	161,335	0.70	160,353	982	--
Estate of J. Edgar Monroe	88,491	0.38	65,116	23,375	0.10
Morgan Stanley Dean Witter					
Diversified Investment Trust	173,791	0.75	173,791	--	--
MSS Nominees Limited					
Offense Group Associates, L.P.	1,117,196	4.68	1,115,353	1,843	0.01
Opportunity Associates, L.P.	641,941	2.74	641,941	--	--
Putnam Advisory Company	774,505	3.27	774,505	--	--
Putnam Fiduciary Trust Company	384,286	1.67	384,286	--	--
Putnam Investment Management Inc.	8,928,135	28.03	8,928,135	--	--
David P. Quint	1,684	0.01	1,684	--	--
Rauscher Pierce & Clark (Guernsey) Ltd.	50,399	0.22	50,399	--	--
Arthur Rosenbloom & Nancy Rosenbloom Living Trust	157,990	0.69	144,151	13,839	0.06
John W. Sindors, Jr.	65,280	0.28	65,280	--	--
Target Trust					
TCW Leveraged Income Investment Trust L.P.	656,331	2.80	554,665	101,666	0.43
TCW Shared Opportunity Fund II LP	980,871	4.12	864,347	101,666	0.43
Topa Insurance Company	240,877	1.04	205,046	35,831	0.15
Valux S.A. Luxembourg	24,000	0.10	12,000	12,000	0.05
Vidacos Nominees Limited A/C BAR					
William Wang					
Donald & Joanne Westerberg	16,110	0.07	16,110	--	--
-					
Kurt Wettenschwiler	18,533	0.08	12,000	6,533	0.03
Less Than 1% Holders of Amended Series A Preferred Stock					
Total			33,592,721		

</TABLE>

The Company is registering the Securities on behalf of the Selling Security Holders. As used herein, "Selling Security Holders" includes pledgees, donees, transferees or other successors in interest to be named Selling Security Holder after the date of this Prospectus. The Securities may be sold from time to time on one or more exchanges or in the over-the-counter market or in private transactions or otherwise, at prices and at terms then prevailing or at prices related to the then current market price, or in negotiated transactions. The Securities may be sold in one or more of the following: negotiated transactions; a block trade in which the broker-dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction; purchases by a broker-dealer as principal and resale by such broker-dealer for its account pursuant to this Prospectus; an exchange distribution in accordance with the rules of such exchange; and ordinary brokerage transactions and transactions in which the broker solicits purchasers. Such transactions may or may not involve brokers or dealers. In effecting sales, broker-dealers engaged by the Selling Security Holders may arrange for other broker-dealers to participate in the resales.

In connection with distributions of the Securities or otherwise, the Selling Security Holders may enter into hedging transaction with broker-dealers or others. In connection with such transactions, Selling Security Holders, broker-dealers or others may engage in put and call options and in short sales of the shares registered hereunder in the course of hedging the positions they assume. The Selling Security Holders may also

sell shares short and redeliver the shares to close out such short positions. The Selling Security Holders may also enter into option or other transactions with broker-dealers which require the delivery to the broker-dealer of the Securities registered hereunder, which the broker-dealer may resell or otherwise transfer pursuant to this Prospectus. The Selling Security Holders may also loan or pledge the Securities registered hereunder to a broker-dealer or other third party and the broker-dealer and such other third party may sell the Securities so loaned or upon a default the broker-dealer or other third party may effect sales of the pledged Securities pursuant to this Prospectus.

Broker-dealers or agents may receive compensation in the form of commissions, discounts or concessions from Selling Security Holders in amounts to be negotiated in connection with the sale. Such broker-dealers and any other participating broker-dealers may be deemed to be "underwriters" within the meaning of the Securities Act, in connection with such sales and any such commission, discount or concession received by broker-dealers may be deemed to be underwriting discounts or commissions under the Securities Act. In addition, any Securities covered by this Prospectus which qualify for sale pursuant to Rules 144, 144A or 904 may be sold under such Rules rather than pursuant to this Prospectus.

The Selling Security Holders may agree to indemnify any broker-dealer or agent that participates in transactions involving sales of the Securities against certain liabilities, including liabilities arising under the Securities Act. The Company and certain of the Security Holders have agreed to indemnify certain persons including broker-dealers or agents against certain liabilities in connection with the offering of the Securities, including liabilities arising under the Securities Act. Because Selling Security Holders may be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act, the Selling Security Holders will be subject to the prospectus delivery requirements of the Securities Act, which may include delivery through the facilities of the AMEX pursuant to Rule 153 under the Securities Act. The Company has informed the Selling Security Holders that the anti-manipulative provisions of Regulation M promulgated under the Exchange Act may apply to their sales in the market.

Upon the Company being notified by a Selling Security Holder that any material arrangement has been entered into with a broker-dealer for the sale of the Securities through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, a supplement to this Prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act, disclosing (i) the name of each such Selling Security Holder and of the participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which such shares were sold, (iv) the commissions paid or discounts or concessions allowed such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this Prospectus and (vi) other facts material to the transaction. In addition, upon the Company being notified by a Selling Security Holder that a donee or pledgee intends to sell more than 500 shares, a supplement to this Prospectus will be filed.

On May 20, 1997, the Company entered into two Registration Rights Agreements (collectively, the "Registration Agreements") with Jefferies as the initial purchaser in the Offerings. Pursuant to the Registration Agreements, the initial purchaser and all subsequent holders of Amended Series A Preferred Stock and Equity Warrants issued in the Offerings were granted certain registration rights with respect to the Amended Series A Preferred Stock and the Common Stock issuable upon conversion of the Amended Series A Preferred Stock.

In addition, the Company is registering certain outstanding shares of Common Stock previously issued in certain private placements, as well as Common Stock issuable on exercise of certain outstanding warrants, pursuant to certain "piggy back"

registration covenants and other contractual agreements to which the Company is subject.

Pursuant to such Registration Agreements and other contractual arrangements, the Company has agreed to indemnify the Selling Security Holders against certain liabilities, including liabilities under the Securities Act.

The Company is registering the Securities at its expense including paying all filing, printing, legal and accounting fees in connection therewith; provided, however, the Selling Security Holders will pay all applicable stock transfer taxes, brokerage commissions, discounts or other transaction charges and expenses.

Jefferies has performed and may in the future perform various investment banking services for the Company.

LEGAL MATTERS

Certain legal matters with respect to the Securities will be passed upon for the Company by Satterlee Stephens Burke & Burke LLP, New York, NY.

EXPERTS

The consolidated balance sheets of the Company and XCL-China Ltd. as of December 31, 1997 and 1996 and the consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997 included in this Prospectus have been included herein in reliance on the reports, both of which include an explanatory paragraph regarding the Company's ability to continue as a going concern, of PricewaterhouseCoopers LLP, independent accountants, given on the authority of that firm as experts in accounting and auditing.

ENGINEERS

The estimate of the oil and gas reserves as of January 1, 1998, for the Company's interests in the Zhao Dong Block as prepared by H.J. Gruy and Associates, Inc. referenced in this Prospectus has been included herein in reliance upon the authority of such firm as experts with respect to the matters contained in such firm's report.

GLOSSARY OF TERMS

Unless otherwise indicated in this Prospectus, natural gas volumes are stated at the legal pressure base of the State or area in which the reserves are located at 60 degrees Fahrenheit. Natural gas equivalents are determined using the ratio of six Mcf of natural gas to one barrel of crude oil, condensate or NGLs.

The following definitions shall apply to the technical terms used in this Prospectus.

"Bbl" means barrel or barrels.

"Bcf" means billion cubic feet.

"BOE" means barrel of crude oil equivalent.

"BOPD" means barrel per day.

"DD&A" means depletion, depreciation and amortization.

"Developed acreage" means acreage which consists of acres spaced or assignable to productive wells.

"Developed well" means a well drilled within the proved area of a crude oil or natural gas reservoir to the depth of stratigraphic horizon (rock layer or formation) known to be productive for the purpose of extraction of proved crude oil or natural gas reserves.

"Dry hole" means an exploratory or development well found to be incapable of producing either crude oil or gas in sufficient quantities to justify completion as a crude oil or natural gas well.

"EBITDA" means earnings from continuing operations before income taxes, interest expense, DD&A and other non-cash charges.

"Exploratory well" means a well drilled to find and produce crude oil or natural gas in an unproved area, to find a new reservoir in a field previously found to be producing crude oil or natural gas in another reservoir, or to extend a known reservoir.

"Farmout" means a leasehold held by the owner thereof under an agreement between operators, whereby a lease owner not desirous of drilling at the time agrees to assign the lease, or some portion of it (in common or in severalty) to another operator who is desirous of drilling the tract.

"Finding cost", expressed in dollars per BOE, is calculated by dividing the amount of total exploration and development capital expenditures (excluding any amortization with respect to deferred financing fees) by the amount of proved reserves added during the same period (including the effect on proved reserves of reserve revisions).

"G&A" means general and administrative.

"Gross" natural gas and crude oil wells or "gross" wells or acres is the number of wells or acres in which the Company has an interest.

"LOE" means lease operating expenses and production taxes.

"MBbl" means thousand barrels.

"MBOE" means thousand barrels of crude oil equivalent.

"Mcf" means thousand cubic feet.

"Mcfpd" means thousand cubic feet per day.

"MMBbls" means million barrels of crude oil.

"MMBOE" means million barrels of crude oil equivalent.

"MMBTU" means million British Thermal Units.

"MMcf" means million cubic feet.

"MMcfpd" means million cubic feet per day.

"Net" natural gas and crude oil wells or "net" acres are determined by multiplying "gross" wells or acres by the Company's working interest in such wells or acres.

"NGL" means natural gas liquid.

"Production costs" means lease operating expenses and taxes on natural gas and crude oil production.

"Productive wells" means producing wells and wells capable of production.

"Proved developed reserves" means reserves that can be expected to be recovered through existing wells with existing equipment and operating methods and those reserves that exist behind the casing of existing wells when the cost of making such reserves available for production is relatively small compared to the cost of a new well.

"Proved reserves" or "reserves" means the estimated quantities of crude oil, natural gas, and NGLs which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

"Proved undeveloped reserves" means reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

"Service well" is a well used for water injection in secondary recovery projects or for the disposal of produced water.

"Undeveloped acreage" means leased acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of crude oil and natural gas, regardless whether or not such acreage contains proved reserves.

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XCL Ltd.

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Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 1997

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Schedule II - Valuation and Qualifying Accounts

Unaudited Consolidated Balance Sheet as of June 30, 1998

Unaudited Consolidated Statements of Operations for the six months ended June 30, 1998 and 1997

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XCL-China Ltd.

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period ended December 31, 1997

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of XCL Ltd.

We have audited the consolidated financial statements and the financial statement schedule of XCL Ltd. and Subsidiaries listed in the Index on page F-1. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of XCL Ltd. and Subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company is generating minimal revenues and although the Company has cash (including its restricted cash) in the amount of approximately \$32 million as of December 31, 1997, and a positive working capital position, it must generate additional cash flows to satisfy its development and exploratory obligations with respect to its China properties. There is no assurance that the Company will be able to generate the necessary funds to satisfy these contractual obligations and to ultimately achieve profitable operations, which creates substantial doubt about its ability to continue as a going concern. Managements' plans in regard to these matters are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/S/ PRICEWATERHOUSECOOPERS LLP

Miami, Florida
April 10, 1998

<PAGE>

A S S E T S	December 31	
	1997	1996
Current assets:		
Cash and cash equivalents	\$ 21,952	\$ 113
Cash held in escrow (restricted)	10,263	--
Accounts receivable, net	101	23

Refundable deposits	1,200	--
Other	451	212
	-----	-----
Total current assets	33,967	348
	-----	-----
Property and equipment:		
Oil and gas (full cost method):		
Proved undeveloped properties, not being amortized	21,172	13,571
Unevaluated properties	33,132	21,238
	-----	-----
	54,304	34,809
Land, at cost	--	135
Other	1,163	2,492
	-----	-----
	55,467	37,436
Accumulated depreciation, depletion and amortization	(1,000)	(1,491)
	-----	-----
	54,467	35,945
	-----	-----
Investments	4,173	2,383
Assets held for sale	21,155	21,058
Debt issue costs, less amortization	4,268	950
Other assets	1,059	180
	-----	-----
Total assets	\$ 119,089	\$ 60,864
	=====	=====

L I A B I L I T I E S A N D S H A R E H O L D E R S ' E Q U I T Y

Current liabilities:		
Accounts payable and accrued costs	\$ 2,727	\$ 3,901
Due to joint venture partner	4,504	4,202
Dividends payable	1,813	928
Current maturities of long term debt	2,524	38,022
	-----	-----
Total current liabilities	11,568	47,053
	-----	-----
Long-term debt, net of current maturities	61,310	--
Other non-current liabilities	5,386	2,770
Commitments and contingencies (Notes 2 and 11)		
Shareholders' equity:		
Preferred stock-\$1.00 par value; authorized 2.4 million shares at December 31, 1997 and 1996; issued shares of 1,196,236 at December 31, 1997 and 669,411 at December 31, 1996 - liquidation preference of \$103 million at December 31, 1997	1,196	669
Common stock-\$.01 par value; authorized 500 million shares at December 31, 1997 and 1996; issued shares of 21,710,257 at December 31, 1997 and 285,754,151 at December 31, 1996	217	2,858
Common stock held in treasury - \$.01 par value; 69,470 shares at December 31, 1997 and 1,042,065 shares at December 31, 1996	(1)	(10)
Unearned compensation	(12,021)	--
Additional paid-in capital	298,588	226,956
Accumulated deficit	(247,154)	(219,432)
	-----	-----
Total shareholders' equity	40,825	11,041
	-----	-----
Total liabilities and shareholders' equity	\$ 119,089	\$ 60,864
	=====	=====

The accompanying notes are an integral part of these financial statements.

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<TABLE>

XCL Ltd. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts)

Year Ended December 31

	1997	1996	1995	
<CAPTION>				
<S>		<C>	<C>	<C>
Oil and gas revenues from properties held for sale	\$ 236	\$ 1,136	\$ 2,480	
Costs and operating expenses:				
Operating	210	342	985	
Depreciation, depletion and amortization	126	579	2,266	
Provision for impairment of oil and gas properties	--	3,850	75,300	
Writedown of other assets and investments	--	2,444	4,461	
General and administrative costs	4,910	3,487	4,551	
Other	3,048	227	590	
	8,294	10,929	88,153	
Operating loss	(8,058)	(9,793)	(85,673)	
Other income (expense):				
Interest expense, net of amounts capitalized	(8,450)	(2,415)	(2,998)	
Gain (loss) on sale of investments/assets	--	(661)	613	
Interest income	2,212	8	133	
Other, net	853	787	88	
	(5,385)	(2,281)	(2,164)	
Loss before extraordinary item	(13,443)	(12,074)	(87,837)	
Extraordinary charge for early extinguishment of debt	(551)	--	--	
Net loss	(13,994)	(12,074)	(87,837)	
Preferred stock dividends	(13,728)	(5,356)	(4,821)	
Net loss attributable to common stock	\$(27,722)	\$(17,430)	\$(92,658)	
Loss per share (basic):				
Net loss before extraordinary item	\$ (1.33)	\$ (.98)	\$ (5.77)	
Extraordinary item	(.03)	--	--	
Net loss per share	\$ (1.36)	\$ (.98)	\$ (5.77)	
Loss per share (diluted):				
Net loss before extraordinary item	\$ (1.33)	\$ (.98)	\$ (5.77)	
Extraordinary item	(.03)	--	--	
Net loss per share	\$ (1.36)	\$ (.98)	\$ (5.77)	
Average number of shares used in per share computations:				
Basic	20,451	17,705	16,047	
Diluted	20,451	17,705	16,047	

</TABLE>
The accompanying notes are an integral part of these financial statements.
<PAGE>
<TABLE>

XCL Ltd. and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Thousands of Dollars)

Total Shareholders' Equity	Preferred Stock	Common Stock	Treasury Stock	Paid-In Capital	Accumulated Deficit	Unearned Compensation
	-----	-----	-----	-----	-----	-----
<CAPTION>						
<S>		<C>		<C>	<C>	<C>
<C>	<S>	<C>				
Balance, December 31, 1994	\$ 649	\$ 2,372	\$ (35)	\$206,241	\$(114,027)	\$ -

95,200							
Net loss	-	-	-	-	(87,837)	-	
(87,837)							
Dividends	-	-	-	-	(4,821)	-	
(4,821)							
Preferred shares issued	32	-	-	5,092	-	-	
5,124							
Preferred shares subscribed	4	-	-	-	-	-	
4							
Common shares issued	-	189	-	7,936	-	-	
8,125							
Treasury shares purchased	-	-	(25)	(1,232)	-	-	
(1,257)							
Treasury shares issued	-	-	35	2,327	-	-	
2,362							
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1995	685	2,561	(25)	220,364	(206,685)	-	
16,900							
Net loss	-	-	-	-	(12,074)	-	
(12,074)							
Dividends	-	-	-	-	(673)	-	
(673)							
Preferred shares issued	10	-	-	128	-	-	
138							
Preferred shares subscribed	(4)	-	-	-	-	-	
(4)							
Preferred shares converted to common shares	(22)	5	-	17	-	-	
-							
Common shares issued	-	292	-	6,339	-	-	
6,631							
Treasury shares purchased	-	-	(3)	(138)	-	-	
(141)							
Treasury shares issued	-	-	18	246	-	-	
264							
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1996	669	2,858	(10)	226,956	(219,432)	-	
11,041							
Net loss	-	-	-	-	(13,994)	-	
(13,994)							
Dividends	-	-	-	-	(13,728)	-	
(13,728)							
Preferred shares issued	507	-	-	36,521	-	-	
37,028							
Common shares issued	-	198	-	4,395	-	-	
4,593							
Issuance of stock purchase warrants	-	-	-	15,032	-	-	
15,032							
Unearned compensation	20	13	-	12,841	-	(12,021)	
853							
Reverse stock split 1 for 15	-	(2,852)	9	2,843	-	-	
-							
	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1997	\$1,196	\$ 217	\$ (1)	\$298,588	\$ (247,154)	\$ (12,021)	
\$40,825							
	=====	=====	=====	=====	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

<PAGE>

XCL Ltd. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of Dollars)

Year Ended December 31

	1997	1996	1995
	----	----	----
Cash flows from operating activities:			
Net loss	\$ (13,994)	\$ (12,074)	\$ (87,837)
Adjustments to reconcile net loss			

to net cash used in operating activities:			
Depreciation, depletion and amortization	126	579	2,266
Provision for impairment of oil and gas properties	--	3,850	75,300
Extraordinary charge for early extinguishment of debt	551	--	--
(Gain) loss on sale of investments/assets	--	661	(613)
Amortization of discount on senior secured notes	1,342	--	--
Writedown of other assets and investments	--	2,444	4,461
Stock compensation programs	853	--	--
Other	796	--	--
Change in assets and liabilities:			
Accounts receivable	(78)	799	875
Refundable deposits	(1,200)	--	--
Accounts payable and accrued costs	(132)	575	(765)
Non-current liabilities and other	2,655	12	803
	-----	-----	-----
Total adjustments	4,913	8,920	82,327
	-----	-----	-----
Net cash used in operating activities	(9,081)	(3,154)	(5,510)
	-----	-----	-----
Cash flows from investing activities:			
Capital expenditures	(16,097)	(1,489)	(8,458)
Investments	(1,790)	(491)	(1,624)
Proceeds from sales of assets and investments	797	9,210	2,655
Other	--	4	64
	-----	-----	-----
Net cash (used in) provided by investing activities	(17,090)	7,234	(7,363)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from sales of common stock	652	1,766	3,553
Proceeds from issuance of preferred stock	25,000	144	3,068
Proceeds from sale of treasury stock	--	264	2,487
Proceeds from Senior Secured Notes	75,000	--	--
Loan proceeds	6,100	315	--
Payment of long-term debt	(35,503)	(8,344)	(522)
Payment of notes payable	(6,100)	--	--
Proceeds from exercise of options and warrants	1,590	691	874
Payment of preferred stock dividends	--	--	(250)
Payment for treasury stock	--	(141)	(1,257)
Stock/note issuance costs and other	(8,466)	(272)	(221)
	-----	-----	-----
Net cash provided by (used in) financing activities	58,273	(5,577)	7,732
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	32,102	(1,497)	(5,141)
Cash and cash equivalents at beginning of year	113	1,610	6,751
	-----	-----	-----
Cash and cash equivalents at end of year	\$32,215	\$ 113	\$ 1,610
	=====	=====	=====
Supplemental information:			
Cash paid for interest, net of amounts capitalized	\$ 7,441	\$ 1,591	\$ 2,602
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.
<PAGE>

XCL Ltd. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies:

Principles of Consolidation:

The consolidated financial statements include the accounts of XCL Ltd. and its wholly owned subsidiaries ("XCL" or the "Company") after the elimination of all significant intercompany accounts and transactions. Certain reclassifications have been made to prior year financial statements to conform to current year presentation. These reclassifications had no effect on net loss, cash flows or shareholders' equity.

Use of Estimates in the Preparation of Financial Statements:

The preparation of the Company's financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents:

The Company considers deposits which can be redeemed on demand and investments which have original maturities of less than three months, when purchased, to be cash equivalents. As of December 31, 1997, the Company's cash and cash equivalents were deposited primarily in three financial institutions.

Concentration of Credit Risk:

The Company operates exclusively in the oil and gas industry and receivables are due from other producers who may be affected by economic conditions in the industry. The Company has not experienced any material credit losses.

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents/short-term investments and trade receivables.

The Company believes that no single short-term investment exposes the Company to significant credit risk. Additionally, creditworthiness of its counterparties, which are major financial institutions, are monitored. As of December 31, 1997, the Company had cash in financial institutions in excess of the insured amounts.

Fair Value of Financial Instruments:

For the purposes of disclosure requirements pursuant to Statement of Financial Accounting Standards No. 107 "Disclosures About Fair Market Value of Financial Instruments," fair value of current assets and liabilities approximate carrying value, due to the short-term nature of these items. The Company believes the fair value of long-term debt approximates carrying value. Fair value of such financial instruments is not necessarily representative of the amount that could be realized or settled.

Oil and Gas Properties:

The Company accounts for its oil and gas exploration and production activities using the full cost method of accounting. Accordingly, all costs associated with acquisition, exploration, and development of oil and gas reserves, including appropriate related costs, are capitalized. The Company capitalizes internal costs that can be directly identified with its acquisition, exploration and development activities and does not capitalize any costs related to production, general corporate overhead or similar activities.

The capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method based on estimates of proved oil and gas reserves. The Company's domestic oil and gas

reserves were estimated by Company engineers in 1997 and 1996, and foreign reserves in 1997 and 1996 by independent petroleum engineers. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that properties are impaired, the amount of the impairment is added to the capitalized costs to be depleted. The Company capitalizes interest on expenditures made in connection with exploration and development projects that are not subject to current amortization. Interest is capitalized for the period that activities are in progress to bring these projects to their intended use.

During the fourth quarter of 1995, the Company decided to concentrate on the development of its China investments, and decided to dispose of its domestic properties. Accordingly, the recorded value of the Company's domestic properties was reduced to their estimated fair market value and the resulting balances were transferred to assets held for sale.

The Company reviews the carrying value of its oil and gas properties each quarter on a country-by-country basis, and limits capitalized costs of oil and gas properties to the present value of estimated future net revenues from proved reserves, discounted at 10 percent, plus the lower of cost or fair value of unproved properties as adjusted for related tax effects and deferred tax reserves. If capitalized costs exceed this limit, the excess is charged to depreciation, depletion and amortization expense ("DD&A") in the period in which it occurs.

Proceeds from the sale of proved and unproved properties are accounted for as reductions to capitalized costs with no gain or loss recognized unless such sales would significantly alter the relationship between capitalized costs and proved reserves of oil and gas. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

The Company accounts for site restoration, dismantlement and abandonment costs in its estimated future costs of proved reserves. Accordingly, such costs are amortized on a unit of production basis and reflected with accumulated depreciation, depletion and amortization. The Company identifies and estimates such costs based upon its assessment of applicable regulatory requirements, its operating experience and oil and gas industry practice in the areas within which its properties are located. To date the Company has not been required to expend any material amounts to satisfy such obligations. The Company does not expect that future costs will have a material adverse effect on the Company's operations, financial condition or cash flows. The standardized measure of discounted future net cash flows includes a deduction for any such costs.

Other Property and Equipment:

Other property and equipment primarily consists of furniture and fixtures, equipment and software. Major renewals and betterments are capitalized while the costs of repairs and maintenance are charged to expense as incurred. The costs of assets retired or otherwise disposed of and the applicable accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected in operations. Other property and equipment costs are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 15 years.

Capitalized Interest and Amortized Debt Costs:

During fiscal 1997, 1996 and 1995, interest and associated costs of approximately \$5.8 million, \$2.8 million and \$3.1 million, respectively were capitalized on significant investments in oil and gas properties that are not being currently depreciated, depleted, or amortized and on which exploration or development activities are in progress. Deferred debt issue costs and discount on senior secured notes are amortized on the straight-line basis over the term of the related debt agreement. The discount on senior secured notes is the amount attributable to the detachable Common Stock purchase warrants.

Income Taxes:

The Company accounts for income taxes in compliance with Statement of Financial Accounting Standards No. 109 (SFAS No. 109) "Accounting for Income Taxes." Requirements by this standard include recognition of future tax benefits, measured by enacted tax rates, attributable to: deductible temporary differences between financial statement and income tax bases of assets and liabilities; and, net operating loss carryforwards. Recognition of such tax assets are limited to the extent that realization of such benefits is able to be reasonably anticipated.

Revenue Recognition:

Oil and gas revenues are recognized using the accrual method at the price realized as production and delivery occurs. Amounts which are contingently receivable are not recognized until realized.

Foreign Operations

The Company's future operations and earnings will depend upon the results of the Company's operations in China. There can be no assurance that the Company will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on the Company's financial position, results of operations and cash flows. Also, the success of the Company's operations will be subject to numerous contingencies, some of which are beyond management's control. These contingencies include general and regional economic conditions, prices for crude oil and natural gas, competition and changes in regulation. Since the Company is dependent on international operations, specifically those in China, the Company will be subject to various additional political, economic and other uncertainties. Among other risks, the Company's operations will be subject to the risks of restrictions on transfer of funds; export duties, quotas and embargoes; domestic and international customs and tariffs; and changing taxation policies, foreign exchange restrictions, political conditions and governmental regulations.

Stock Based Compensation:

Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation," ("SFAS No. 123") encourages, but does not require companies to record compensation costs for stock-based compensation plans at fair value. The Company has chosen to continue to account for stock-based employee compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, compensation cost for stock options, awards and warrants is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

Earnings Per Share:

During 1997, the Company adopted Statement of Financial Accounting Standards No. 128 "Earnings Per Share" ("SFAS No. 128") and has restated all years presented in accordance therewith. SFAS No. 128 requires a dual presentation of basic and diluted earnings per share ("EPS") on the face of the statement of operations. Basic EPS is computed by dividing income available to common stockholders by the weighted average number of common shares for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in earnings.

Environmental Expenditures

Environmental expenditures relating to current operations are expensed or capitalized, as appropriate, depending on whether such expenditures provide future economic benefits. Liabilities are recognized when the expenditures are considered probable and can be reasonably estimated. Measurement of liabilities is based on currently enacted laws and regulations, existing technology and undiscounted site-specific costs. Generally, such recognition coincides with the Company's commitment to a formal plan of action.

Common Stock Reverse Split

Effective December 17, 1997, the Company amended and restated its Certificate of Incorporation to effect a one-for-fifteen reverse split of the Company's Common Stock. All share amounts presented herein have been adjusted to reflect the reverse split.

Recent Accounting Pronouncements

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income", which is effective for the Company's year ending December 31, 1998. SFAS No. 130 establishes standards for the reporting and displaying of comprehensive income and its components. The Company will be analyzing SFAS No. 130 during 1998 to determine what, if any, additional disclosures will be required.

In June 1997, the FASB Issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which is effective the Company's year ended December 31, 1998. This statement establishes standards for reporting of information about operating segments. The Company will be analyzing SFAS No. 131 during 1998 to determine what, if any, additional disclosures will be required.

(2) Liquidity and Management's Plan

The Company, in connection with its 1995 decision to dispose of its domestic properties, is generating minimal annual revenues and is devoting all of its efforts toward the development of its China properties. Although the Company has cash available in the amount of approximately \$32 million as of December 31, 1997 (including restricted cash of approximately \$10 million) and a positive working capital position, management anticipates that additional funds will be needed to meet all of its development and exploratory obligations until sufficient cash flows are generated from anticipated production to sustain its operations and to fund future development and exploration obligations.

Management plans to generate the additional cash needed through the sale or financing of its domestic assets held for sale and the completion of additional equity, debt or joint venture transactions. There is no assurance, however, that the Company will be able to sell or finance its assets held for sale or to complete other transactions in the future at commercially reasonable terms, if at all, or that it will be able to meet its future contractual obligations. If production from the China properties commences in late 1998 or the first half of 1999, as anticipated, the Company's proportionate share of the related cash flow will be available to help satisfy cash requirements. However, there is likewise no assurance that such development will be successful and production will commence, and that such cash flow will be available.

(3) Supplemental Cash Flow Information

There were no income taxes paid for the years ended December 31, 1997, 1996 and 1995.

The Company completed the following noncash transactions in 1997 and prior years in order to conserve cash for use in its core activities and to meet other obligations while honoring restrictions on cash use imposed by its bank agreement. Such transactions not reported elsewhere herein are as follows:

1997

On January 9, 1997, the Company accepted subscriptions for an aggregate of 21,057 shares of Series F Preferred Stock, issued in February to three individuals for 18,448 shares; 1,731 shares and 878 shares, respectively, at \$65.00/share, in exchange for \$225,000 in cash, cancellation of a consulting agreement, surrender of Common Stock and Warrants issued in connection with a consulting agreement, surrender of rights to acquire units of registered Common Stock and Warrants, surrender of certain registration rights covering 3,000,000 shares; and surrender of certain shares of Common Stock and Warrants issued in connection with compensation for past fundraising activities, surrender of rights to acquire units of registered Common Stock and Warrants and certain registration rights covering 75,000 shares.

On May 20, 1997, the Company issued 11,816 shares of Amended Series A Preferred Stock and 133,914 warrants to acquire shares of Common Stock, in respect of approximately \$1.0 million of accrued interest payable to those institutional holders of Secured Subordinated Debt who purchased \$8 million of Amended Series A Preferred Stock. The shares of Amended Series A Preferred Stock were valued at \$85.00 per share. The warrants issued are first exercisable on May 20, 1998, at an exercise price of \$3.0945 per share, and expire on November 1, 2000.

In October, 1997, the Company issued 30,000 shares of Common Stock and granted .003215% in aggregate Net Revenue Interest on the Zhao Dong Block to, a former employee of the Company, and her attorneys in settlement of litigation against the Company.

In October 1997, pursuant to an agreement effective October 1, 1997, the Company issued an aggregate of 53,333 shares of Common Stock as compensation to a resident of Taiwan who has performed services for the Company.

On November 11, 1997, the Company issued 26,667 shares of Common Stock and stock purchase warrants to acquire 13,333 shares of Common Stock to a consultant, as compensation pursuant to an agreement dated effective as of February 20, 1997.

1996

In March and April 1996, the Company sold units of Common Stock and Warrants through a placement agent in a Regulation S unit offering. As compensation for such unit offering the Company granted warrants to acquire an aggregate of 25,600 shares of Common Stock.

As compensation for services performed resulting in Apache Corp. purchasing an additional interest in the Zhao Dong Block, during the first quarter the Company issued 3,333 shares of Common Stock to a finder and amended the finder's existing warrants to acquire 33,333 shares of Common Stock as to exercise price, expiration date and forced conversion feature, to conform the terms of such warrants to the terms of warrants granted in the Regulation S unit offering noted above.

As compensation for identifying the placement agent for the Regulation S unit offering, the finder earned a four percent stock fee of the gross proceeds of the offering. In payment of this fee, the Company during the first quarter, issued 17,817 shares of Common Stock in connection with the initial closing and during the second quarter issued an aggregate 8,192 shares of Common Stock as compensation for the subsequent closings.

Effective March 1, 1996, the terms of warrants issued to a financial advisor were amended as partial consideration for introducing to the Company the purchaser of the Gonzalez Gas Unit, comprising a portion of the Berry R. Cox Field. The warrant exercise price was reduced from \$15.00 to \$7.50 and the term of the warrant was extended for three years to March 1, 1999.

During August 1996, the Company issued to a finder 18,666 warrants to purchase 18,666 shares of Common Stock, as compensation for the placement with their clients of 186,666 units, comprised of shares of Common Stock and warrants to purchase Common Stock.

During October 1996, the Company issued approximately 93,333 shares of Common Stock plus warrants to acquire 166,666 shares of Common Stock, as compensation to an individual in consideration for a consulting arrangement, whereby the consultant would introduce persons interested in investing in China through the Company. During February 1997, the consultant canceled the consultant agreement and returned to the Company the shares and warrants issued in connection therewith.

During October 1996, the Company issued 100,000 warrants to acquire 100,000 shares of Common Stock, as compensation to an individual for past fund raising services.

1995

During the first quarter of 1995, the Company issued 1,247 shares of Common Stock in payment of interest on funds escrowed in advance of purchase of Series D Preferred Stock.

During September 1995, the Company issued 3,333 units, each unit comprised of one share of Common Stock and a five-year warrant to purchase one share of Common Stock, plus an additional five-year warrant on the same terms as the unit warrant to purchase 3,333 shares of Common Stock as compensation to an individual who assisted the Company with a private placement of approximately 200,000 units.

(4) Receivables

The Company's trade accounts receivable at December 31, 1997, arise primarily from business transactions with entities in the oil and gas industry, mostly located in Texas. An oil and gas purchaser with which the Company has contractual arrangements accounted for approximately 76 percent of oil and gas revenue receivables in 1997, 76 percent in 1996 and 67 percent in 1995.

(5) Assets Held for Sale and Investments

Assets Held for Sale

Domestic Oil and Gas Properties

During 1996, the Company was engaged in attempts to sell its remaining domestic oil and gas properties and had a contract in place for the sale of the property. Prior to the sale being consummated, the Company received service of three lawsuits filed by lessors of the most productive remaining leases, effectively thwarting the Company's ability to consummate the sale by casting doubt as to the Company's rights to certain interests in the leases and demanding damages. While the Company believes that the charges are without merit, it is of the opinion that the property cannot be sold until such time as the litigation is concluded or settled. In response to a request by the lessors' counsel, the Company has granted the lessors an extension of time to respond to discovery demands made by the Company and to allow sufficient time to pursue settlement of this litigation (see Note 11). As a result of these lawsuits the Company took an additional writedown of these properties aggregating \$3.85 million during 1996.

Lutcher Moore Tract

During 1993, the Company completed the acquisition of a group of corporations which together owned 100 percent of an unevaluated 62,500-acre tract in southeastern Louisiana (the "Lutcher Moore Tract"). This property is pledged as collateral for the Lutcher Moore limited recourse debt (see Note 6). This property is being held for sale.

Investments

Lube Oil Investment

On July 17, 1995, the Company signed a contract with CNPC

United Lube Oil Corporation to form a joint venture company to engage in the manufacturing, distribution and marketing of lubricating oil in China and southeast Asian markets. As of December 31, 1997, the Company has invested approximately \$3.3 million in the project.

Coalbed Methane Project

During 1995, the Company signed an agreement with the China National Administration of Coal Geology, pursuant to which the parties have commenced cooperation for the exploration and development of coalbed methane in two areas in China. As of December 31, 1997, the Company has invested approximately \$0.6 million in the project.

(6) Debt

Long-term debt consists of the following (000's):

	December 31	
	1997	1996
	-----	-----
Senior secured notes, net of unamortized discount	\$ 61,310	\$ --
Collateralized credit facility	--	17,279
Subordinated debt	--	15,000
Office building mortgage loan	--	652
	-----	-----
	61,310	32,931
Lutcher Moore Group Limited Recourse Debt	2,524	5,091
	-----	-----
	63,834	38,022
Less current maturities:		
Lutcher Moore Group Limited Recourse Debt	(2,524)	(5,091)
Collateralized credit facility	--	(17,279)
Subordinated Debt	--	(15,000)
Other current maturities	--	(652)
	-----	-----
	\$ 61,310	\$ --
	=====	=====

Substantially all of the Company's assets collateralize these borrowings. Accounts payable and accrued costs include accrued interest at December 31, 1997 and 1996 of \$1.8 million and \$1.5 million, respectively.

Senior Secured Notes

On May 20, 1997, the Company sold in an unregistered offering to qualified institutional buyers and accredited institutional investors (the "Note Offering") 75,000 Note Units, each consisting of \$1,000 principal amount of 13.5% Senior Secured Notes due May 1, 2004 (collectively, the "Notes") and one Common Stock Purchase Warrant (collectively the "Note Warrants") to purchase 85 shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), at an exercise price of \$3.09 per share, first exercisable after May 20, 1998. Total funds received of \$75 million were allocated, \$15 million to the Note Warrants and \$60 million to the Notes. The value allocated to the Note Warrants is being amortized to interest expense over the term of the Notes. At December 31, 1997, the unamortized discount on the Notes is approximately \$13.7 million.

Interest on the Notes is payable semi-annually on May 1 and November 1, commencing November 1, 1997. The Notes will mature on May 1, 2004. The Notes are not redeemable at the option of the Company prior to May 1, 2002, except that the Company may redeem, at its option prior to May 1, 2002, up to 35% of the original aggregate principal amount of the Notes, at a redemption price of 113.5% of the aggregate principal amount of the Notes, plus accrued and unpaid interest, if any, to the date of redemption, with the net proceeds of any equity offering completed within 90 days prior to such redemption; provided that at least \$48.75 million in aggregate principal amount of the Notes remain outstanding. On or after May 1, 2002, the Notes are redeemable at the option of the Company, in whole or in part, at an initial redemption price of 106.75% of the aggregate principal amount of

the Notes until May 1, 2003, and at par thereafter, plus accrued and unpaid interest, if any, to the date of redemption. Upon the occurrence of a change of control, as defined, the Company will be obligated to make an offer to purchase all outstanding Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase. Total interest expense incurred on the Notes was approximately \$6.2 million for the year ended December 31, 1997.

The Senior Secured Notes restrict, among other things, the Company's ability to incur additional debt, incur liens, pay dividends, or make certain other restricted payments. It also limits the Company's ability to consummate certain asset sales, enter into certain transactions with affiliates, enter into mergers or consolidations, or dispose of substantially all the Company's assets. The Company's ability to comply with such covenants may be affected by events beyond its control. The breach of any of these covenants could result in a default. A default could allow holders of the Notes to declare all amounts outstanding and accrued interest immediately due and payable. Absent such payment, the holders could proceed against any collateral granted to them to secure such indebtedness, which includes all of the stock of the Company's principal operating subsidiary, XCL-China, which has guaranteed such indebtedness. A foreclosure on the stock of XCL China could trigger Apache's right of first refusal under the Participation Agreement to purchase such stock or its option to purchase the Company's interest in the Contract. There can be no assurance that the assets of the Company and XCL-China (a "Subsidiary Guarantor"), or any other Subsidiary Guarantors would be sufficient to fully repay the Notes and the Company's other indebtedness.

(7) Shareholders' Equity

Preferred Stock

As of December 31, 1997 and 1996, the Company had the following shares of Preferred Stock issued and outstanding:

<TABLE>
<CAPTION>

	Shares		Preference in Liquidation at December 31, 1997	1997 Dividends (In Thousands)		Total
	1997	1996		Declared	Accrued	
Series A	--	577,803	\$ --	\$ 9,678	\$ --	\$ 9,678
Series B	44,465	44,954	4,446,500	262	186	448
Series E	--	46,654	--	750	--	750
Series F	22,318	--	2,231,800	127	133	260
Amended Series A	1,129,453	--	96,003,505	1,098	1,494	2,592
			-----	-----	-----	-----
			\$102,681,805	\$11,915	\$1,813	\$13,728
			=====	=====	=====	=====

</TABLE>

Amended Series A Preferred Stock

On May 20, 1997, the Company sold, in an unregistered offering to qualified institutional buyers and accredited institutional investors (the "Equity Offering") 294,118 Equity Units, each consisting of one share of Amended Series A, Cumulative Convertible Preferred Stock, par value \$1.00 per share ("Amended Series A Preferred Stock"), and one Common Stock Purchase Warrant (collectively, the "Equity Warrants") to purchase approximately 22 shares of the Company's Common Stock, at an initial exercise price of \$3.09 per share, first exercisable on May 20, 1998.

Each share of Amended Series A Preferred Stock has a liquidation value of \$85.00, plus accrued and unpaid dividends. Dividends on the Amended Series A Preferred Stock are cumulative from May 20, 1997 and are payable semi-annually, commencing November 1, 1997, at an annual rate of \$8.075 per share. Dividends are payable in additional shares of Amended Series A Preferred Stock (valued at \$85.00 per share) through November 1,

2000, and thereafter in cash, or at the election of the Company, in additional shares of Amended Series A Preferred Stock. The Amended Series A Preferred Stock is convertible into Common Stock, at any time after the first anniversary of the issue date, at the option of the holders thereof, unless previously redeemed, at an initial conversion price of \$7.50 per share of Common Stock (equivalent to a rate of 11 shares of Common Stock for each share of Amended Series A Preferred Stock), subject to adjustment under certain conditions. The Company is entitled to require conversion of all the outstanding shares of Amended Series A Preferred Stock, at any time after November 20, 1997 if the Common Stock shall have traded for 20 trading days during any 30 consecutive trading day period at a market value equal to or greater than 150% of the prevailing conversion rate.

The Amended Series A Preferred Stock is redeemable at any time on or after May 1, 2002, in whole or in part, at the option of the Company initially at a redemption price of \$90.00 per share and thereafter at redemption prices which decrease ratably annually to \$85.00 per share on and after May 1, 2006, plus accrued and unpaid dividends to the redemption date. The Amended Series A Preferred Stock is mandatorily redeemable, in whole, on May 1, 2007, at a redemption price of \$85.00 per share, plus accrued and unpaid dividends to the redemption date, payable in cash, or at the election of the Company, in Common Stock.

Upon the occurrence of a change in control or certain other fundamental changes, the conversion price of the Amended Series A Preferred Stock will be reduced, for a limited period, in certain circumstances in order to provide holders with loss protection at a time when the market value of the Common Stock is less than the then prevailing conversion price.

The Amended Series A Preferred Stock will entitle the holder thereof to cast the same number of votes as the shares of Common Stock then issuable upon conversion thereof on any matter subject to the vote of the holders of the Common Stock. Further, the holders of the Amended Series A Preferred Stock will be entitled to vote as a separate class (i) to elect two directors if the Company is in arrears in payment of three semi-annual dividends, and (ii) the approval of two-thirds of the then outstanding Amended Series A Preferred Stock will be required for the issuance of any class or series of stock ranking prior to the Amended Series A Preferred Stock, as to dividends, liquidation rights and for certain amendments to the Company's Certificate of Incorporation that adversely affect the rights of holders of the Amended Series A Preferred Stock.

Effective November 10, 1997, by consent of in excess of 88 percent of the outstanding shares of Series A Preferred Stock such series of preferred stock was amended, reclassified and converted to Amended Series A Preferred Stock. As a consequence of such consent all dividend arrearages, and accrued and unpaid dividends were paid in additional shares of Amended Series A Preferred Stock. This amendment resulted in approximately 726,907 shares of Amended Series A Preferred Stock being issued in respect of such reclassification and payment of dividends.

Effective November 10, 1997, by consent of in excess of 67 percent of the outstanding Series E Preferred Stock such series of preferred stock was amended, reclassified and converted to Amended Series A Preferred Stock. As a consequence of such consent all accrued and unpaid dividends were paid in additional shares of Amended Series A Preferred Stock. This amendment resulted in approximately 63,706 shares of Amended Series A Preferred Stock being issued in respect of such reclassification and payment of dividends.

Series B Preferred Stock

The Series B, Cumulative Convertible Preferred Stock, par value \$1.00 per share (the "Series B Preferred Stock") bears a cumulative fixed dividend at an annual rate of \$10 per share, payable semiannually, and is entitled to 50 votes per share on all matters on which Common Stockholders are entitled to vote and separately as a class on certain matters; ranks senior to the Common Stock and pari passu with the Amended Series A and Series F Preferred Stocks of the Company with respect to the payment of dividends and distributions on liquidation; and has a liquidation

preference of \$100 per share plus accumulated dividends.

On May 16, 1995, the Company received notice from the Series B Preferred holder exercising its redemption rights. The Company elected to redeem in shares of Common Stock and the holder exercised its option to have the Company sell its shares of Common Stock. The aggregate redemption price was \$5 million, plus accrued dividends from January 1, 1995 to the date of redemption. Approximately 5,535 shares had been redeemed at December 31, 1997, from the sale of approximately 353,333 shares of Common Stock. In July 1997, the holder of the Series B Preferred Stock sued the Company and each of its directors with respect to the alleged failure of the Company to redeem the Series B Preferred Stock in accordance with the terms of the Purchase Agreement and Certificate of Designation. In settlement of that lawsuit in March 1998, the holder of the Series B Preferred Stock revoked and withdrew its redemption notice and sold its shares of Series B Preferred Stock and accompanying warrants. The purchasers exchanged the stock and warrants for 44,465 shares of Amended Series B Preferred Stock and warrants to purchase 250,000 shares of Common Stock at an exercise price of \$5.50 per share, subject to adjustment, expiring March 2, 2002, and received 2,620 shares of Amended Series B Preferred Stock in payment of all accrued and unpaid dividends on the Series B Preferred Stock.

Each share of Amended Series B Preferred Stock has a liquidation value of \$100, plus accrued and unpaid dividends. Dividends on the Amended Series B Preferred Stock are cumulative from March 3, 1998 and are payable semi-annually on June 30 and December 31 of each year, at an annual rate of \$9.50 per share if paid in cash. In lieu of payment in cash, the Company may, at its option, elect to pay any dividend in kind in shares of either Common Stock or Amended Series B Preferred Stock at the option of the holder. If such dividend is paid in shares of Amended Series B Preferred Stock, the dividend will be 0.0475 shares of dividend stock per share of Amended Series B Preferred Stock held. If the dividend is paid in shares of Common Stock, the dividend shall equal the number of shares of Common Stock equal to the quotient obtained by dividing \$4.75 by the lowest average closing price per share of Common Stock as calculated for the last 5, 10 and 30 trading days preceding the dividend payment date. Fractional shares will be paid in cash or aggregated and sold on behalf of the holders. The Amended Series B Preferred Stock is convertible into Common Stock, at any time after the earlier of the effective date of the registration of such Common Stock or August 31, 1998.

Series F Preferred Stock

In January 1998, the holders of the Series F Preferred Stock approved an amendment to the "forced conversion" terms of the Series F Preferred Stock. Effective January 16, 1998, the Company forced conversion of the Series F Preferred Stock and an aggregate of 633,893 shares of Common Stock were issued upon conversion and in payment of accrued and unpaid dividends. In consideration for such amendment the holders of the Series F Preferred Stock were issued warrants to acquire an aggregate of 153,332 shares of Common Stock at an exercise price of \$0.15 per share.

Dividends

Prior to November 1997, dividends with respect to the Series A Preferred Stock were in arrearage. Effective November 10, 1997, the Series A Preferred Stock was amended, reclassified and converted to Amended Series A Preferred Stock. As a consequence of such consent all dividend arrearages, and accrued and unpaid dividends were paid in additional shares of Amended Series A Preferred Stock.

Dividends during 1997 and 1996 on the Series B Preferred Stock were paid from proceeds of sales of redemption stock, which were applied first to accrued dividend then the redemption of shares of Series B Preferred Stock. On March 3, 1998, all accrued and unpaid dividends on the Series B Preferred Stock were paid in shares of Amended Series B Preferred Stock.

During 1996, the Company issued 2,218 shares of Series E Preferred Stock in payment of the June 1996 dividends payable on the Series E Preferred Stock. During 1997, the Company issued 5,261 shares of Series E Preferred Stock in payment of the December 31, 1996 and June 30, 1997 dividends on the Series E Preferred Stock. Effective November 10, 1997, the Series E Preferred Stock was amended, reclassified and converted to Amended Series A Preferred Stock. As a consequence of such consent all dividend arrearages, and accrued and unpaid dividends were paid in additional shares of Amended Series A Preferred Stock.

During 1997, the Company issued 1,261 shares of Series F Preferred Stock in payment of the June 30, 1997 dividends payable on the Series F Preferred Stock.

On November 3, 1997, 12,906 shares of Amended Series A Preferred Stock were issued in respect of the dividend payable November 1, 1997, in the amount of \$1.1 million. Upon conversion of the Series A and Series E Preferred Stocks into Amended Series A Preferred Stock, approximately \$9.23 in accrued and unpaid dividends on Series A Preferred Stock and approximately \$0.2 in accrued and unpaid dividends on the Series E Preferred Stock were paid through the issuance of 790,613 additional shares of Amended Series A Preferred Stock.

Common Stock

The Company issued 1,322,034, 1,888,461 and 1,264,854 shares of Common Stock during 1997, 1996 and 1995, respectively. The Company had 20,307,454, 18,980,805 and 16,909,532 shares of Common Stock outstanding at December 31, 1997, 1996 and 1995, respectively.

Common Stock Warrants

As of December 31, 1997, outstanding warrants to purchase the Company's Common Stock are as follows:

	Common Stock Issuable Upon Exercise	Warrant Exercise Price	Proceeds if Exercised
	-----	-----	-----
Total Warrants Expiring in 1998	6,667	\$11.25	\$ 75,000
Total Warrants Expiring after 1998	17,820,088	\$0.15 to \$22.50	69,000,193
	-----		-----
Total Warrants	17,826,755		\$69,075,193
	=====		=====

During November 1996, the Company offered a holder of 136,000 warrants exercisable at \$5.25 per share a reduction in the exercise price of such warrants to \$1.875 per share in exchange for the immediate exercise of such warrants and the issuance of a like number of new warrants. In January 1997, 136,000 shares of Common Stock were issued upon the exercise of the warrants and 136,000 new warrants were issued, exercisable at \$1.875 per share. The Company received \$255,000 upon exercise of these warrants.

During February 1997, the Company offered to reduce the exercise price on a total of 368,000 warrants issued in connection with Regulation S offerings in December 1995 and March 1996, in exchange for their immediate exercise. The offer was made to reduce the warrant price from \$3.75 to \$3.30 per share. One holder of 176,000 warrants accepted the offer and exercised all 176,000 warrants for which the Company received net proceeds of \$555,400. The Placement Agent agreed to accept \$0.15 per share rather than 8% of the exercise price as required under the Placement Agent Agreement.

During April 1997, the Company issued an aggregate of 200,000 shares of Common Stock upon the exercise of warrants at \$1.875 per share and received an aggregate of \$375,000 upon exercise of such warrants.

During August and October 1997, the Company issued an aggregate of 100,000 shares of Common Stock upon the exercise of warrants at \$2.8125 per share and received proceeds of \$281,250

upon exercise of such warrants.

During October 1997, the Company issued 24,000 shares of Common Stock upon the exercise of warrants at \$1.875 per share and received \$45,000 in proceeds from such exercise.

Loss Per Share

The following table sets forth the computation of basic and diluted loss per share.

	For the Years Ended December 31,		
	1997	1996	1995
	-----	-----	-----
Number of shares on which basic loss per share is calculated:	20,541	17,705	16,047
Number of shares on which diluted loss per share is calculated:	20,541	17,705	16,047
Net loss applicable to common shareholders	\$(27,722)	\$(17,430)	\$(92,658)
Basic loss per share	\$ (1.36)	\$ (0.98)	\$ (5.77)
Diluted loss per share	\$ (1.36)	\$ (0.98)	\$ (5.77)

The effect of 33,902,036, 5,103,082 and 4,398,380 shares of potential common stock were anti-dilutive in 1997, 1996 and 1995, respectively, due to the losses in all three years.

(8) Income Taxes

The Company has significant loss carryforwards which have been recorded as deferred tax assets. Due to realization of such amounts being deemed uncertain with respect to the provisions of SFAS No. 109, a valuation allowance has been recorded for the entire amount.

The significant components of the net deferred tax expense (benefit) for 1997 and 1996, were as follows (000's):

	1997	1996
	----	----
Current year domestic net operating loss	\$ (4,758)	\$ (4,387)
Current year Chinese deferred costs	(356)	(829)
Prior year under accrual of Chinese deferred costs	(537)	--
Tax/book depreciation, depletion and amortization difference	3,149	3,046
Oil and gas property expenditures treated as expense for income tax purposes	--	41
Other accruals	13	(1,348)
Reserve for investments	--	(855)
Increase (decrease) in valuation allowance	2,489	4,332
	-----	-----
	\$ --	\$ --
	=====	=====

The components of the Company's deferred tax assets and liabilities as of December 31, 1997 and 1996, were as follows (in 000's):

	1997	1996
	----	----
Deferred tax assets:		
Domestic net operating loss carryforwards	\$ 63,730	\$ 58,972
Chinese deferred costs	4,439	3,546
Other liabilities and reserves	2,802	2,815
Property and equipment, net	12,593	15,742
Valuation allowance	(83,564)	(81,075)
	-----	-----
Total deferred tax assets	\$ --	\$ --
	=====	=====

At December 31, 1997, the Company had net operating loss carryforwards for tax purposes in the approximate amount of \$174 million which are scheduled to expire by the year 2012. Additionally, the Company has available acquired net operating loss carryforwards, in the approximate amount of \$9 million,

which are scheduled to expire by the year 2000, and which are available to offset taxable income of an acquired subsidiary. Use of the net operating loss carryforwards is subject to limitations under Section 382 of the Internal Revenue Code.

At December 31, 1997, the Company had alternative minimum tax net operating loss carryforwards in the approximate amount of \$114 million which are scheduled to expire by the year 2012. Additionally, the Company has acquired alternative minimum tax net operating loss carryforwards in the approximate amount of \$12 million which are scheduled to expire by the year 2000, and which are available for use by an acquired subsidiary. The Company also has \$1.0 million of general business credit carryforwards which are available until the year 2000 to offset future tax liabilities of an acquired subsidiary. The Company also has deferred costs associated with its Chinese operations of approximately \$13 million. The costs will be amortized and deducted for Chinese tax purposes when the Company generates revenue from its Chinese operations.

(9) Stock Option Plans

The Company's stock option plans, administered by the compensation committee, provide for the issuance of incentive and nonqualified stock options. Under these plans the Company is authorized to grant options to selected employees, directors and consultants to purchase shares of the Company's Common Stock at an exercise price (for the Company's incentive stock options) of not less than the market value at the time such options are granted and are accounted for in accordance with Accounting Principles Board Opinion No. 25. In June 1992, the shareholders of the Company approved the adoption of the Company's Long-Term Stock Incentive Plan ("LTSIP") under which the Company is authorized to issue an aggregate of 16.5 million shares of Common Stock pursuant to future awards granted thereunder.

In December 1997, the shareholders of the Company approved the amendment and restatement of the Company's LTSIP, effective as of June 1, 1997, (i) increasing the number of shares issuable under the LTSIP by 4 million (post-split) shares of Common Stock, (ii) authorizing 200,000 shares of preferred stock for issuance under the LTSIP, and (iii) ratifying certain grants of non-qualified stock options and restricted stock awards to certain officers and directors of the Company. The LTSIP, as amended and restated, also allows for the grant of appreciation option awards. A grant of an appreciation option award to Mr. Miller was ratified at that same meeting.

All of the restricted stock awards entitle the participants to full dividend and voting rights and are restricted as to disposition and subject to forfeiture under certain conditions. The shares become unrestricted upon attainment of certain increases in the market price of the Company's Common Stock within four years from date of grant, as provided for in the plan. Upon issuance of restricted shares, unearned compensation is charged to shareholders' equity for the cost of restricted stock and recognized as expense ratably over the earned period, as applicable. The amount recognized for 1997 was not material because the measurement date was December 17, 1997.

The appreciation option awarded to the Chairman provides him with the right upon his payment of the exercise price (20% of amount entitled to receive) to additional compensation payable in cash or in shares of Common Stock based upon 5% of the difference between the market capitalization (as defined) of the Company as of June 1, 1997, and the date the option is exercised (no earlier than June 1, 2002). Because the option contemplates compensation determined with reference to increases in the market capitalization without restriction, there is no effective limit on the amount of compensation which may become payable thereunder. Deferred compensation of \$3.2 million was recorded in connection with the appreciation option and is being amortized over the service period. The appreciation option expires on June 1, 2007. Compensation expense recognized in 1997 was approximately \$373,000.

Non-qualified options granted on June 1, 1997 for an option price of \$3.75 per share resulted in compensation expense for 1997 of \$481,000. The measurement date was established on December 17, 1997, the date of shareholder approval.

A summary of the stock option plans activity for the years ended December 31, 1997, 1996 and 1995 is as follows:

	Shares	Option Price Per Share	Exercise Price	Weighted Average
	-----	-----	-----	
Outstanding at December 31, 1994	831,012	\$12.50 - \$22.50	\$18.83	
Granted	45,333	\$18.75	\$18.75	
Forfeited	(104,167)	\$12.50 - \$22.50	\$18.23	
-----	-----	-----	-----	
Outstanding at December 31, 1995	772,178	\$12.50 - \$22.50	\$18.91	
Granted	16,133	\$18.75	\$18.75	
Forfeited	(101,467)	\$18.75 - \$22.50	\$20.14	
-----	-----	-----	-----	
Outstanding at December 31, 1996	686,844	\$12.50 - \$22.50	\$18.72	
Granted	2,000,000	\$3.75	\$3.75	
Forfeited	(7,238)	\$18.75 - \$22.50	\$19.12	
-----	-----	-----	-----	
Outstanding at December 31, 1997	2,679,606	\$3.75 - \$22.50	\$7.55	
=====	=====	=====	=====	
Options exercisable at December 31, 1997	676,451			
=====	=====			
Options exercisable at December 31, 1998	676,089			
=====	=====			
Options exercisable at December 31, 1999	683,888			
=====	=====			

The following table summarizes information about stock options outstanding at December 31, 1997:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding at December 31, 1997	Weighted average remaining life years	Weighted average exercise price	Exercisable at December 31, 1997	Weighted Average exercise price
-----	-----	-----	-----	-----	-----
\$3.75	2,000,000	9.5	\$3.75	--	--
\$18.75-\$22.50	679,606	3.4	\$18.72	676,451	\$18.72
	-----			-----	-----
	2,679,606			676,451	\$18.72
	=====			=====	=====

The weighted average fair value of options granted during 1997 was \$5.50.

If compensation expense for the stock options had been determined and recorded based on the fair value on the grant date using the Black-Scholes option pricing model to estimate the theoretical future value of those options, the Company's net loss per share amounts would have been reduced to the pro forma amounts indicated below (000's, except per share data):

	1997	1996	1995
	----	----	----
Net loss as reported	\$ (27,722)	\$ (17,430)	\$ (92,658)
Compensation expense	1,012	126	537
-----	-----	-----	-----
Pro forma loss	\$ (28,734)	\$ (17,556)	\$ (93,195)
-----	-----	-----	-----
Pro forma loss per share:			
Basic	\$ (1.40)	\$ (0.99)	\$ (5.81)
-----	-----	-----	-----
Diluted	\$ (1.40)	\$ (0.99)	\$ (5.81)
-----	-----	-----	-----
Weighted average shares	20,451	17,705	16,047
=====	=====	=====	=====

Due to uncertainties in these estimates, such as market prices, exercise possibilities and the possibility of future awards and cancellations, these pro forma disclosures are not likely to be representative of the effects on reported income for future years.

For pro forma purposes, the fair value of each option grant is estimated on the date of grant with the following weighted average assumptions:

	1997	1996	1995
	----	----	----
Expected life (years)	10	10	10
Interest rate	5.87%	6.68%	6.78%
Volatility	135.00%	100.00%	100.00%
Dividend yield	--	--	--

(10) Employee Benefit and Incentive Compensation Plans

In 1989, the Company adopted an employee benefit plan under Section 401(k) of the Internal Revenue Code, for the benefit of employees meeting certain eligibility requirements. The Company has received a favorable determination letter from the Internal Revenue Service regarding the tax favored status of the 401(k) plan. Employees can contribute up to 10 percent of their compensation. The Company, at its discretion and subject to certain limitations, may contribute up to 75 percent of the amount contributed by each participant. There were no Company contributions in 1997, 1996 or 1995.

(11) Commitments and Contingencies

Other commitments and contingencies include:

- o The Company acquired the rights to the exploration, development and production of the Zhao Dong Block by executing a Production Sharing Agreement with CNODC in February 1993. Under the terms of the Production Sharing Agreement, the Company and its partner are responsible for all exploration costs. If a commercial discovery is made, and if CNODC exercises its option to participate in the development of the field, all development and operating costs and related oil and gas production will be shared up to 51 percent by CNODC and the remainder by the Company and its partner.

The Production Sharing Agreement includes the following additional principal terms:

The Production Sharing Agreement is basically divided into three periods: the Exploration period, the Development period and the Production period. Work to be performed and expenditures to be incurred during the Exploration period, which consists of three phases totaling seven years from May 1, 1993, are the exclusive responsibility of the Contractor (the Company and its partner as a group). The Contractor's obligations in the three exploration phases are as follows:

1. During the first three years, the Contractor is required to drill three wildcat wells, perform seismic data acquisition and processing and expend a minimum of \$6 million. These obligations have been met.
2. During the next two years, the Contractor is required to drill two wildcat wells, perform seismic data acquisition and processing and expend a minimum of \$4 million (The Contractor has elected to proceed with the second phase of the Contract. The seismic data acquisition requirement for the second phase has been satisfied.)
3. During the last two years, the Contractor is required to drill two wildcat wells and expend a minimum of \$4 million.
4. The Production Period for any oil and/or gas

field covered by the Contract (the "Contract Area") will be 15 consecutive years (each of 12 months), commencing for each such field on the date of commencement of commercial production (as determined under the terms of the Contract). However, prior to the Production Period, and during the Development Period, oil and/or gas may be produced and sold during a long-term testing period.

The Production Sharing Agreement may be terminated by the Contractor at the end of each phase of the Exploration period, without further obligation.

- o The Company is in dispute over a 1992 tax assessment by the Louisiana Department of Revenue and Taxation for the years 1987 through 1991 in the approximate amount of \$2.5 million. The Company has also received a proposed assessment from the Louisiana Department of Revenue and Taxation for income tax years 1991 and 1992, and franchise tax years 1992 through 1996 in the approximate amount of \$3.0 million. The Company has filed written protests as to these proposed assessments, and will vigorously contest the asserted deficiencies through the administrative appeals process and, if necessary, litigation. The Company believes that adequate provision has been made in the financial statements for any liability.
- o On July 26, 1996, an individual filed three lawsuits against a wholly owned subsidiary with respect to oil and gas properties held for sale. One suit alleges actual damage of \$580,000 plus additional amounts that could result from an accounting of a pooled interest. Another seeks legal and related expenses of \$56,473 from an allegation the plaintiff was not adequately represented before the Texas Railroad Commission. The third suit seeks a declaratory judgement that a pooling of a 1938 lease and another in 1985 should be declared terminated and further plaintiffs seek damages in excess of \$1 million to effect environmental restoration. The Company believes these claims are without merit and intends to vigorously defend itself.
- o The Company is subject to other legal proceedings which arise in the ordinary course of its business. In the opinion of Management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Company or results of operations of the Company.

(12) Supplemental Financial Information

Quarterly Results of Operations (Unaudited)

Quarter

	First -----	Second -----	Third -----	Fourth -----	Year -----
--	----------------	-----------------	----------------	-----------------	---------------

(Thousands of Dollars, Except Per Share Amounts)

1997					

Oil and gas revenues	\$ 85	\$ 53	\$ 52	\$ 46	\$ 236
Loss from operations	(816)	(774)	(976)	(5,492)	(8,058)
Net loss	(1,211)	(1,215)	(417)	(11,151)	(13,994)
Net loss per share					
Basic	(0.15)	(0.16)	(0.11)	(0.94)	(1.36)
Diluted	(0.15)	(0.16)	(0.11)	(0.94)	(1.36)
1996					

Oil and gas revenues	\$ 576	\$ 361	\$ 94	\$ 105	\$ 1,136
Loss from operations	(1,057)	(1,970)	(1,606)	(5,160)	(9,793)
Net loss	(1,641)	(3,062)	(1,733)	(5,638)	(12,074)
Net loss per share					
Basic	(0.17)	(0.20)	(0.17)	(0.38)	(0.98)
Diluted	(0.17)	(0.20)	(0.17)	(0.38)	(0.98)

Supplemental Oil and Gas Information

The following supplementary information is presented in accordance with the requirements of Statement of Financial Accounting Standards No. 69 - "Disclosures About Oil and Gas Producing Activities."

Results of Operations from U.S. Oil and Gas Producing
Activities

The results of operations from oil and gas producing activities for the three years ended December 31, 1997 are as follows (000's):

	Year Ended December 31		
	1997	1996	1995
	-----	-----	-----
Revenues from oil and gas producing activities:			
Sales to unaffiliated parties	\$ 236	\$ 1,136	\$ 2,480
	-----	-----	-----
Production (lifting) costs:			
Operating costs (including marketing)	210	342	985
State production taxes and other	13	28	51
	-----	-----	-----
Production costs	223	370	1,036
Depletion and amortization	77	437	1,989
Provision for impairment of oil and gas properties	--	3,850	75,300
	-----	-----	-----
Total expenses	300	4,657	78,325
	-----	-----	-----
Pretax loss from producing activities	(64)	(3,521)	(75,845)
Income tax expense	--	--	--
	-----	-----	-----
Results of oil and gas producing activities (excluding corporate overhead and interest costs)	\$ (64)	\$ (3,521)	\$ (75,845)
	=====	=====	=====

The depreciation, depletion and amortization (DD&A) rate averaged \$0.81, \$0.96 and \$1.23 per equivalent Mcf in 1997, 1996 and 1995, respectively.

Capitalized Costs

Capitalized costs relating to the Company's proved and unevaluated oil and gas properties, are as follows (000's):

	December 31	
	1997	1996
	-----	-----
Foreign proved and unevaluated properties under development	\$ 54,304	\$ 34,305
	=====	=====

The capitalized costs for the foreign properties represent cumulative expenditures related to the Zhao Dong Block Production Sharing Agreement and will not be depreciated, depleted or amortized until production is achieved.

The Company's investment in oil and gas properties as of December 31, 1997, includes proved and unevaluated properties which have been excluded from amortization. Such costs will be evaluated in future periods based on management's assessment of exploration activities, expiration dates of licenses, permits and concessions, changes in economic conditions and other factors. As these properties become evaluated or developed, their cost and related estimated future revenue will be included in the calculation of the DD&A rate. Such costs were incurred as follows:

Costs for foreign proved and unevaluated properties under development were incurred as follows (000's):

	Total	Year Ended December 31			
		1997	1996	1995	1994 and Prior
	-----	-----	-----	-----	-----
Property acquisition costs	\$ 40,616	\$ 14,208	\$ 4,223	\$ 7,023	\$ 15,162
Capitalized interest costs	13,688	5,791	2,767	2,596	2,534
	-----	-----	-----	-----	-----
Total foreign proved and unevaluated properties					

under development \$ 54,304 \$ 19,999 \$ 6,990 \$ 9,619 \$ 17,696
 ===== ===== ===== =====

Capitalized Costs Incurred

Total capitalized costs incurred by the Company with respect to its oil and gas producing activities including those held for sale were as follows (000's):

	Year Ended December 31		
	1997	1996	1995
	----	----	----
Costs incurred:			
Unproved properties acquired	\$ --	\$ --	\$ 7,209
Capitalized internal costs	2,466	822	135
Capitalized interest and amortized debt costs	5,791	2,767	3,075
Exploration	6,833	3,401	--
Development	4,909	4	1,590
	-----	-----	-----
Total costs incurred	\$19,999	\$6,994	\$12,009
	=====	=====	=====

Proved Oil and Gas Reserves (Unaudited)

The following table sets forth estimates of the Company's net interests in proved and proved developed reserves of oil and gas and changes in estimates of proved reserves. The Company's net interests in 1997 and 1996 are located in China and in 1995 were located in the United States.

	Crude Oil (MBbls)		
	1997	1996	1995
	----	----	----
Proved reserves -			
Beginning of year	10,579	--	294
Discoveries	1,183	10,579	--
Revisions of previous estimates	--	--	24
Production	--	--	(19)
Purchases (sales) of minerals in place	--	--	(241)
Transfer of property to assets held for sale	--	--	(58)
	-----	-----	-----
End of year	11,762	10,579	--
	=====	=====	=====
Proved developed reserves -			
Beginning of year	--	--	126
	-----	-----	-----
End of year	--	--	--
	=====	=====	=====

	Natural Gas (MMcf)		
	1997	1996	1995
	----	----	----
Proved reserves -			
Beginning of year	--	--	74,208
Discoveries	--	--	(9,003)
Revisions of previous estimates	--	--	--
Production	--	--	(1,474)
Purchases (sales) of minerals in place	--	--	(6,274)
Transfer of property to assets held for sale	--	--	(57,457)
	-----	-----	-----
End of year	--	--	--
	=====	=====	=====
Proved developed reserves -			
Beginning of year	--	--	34,792
	-----	-----	-----
End of year	--	--	--
	=====	=====	=====

The Company's estimated quantities of oil and gas as of December 31, 1997 were prepared by H.J. Gruy and Associates, Inc., independent engineers.

The revisions in the Company's estimated quantities of gas and oil are attributable to revised estimates by Company

engineers in 1995. For fiscal 1995 significant downward revisions were attributed to the Company's interest in the Cox Field in Texas due largely to performance of producing wells.

Supplementary Information (Unaudited)

The supplementary information set forth below presents estimates of discounted future net cash flows from proved oil and gas reserves and changes in such estimates. This information has been prepared in accordance with requirements prescribed by the Financial Accounting Standards Board (FASB). Inherent in the underlying calculations of such data are many variables and assumptions, the most significant of which are briefly described below:

Future cash flows from proved oil and gas reserves were computed on the basis of (a) contractual prices for oil and gas - including escalations for gas - in effect at year-end, or (b) in the case of properties being commercially developed but not covered by contracts, the estimated market price for gas and the posted price for oil in effect at year-end. Probable and possible reserves - a portion of which, experience has indicated, generally become proved once further development work has been conducted - are not considered. Additionally, estimated future cash flows are dependent upon the assumed quantities of oil and gas delivered and purchased from the Company. Such deliverability estimates are highly complex and are not only based on the physical characteristics of a property but also include assumptions relative to purchaser demand. Future prices actually received may differ from the estimates in the standardized measure.

Future net cash flows have been reduced by applicable estimated operating costs, production taxes and future development costs, all of which are based on current costs.

Future net cash flows are further reduced by future income taxes which are calculated by applying the statutory federal income tax rate to pretax future net cash flows after utilization of available tax carryforwards.

To reflect the estimated timing of future net cash flows, such amounts have been discounted by the Securities and Exchange Commission prescribed annual rate of 10 percent.

In view of the uncertainties inherent in developing this supplementary information, it is emphasized that the information represents approximate amounts which may be imprecise and extreme caution should accompany its use and interpretation.

Standardized Measure of Discounted Future Net Cash Flows Related to Proved Oil and Gas Reserves

The standardized measure of discounted future net cash flows from proved oil and gas reserves, determined in accordance with rules prescribed by FASB No. 69 is summarized below, and does not purport to present the fair market value of the Company's oil and gas assets, but does present the present value of estimated future cash flows that would result under the assumptions used.:

The Company previously excluded from this table, the effect of income taxes because it believed it had a tax holiday in China. Subsequent to December 31, 1997, the Company determined that it would be subject to future income taxes at the maximum rate of 33% in China. Accordingly, the table below has been revised to include estimates of such income taxes.

<TABLE>
<CAPTION>

	Year Ended December 31		
	1997 (a)	1996 (a)	1995 (a)

	(Thousands of Dollars)		
	<C>	<C>	<C>
Future cash inflows	\$ 205,765	\$ 222,797	\$ 103,048
Future costs:			
Production, including taxes	(45,623)	(39,033)	(20,937)

Development	(41,093)	(40,904)	(35,276)
Future net inflows before income taxes	119,049	142,860	46,835
Future income taxes (c)	(22,916)	(35,658)	-- (b)
Future net cash flows	96,133	107,202	46,835
10% discount factor	(42,285)	(44,596)	(20,795)
Transfer of properties to assets held for sale	--	--	(26,040)
Standardized measure of discounted net cash flows	\$ 53,848	\$ 62,606	\$ --

</TABLE>

(a) 1997 and 1996 represent China properties only. 1995 represents U.S. properties being held for sale only.

(b) No taxes have been reflected because of utilization of net operating loss carryforwards.

(c) Future income taxes are computed by applying the maximum tax rate in China applicable to foreign-funded enterprises of 33%.

Changes in Standardized Measure of Discounted Future Net Cash Flow From Proven Reserve Quantities

	Year Ended December 31		
	1997 (a)	1996 (a)	1995 (a)
	(Thousands of Dollars)		
Standardized measure-beginning of year	\$ 62,606	\$ --	\$ 60,248
Increases (decreases):			
Sales and transfers, net of production costs	--	--	(1,347)
Net change in sales and transfer prices, net of production costs	(16,396)	--	(15,095)
Extensions, discoveries and improved recovery, net of future costs	--	79,062	--
Changes in estimated future development costs	(219)	--	(2,886)
Development costs incurred during the period that reduced future development costs	--	--	1,117
Revisions of quantity estimates	--	--	(8,003)
Accretion of discount	--	--	6,024
Purchase (sales) of reserves in place	--	--	(4,654)
Changes in production rates (timing) and other	--	--	(9,364)
Reclassification of reserves to assets held for sale	--	--	(26,040)
Net change in income taxes	7,857	(16,456)	--
Standardized measure-end of year	\$ 53,848	\$ 62,606	\$ --

(a) 1997 and 1996 represent China properties only. 1995 represents U.S. properties being held for sale only.

XCL Ltd. and Subsidiaries

Schedule II-Valuation and Qualifying Accounts

For the Years Ended December 31, 1997, 1996 and 1995
(thousands of dollars)

<TABLE>
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Description	Additions				Balance at End of Year
	Balance at Beginning of Year	Charged to costs and expenses	Charges to other accounts	Deduction	
1997:					
Allowance for doubtful	<C>	<C>	<C>	<C>	<C>

trade accounts receivable	\$ 101	\$ --	\$ --	\$ 36	\$ 65
	=====	=====	=====	=====	=====
Deferred tax valuation allowance	\$ 81,075	\$ 2,489	\$ --	\$ --	\$ 83,564
	=====	=====	=====	=====	=====
1996:					
- - - - -					
Allowance for doubtful trade accounts receivable	\$ 103	\$ --	\$ --	\$ 2	\$ 101
	=====	=====	=====	=====	=====
Deferred tax valuation allowance	\$ 76,743	\$ 4,332	\$ --	\$ --	\$ 81,075
	=====	=====	=====	=====	=====
1995:					
- - - - -					
Allowance for doubtful trade accounts receivable	\$ 113	\$ --	\$ --	\$ 10	\$ 103
	=====	=====	=====	=====	=====
Deferred tax valuation allowance	\$ 44,464	\$ 32,279	\$ --	\$ --	\$ 76,743
	=====	=====	=====	=====	=====

</TABLE>
<PAGE>

XCL Ltd. and Subsidiaries
CONSOLIDATED BALANCE SHEET
as of June 30, 1998

(In Thousands of Dollars)
(Unaudited)

A S S E T S

Current assets:		
Cash and cash equivalents		\$ 11,369
Cash held in escrow (restricted)		5,239
Accounts receivable, net		188
Refundable deposits		--
Other		814

Total current assets		17,610

Property and equipment:		
Oil and gas properties (full cost method):		
Proved undeveloped properties, not being amortized		26,954
Unevaluated properties		40,875

		67,829
Other		1,405

		69,234
Accumulated depreciation, depletion and amortization		(941)

		68,293

Investments		4,724
Investment in land		12,200
Oil and gas properties held for sale		9,078
Debt issue costs, less amortization		4,024
Other assets		1,275

Total assets		\$ 117,204
		=====

L I A B I L I T I E S A N D S H A R E H O L D E R S ' E Q U I T Y

Current liabilities:		
Accounts payable and accrued costs		\$ 925
Accrued interest		1,949
Due to joint venture partner		5,079
Dividends payable		1,611
Current maturities of long-term debt		2,074

Total current liabilities		11,638

Long-term debt, net of current maturities		62,384
Other non-current liabilities		5,383

Commitments and contingencies (Note 7)

Shareholders' equity:

Preferred stock—\$1.00 par value; authorized 2.4 million shares; issued shares of 1,230,019 at June 30, 1998 - liquidation preference of \$105 million at June 30, 1998	1,230
Common stock—\$.01 par value; authorized 500 million shares; issued shares of 22,991,191 at June 30, 1998	230
Common stock held in treasury - \$.01 par value; 69,470 shares	(1)
Additional paid-in capital	304,195
Accumulated deficit	(256,153)
Unearned compensation	(11,702)

Total shareholders' equity	37,799

Total liabilities and shareholders' equity	\$ 117,204
	=====

The accompanying notes are an integral part of these financial statements.
<PAGE>

XCL Ltd. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Six Months Ended June 30, 1998 and 1997

(In Thousands, Except Per Share Amounts)

(Unaudited)

	1998	1997
	----	----
Costs and operating expenses:		
General and administrative	\$ 2,915	\$ 1,562
Other, net	72	28
	-----	-----
	2,987	1,590
	-----	-----
Operating loss	(2,987)	(1,590)
Other income (expense):		
Interest income	718	498
Interest expense, net of amounts capitalized	(1,852)	(1,646)
Other, net	1	312
	-----	-----
	(1,133)	(836)
Net loss	(4,120)	(2,426)
Preferred stock dividends	(4,879)	(3,316)
	-----	-----
Net loss attributable to common stock	\$ (8,999)	\$ (5,742)
	=====	=====
Net loss per common share (basic)	\$ (.40)	\$ (.29)
	=====	=====
Net loss per common share (diluted)	\$ (.40)	\$ (.29)
	=====	=====
Weighted average number of common shares outstanding:		
Basic	22,622	19,511
Diluted	22,622	19,511

The accompanying notes are an integral part of these financial statements.
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XCL Ltd. and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In Thousands of Dollars)
(Unaudited)

Total Shareholders' Equity	Additional					
	Preferred Stock	Common Stock	Treasury Stock	Paid-In Capital	Accumulated Deficit	Unearned Compensation
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1997	\$1,196	\$ 217	\$ (1)	\$298,588	\$ (247,154)	\$ (12,021)
\$ 40,825						
Net loss	--	--	--	--	(4,120)	--
(4,120)						
Dividends	--	--	--	--	(4,879)	--
(4,879)						
Preferred shares issued	57	--	--	4,630	--	--
4,687						
Preferred shares converted to common shares	(23)	6	--	17	--	--
--						
Common shares issued	--	1	--	222	--	--
223						
Exercise of stock purchase warrants	--	6	--	325	--	--
331						
Amortization of unearned compensation	--	--	--	--	--	319
319						
Earned Compensation - stock options	--	--	--	413	--	--
413						
Balance, June 30, 1998	\$1,230	\$ 230	\$ (1)	\$304,195	\$ (256,153)	\$ (11,702)
\$ 37,799						
	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

XCL Ltd. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 1998 and 1997

(In Thousands of Dollars)
(Unaudited)

	1998	1997
	----	----
Cash flows from operating activities:		
Net loss	\$ (4,120)	\$ (2,426)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion and amortization	50	80
Amortization of discount on senior secured notes	1,074	--
Stock compensation programs	732	--
Stock issued for outside professional services	223	--
Changes in assets and liabilities:		
Accounts receivable	(87)	(17)
Refundable deposits	1,200	--
Accounts payable and accrued costs	15	(451)
Accrued interest	129	2,205
Other, net	(162)	98
Total adjustments	3,174	1,915
Net cash used in operating activities	(946)	(511)
Cash flows from investing activities:		
Change in cash held in escrow (restricted)	5,024	(75,000)
Note receivable	(362)	--
Capital expenditures	(13,424)	(5,025)
Investments	(551)	(388)
Proceeds from sale of assets	--	759

Net cash used in investing activities (9,313) (79,654)

Cash flows from financing activities:

Proceeds from sales of common stock	--	652
Proceeds from senior secured notes	--	75,000
Proceeds from issuance of preferred stock	--	25,000
Proceeds from exercise of warrants and options	331	1,184
Loan proceeds	--	3,316
Payment of long-term debt	(450)	(8,965)
Payment of note payable	--	(2,100)
Stock/note issuance costs and other	(205)	(9,328)

Net cash provided by (used in) financing activities (324) 84,759

Net increase (decrease) in cash and cash equivalents (10,583) 4,594

Cash and cash equivalents at beginning of period 21,952 113

Cash and cash equivalents at end of period \$ 11,369 \$ 4,707

=====

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The accompanying notes are an integral part of these financial statements.

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XCL Ltd. and Subsidiaries

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1998

(1) Basis of Presentation

The consolidated financial statements at June 30, 1998, and for the six months then ended have been prepared by the Company, without audit, pursuant to the Rules and Regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such Rules and Regulations. The Company believes that the disclosures are adequate to make the information presented herein not misleading. These consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1997. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of XCL Ltd. and subsidiaries as of June 30, 1998, and 1997, and the results of their operations for the six months ended June 30, 1998 and 1997, have been included. Certain reclassifications have been made to prior period financial statements to conform to current year presentation. These reclassifications had no effect on net loss or shareholders' equity. The results of the Company's operations for such interim periods are not necessarily indicative of the results for the full year.

Revenues and operating expenses associated with oil and gas properties held for sale have become insignificant and accordingly, are recorded in other costs and operating expenses in the accompanying consolidated statements of operations.

(2) Liquidity and Capital Resources

The Company, since its decision in 1995 to dispose of its domestic properties, has generated minimal annual revenues and is now devoting all of its efforts toward the development of its China properties. Although the Company has cash available in the amount of approximately \$16.6 million at June 30, 1998 (including restricted cash of approximately \$5.2 million to pay interest due November 1, 1998) and a positive working capital position, additional funds will be needed to meet the Company's working capital requirements and capital expenditure obligations until sufficient cash flows are generated from anticipated production to sustain its operations and to fund future development obligations.

Management plans to generate the additional cash needed through the sale or financing of its domestic oil and gas properties assets held for sale and investment in land and the

completion of additional equity, debt or joint venture transactions. There is no assurance, however, that the Company will be able to sell or finance its oil and gas properties held for sale or investment in land or to complete other transactions in the future at commercially reasonable terms, if at all, or that it will be able to meet its future contractual obligations. If production from the China properties commences in late 1998 or the first half of 1999, as anticipated, the Company's proportionate share of the cash flow will be available to partially satisfy its cash requirements. However, there is likewise no assurance that such development will be successful and production will commence as anticipated, and that such cash flow will be available or sufficient.

(3) Supplemental Cash Flow Information

There were no income taxes paid during the six months periods ended June 30, 1998 and 1997.

Capitalized interest for the six months ended June 30, 1998 was \$5.5 million as compared to \$2.6 million for the same period in 1997. Interest paid during the six months ended June 30, 1998 amounted to \$5.8 million as compared to \$195,300 for the same period in 1997.

On May 1, 1998, an interest payment in the amount of \$5.3 million was made to the holders of the senior secured notes for the interest period November 1, 1997 through May 1, 1998.

(4) Debt

As of June 30, 1998, long-term debt consists of the following (000's):

Senior secured notes, net of unamortized discount of \$12,616	\$ 62,384
Lutcher Moore Group Limited Recourse Debt	2,074

	64,458
Less current maturities:	
Lutcher Moore Group Limited Recourse Debt	(2,074)

	\$ 62,384
	=====

Substantially all of the Company's assets collateralize these borrowings.

(5) Investment in Land

The Lutcher Moore Tract previously included in oil and gas properties held for sale has been reclassified to investment in land in the accompanying consolidated balance sheet because the Company is exploring alternative plans.

(6) Preferred Stock and Common Stock

As of June 30, 1998, the Company had the following shares of Preferred Stock issued and outstanding:

	Shares	Liquidation Value	1998 Dividends (In Thousands)		
			Declared	Accrued	Total
Amended Series A	1,181,614	\$ 100,437,190	\$ --	\$ 1,611	\$ 1,611
Amended Series B	48,405	4,840,500	--	--	--
	-----	-----	-----	-----	-----
	1,230,019	\$ 105,277,690	\$ --	\$ 1,611	\$ 1,611
	=====	=====	=====	=====	=====

Amended Series A Preferred Stock

On May 1, 1998, the Company issued an aggregate of 52,161 shares of Amended Series A Preferred Stock in payment of \$4.5 million in dividends payable on that date.

Amended Series B Preferred Stock

On June 30, 1998, the Company issued an aggregate of 1,320 shares of Amended Series B Preferred Stock in payment of \$0.1 million in dividends payable on that date.

Loss Per Share

The following table sets forth the computation of basic and diluted loss per common share (as adjusted for a one-for-fifteen reverse stock split effected December 17, 1997).

(In thousands, except per share data)

	For the Six Months Ended June 30,	
	1998	1997
	----	----
Weighted average number of common shares outstanding (basic):	22,622	19,511
Weighted average number of common shares outstanding (diluted):	22,622	19,511
Net loss applicable to common stock	\$ (8,999)	\$ (5,742)
Basic loss per share	\$ (.40)	\$ (.29)
Diluted loss per share	\$ (.40)	\$ (.29)

The effect of 34,627,207 and 24,046,901 shares of potential common stock were anti-dilutive in the six months ended June 30, 1998 and 1997, respectively, due to the losses in both periods.

(7) Commitments and Contingencies

Other commitments and contingencies include:

- o The Company acquired the rights to the exploration, development and production of the Zhao Dong Block by executing a Production Sharing Agreement (the "Agreement") with CNODC in February 1993. Under the terms of the Agreement, the Company and its partner are responsible for all exploration costs. If a commercial discovery is made, and if CNODC exercises its option to participate in the development of the field, all development and operating costs and related oil and gas production will be shared up to 51 percent by CNODC and the remainder by the Company and its partner.

The Agreement includes the following additional principal terms:

The Agreement is basically divided into three periods: the Exploration period, the Development period and the Production period. Work to be performed and expenditures to be incurred during the Exploration period, which consists of three phases totaling seven years from May 1, 1993, are the exclusive responsibility of the Company and its partner as a group (the "Contractor"). The Contractor's obligations in the three exploration phases are as follows:

1. During the first three years, the Contractor is required to drill three wildcat wells, perform seismic data acquisition and processing and expend a minimum of \$6 million. These obligations have been met.
2. During the next two years, the Contractor is required to drill two wildcat wells, perform seismic data acquisition and processing and expend a minimum of \$4 million. (The Contractor has elected to proceed with the second phase of the Agreement. The seismic data acquisition requirement for the second phase has been satisfied.)
3. During the last two years, the Contractor is required to drill two wildcat wells and expend a minimum of \$4 million.

4. The Production Period for any oil and/or gas field covered by the Agreement will be 15 consecutive years (each of 12 months), commencing for each such field on the date of commencement of commercial production (as determined under the terms of the Agreement). However, prior to the Production Period, and during the Development Period, oil and/or gas may be produced and sold during a long-term testing period.

The Agreement may be terminated by the Contractor at the end of each phase of the Exploration period, without further obligation.

- o The Company is in dispute over a 1992 tax assessment by the Louisiana Department of Revenue and Taxation for the years 1987 through 1991 in the approximate amount of \$2.5 million. The Company has also received a proposed assessment from the Louisiana Department of Revenue and Taxation for income tax years 1991 and 1992, and franchise tax years 1992 through 1996 in the approximate amount of \$3.0 million. The Company has filed written protests as to these proposed assessments, and will vigorously contest the asserted deficiencies through the administrative appeals process and, if necessary, litigation. The Company believes that adequate provision has been made in the financial statements for any liability.
- o On July 26, 1996, an individual filed three lawsuits against a wholly owned subsidiary with respect to oil and gas properties held for sale. One suit alleges actual damage of \$580,000 plus additional amounts that could result from an accounting of a pooled interest. Another seeks legal and related expenses of \$56,473 from an allegation the plaintiff was not adequately represented before the Texas Railroad Commission. The third suit seeks a declaratory judgement that a pooling of a 1938 lease and another in 1985 should be declared terminated, and further, plaintiffs seek damages in excess of \$1 million to effect environmental restoration. The Company believes these claims are without merit and intends to vigorously defend itself.
- o The Company is subject to other legal proceedings which arise in the ordinary course of its business. In the opinion of Management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Company or results of operations of the Company.

(8) XCL-China Ltd.

The following summary financial information of XCL-China Ltd., a wholly owned subsidiary, reflects its financial position and its results of operations for the periods presented (in thousands of dollars):

	June 30, 1998
A S S E T S	-----

Current assets	\$ 188
Oil and gas properties (full cost method):	
Proved undeveloped properties, not being amortized	26,954
Unevaluated properties	40,875

	67,829

Other assets	597

	\$ 68,614
	=====
L I A B I L I T I E S A N D A C C U M U L A T E D D E F I C I T	
Total current liabilities	\$ 5,202
Due to parent	65,960
Accumulated deficit	(2,548)

	\$ 68,614
	=====

Six Months Ended
June 30,

	-----	1998	1997	-----
Costs and operating expenses	\$	618	\$ 599	
Net loss	\$	(618)	\$ (599)	
		=====	=====	

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of XCL-China Ltd.

We have audited the financial statements of XCL-China Ltd. listed in the Index on page F-1. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XCL-China Ltd. as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has not generated production revenues, is dependent on its parent to meet its cash flow requirements and must, in conjunction with its parent company, generate additional cash flows to satisfy its development and exploratory obligations with respect to its oil and gas properties. There is no assurance that the Company or its parent will be able to generate the necessary funds to satisfy these contractual obligations and to ultimately achieve profitable operations, which creates substantial doubt about their ability to continue as a going concern. Managements' plans in regard to these matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/S/ PRICEWATERHOUSECOOPERS LLP

Miami, Florida
April 10, 1998

</PAGE>

XCL-China Ltd.
BALANCE SHEETS
(Thousands of Dollars)

	-----	A S S E T S	1997	1996
Current assets:		-----	----	----
Accounts receivable, net	\$		101	\$ 122
Other			2	45
		-----	-----	-----

	Total current assets	103	167
		-----	-----
Property and equipment:			
Oil and gas (full cost method):			
Proved undeveloped properties, not being amortized		21,172	13,571
Unevaluated properties		33,132	21,238
		-----	-----
Other		54,304	34,809
		167	138
		-----	-----
Accumulated depreciation		54,471	34,947
		(1)	--
		-----	-----
		54,470	34,947
		-----	-----
Other assets		668	--
		-----	-----
	Total assets	\$ 55,241	\$ 35,114
		=====	=====

L I A B I L I T I E S A N D S H A R E H O L D E R S ' E Q U I T Y

Current liabilities:			
Accounts payable and accrued costs		\$ 285	\$ 556
Due to joint venture partner		4,504	4,202
		-----	-----
Total current liabilities		4,788	4,758
		-----	-----
Due to parent		52,383	31,573
Commitments and contingencies (Notes 2 and 5)			
Shareholders' equity:			
Common stock-\$.01 par value; authorized 5 million shares at December 31, 1997 and 1996; issued shares of 1,000 shares at December 31, 1997 and 1996		--	--
Retained deficit		(1,930)	(1,217)
		-----	-----
Total shareholders' deficit		(1,930)	(1,217)
		-----	-----
Total liabilities and shareholders' deficit		\$ 55,241	\$ 35,114
		=====	=====

The accompanying notes are an integral part of these financial statements.\n
<PAGE>

XCL-China, Ltd.

STATEMENTS OF OPERATIONS
(In Thousands)

		Year Ended December 31		

		1997	1996	1995
		-----	-----	-----
Revenues	\$	--	\$ --	\$ --
		-----	-----	-----
Costs and operating expenses:				
Depreciation		1	--	--
General and administrative costs		578	702	536
		-----	-----	-----
		579	702	536
		-----	-----	-----
Operating loss		(579)	(702)	(536)
		-----	-----	-----
Other income (expense):				
Interest expense, net of amounts capitalized		(134)	--	--
Interest income		--	--	49
		-----	-----	-----
		(134)	--	49
		-----	-----	-----
Net loss	\$	(713)	\$ (702)	\$ (487)
		=====	=====	=====

The accompanying notes are an integral part of these financial statements.

<PAGE>

XCL-China

STATEMENTS OF SHAREHOLDERS' DEFICIT
(Thousands of Dollars)

Balance, December 31, 1994	\$	(28)
Net loss		(487)

Balance, December 31, 1995		(515)
Net loss		(702)

Balance, December 31, 1996		(1,217)
Net loss		(713)

Balance, December 31, 1997	\$	(1,930)
		=====

The accompanying notes are an integral part of these financial statements.

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XCL-China, Ltd.

STATEMENTS OF CASH FLOWS
(Thousands of Dollars)

	Year Ended December 31		
	1997	1996	1995
	-----	-----	-----
Cash flows from operating activities:			
Net loss	\$ (713)	\$ (702)	\$ (487)
	-----	-----	-----
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	1	--	--
Change in assets and liabilities:			
Accounts receivable	21	(58)	624
Accounts payable and accrued costs	30	2,825	801
Other, net	(625)	83	81
	-----	-----	-----
Total adjustments	(573)	2,850	1,506
	-----	-----	-----
Net cash (used in) provided by operating activities	(1,286)	2,148	1,019
	-----	-----	-----
Cash flows from investing activities:			
Capital expenditures	(15,889)	(4,237)	(7,284)
Other	--	249	(179)
	-----	-----	-----
Net cash used in investing activities	(15,889)	(3,988)	(7,463)
	-----	-----	-----
Cash flows from financing activities:			
Loan proceeds	6,100	--	--
Payment of long-term debt	(6,100)	--	--
Due to parent	17,175	1,840	4,468
	-----	-----	-----
Net cash provided by financing activities	17,175	1,840	4,468
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	--	--	(1,976)
Cash and cash equivalents at beginning of year	--	--	1,976
	-----	-----	-----
Cash and cash equivalents at end of year	\$ --	\$ --	\$ --
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

XCL-China Ltd.

Basis of Presentation:

The financial statements include the accounts of XCL-China Ltd. (the "Company"), a wholly owned subsidiary of XCL Ltd. (the "parent").

Use of Estimates in the Preparation of Financial Statements:

The preparation of the Company's financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Oil and Gas Properties:

The Company accounts for its oil and gas exploration and production activities using the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration, and development of oil and gas reserves, including appropriate related costs, are capitalized. The Company capitalizes internal costs that can be directly identified with its acquisition, exploration and development activities and does not capitalize any costs related to production, general corporate overhead or similar activities.

The capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method based on estimates of proved oil and gas reserves. The reserves in 1997 and 1996 were estimated by independent petroleum engineers. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that properties are impaired, the amount of the impairment is added to the capitalized costs to be depleted. The Company capitalizes interest on expenditures made in connection with exploration and development projects that are not subject to current amortization. Interest is capitalized for the period that activities are in progress to bring these projects to their intended use.

The Company reviews the carrying value of its oil and gas properties each quarter on a country-by-country basis, and limits capitalized costs of oil and gas properties to the present value of estimated future net revenues from proved reserves, discounted at 10 percent, plus the lower of cost or fair value of unproved properties as adjusted for related tax effects and deferred tax reserves. If capitalized costs exceed this limit, the excess is charged to depreciation and depletion expense.

Proceeds from the sale of proved and unproved properties are accounted for as reductions to capitalized costs with no gain or loss recognized unless such sales would significantly alter the relationship between capitalized costs and proved reserves of oil and gas. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

The Company accounts for site restoration, dismantlement and abandonment costs in its estimated future costs of proved reserves. Accordingly, such costs are amortized on a unit of production basis and reflected with accumulated depreciation, depletion and amortization. The Company identifies and estimates such costs based upon its assessment of applicable regulatory requirements, its operating experience and oil and gas industry practice in the areas within which its properties are located. To date the Company has not been required to expend any material amounts to satisfy such obligations. The Company does not expect that future costs will have a material adverse effect on the Company's operations, financial condition or cash flows. The standardized measure of discounted future net cash flows includes a deduction for any such costs.

Capitalized Interest:

During fiscal 1997, 1996 and 1995, interest and associated costs of approximately \$5.8 million, \$2.8 million and \$3.1 million, respectively were capitalized on significant investments in oil and gas properties that are not being currently depreciated, depleted, or amortized and on which exploration or development activities are in progress.

Revenue Recognition:

Oil and gas revenues will be recognized using the accrual method at the price realized as production and delivery occurs.

Foreign Operations

The Company's future operations and earnings will depend upon the results of the Company's operations in China. There can be no assurance that the Company will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on the Company's financial position, results of operations and cash flows. Also, the success of the Company's operations will be subject to numerous contingencies, some of which are beyond management's control. These contingencies include general and regional economic conditions, prices for crude oil and natural gas, competition and changes in regulation. Since the Company is dependent on international operations, specifically those in China, the Company will be subject to various additional political, economic and other uncertainties. Among other risks, the Company's operations will be subject to the risks of restrictions on transfer of funds; export duties, quotas and embargoes; domestic and international customs and tariffs; and changing taxation policies, foreign exchange restrictions, political conditions and governmental regulations.

(2) Liquidity and Management's Plan

The Company's parent, in connection with its 1995 decision to dispose of its domestic properties, is devoting all of its efforts toward the development of the Company's properties. The Company has historically relied on its parent to meet its cash flow requirements. Although the parent has cash available in the amount of approximately \$32 million as of December 31, 1997 (including restricted cash of approximately \$10 million) and a positive working capital position, management anticipates that the Company and its parent will need additional funds to meet all of the development and exploratory obligations until sufficient cash flows are generated from anticipated production to sustain operations and to fund future development and exploration obligations.

The parent plans to generate the additional cash needed through the sale or financing of its domestic assets held for sale and the completion of additional equity, debt or joint venture transactions. There is no assurance, however, that the parent will be able to sell or finance its assets held for sale or to complete other transactions in the future at commercially reasonable terms, if at all, or that the Company will be able to meet its future contractual obligations. If production from the Company's properties commences in late 1998 or the first half of 1999, as anticipated, the Company's proportionate share of the related cash flow will be available to help satisfy cash requirements. However, there is likewise no assurance that such development will be successful and production will commence, and that such cash flow will be available.

(3) Supplemental Cash Flow Information

There were no income taxes paid for the years ended December 31, 1997, 1996 and 1995.

(4) Income Taxes

Foreign income taxes are accounted for under the tax structure in that country, principally China. As of December 31, 1997, the Company does not have undistributed earnings available to its parent because of accumulated losses. Further, such

losses have provided no tax benefit to the parent company and accordingly, there has been no tax impact. When necessary the Company will enter into an appropriate tax sharing arrangement with its parent.

(5) Other Commitments and Contingencies

Other commitments and contingencies include:

- o The Company acquired the rights to the exploration, development and production of the Zhao Dong Block by executing a Production Sharing Agreement with CNODC in February 1993. Under the terms of the Production Sharing Agreement, the Company and its partner are responsible for all exploration costs. If a commercial discovery is made, and if CNODC exercises its option to participate in the development of the field, all development and operating costs and related oil and gas production will be shared up to 51 percent by CNODC and the remainder by the Company and its partner.

The Production Sharing Agreement includes the following additional principal terms:

The Production Sharing Agreement is basically divided into three periods: the Exploration period, the Development period and the Production period. Work to be performed and expenditures to be incurred during the Exploration period, which consists of three phases totaling seven years from May 1, 1993, are the exclusive responsibility of the Contractor (the Company and its partner as a group). The Contractor's obligations in the three exploration phases are as follows:

1. During the first three years, the Contractor is required to drill three wildcat wells, perform seismic data acquisition and processing and expend a minimum of \$6 million. These obligations have been met;
2. During the next two years, the Contractor is required to drill two wildcat wells, perform seismic data acquisition and processing and expend a minimum of \$4 million (The Contractor has elected to proceed with the second phase of the Contract. The seismic data acquisition requirement for the second phase has been satisfied.);
3. During the last two years, the Contractor is required to drill two wildcat wells and expend a minimum of \$4 million.
4. The Production Period for any oil and/or gas field covered by the Contract (the "Contract Area") will be 15 consecutive years (each of 12 months), commencing for each such field on the date of commencement of commercial production (as determined under the terms of the Contract). However, prior to the Production Period, and during the Development Period, oil and/or gas may be produced and sold during a long-term testing period.

The Production Sharing Agreement may be terminated by the Contractor at the end of each phase of the Exploration period, without further obligation.

(6) Related Party Transactions

The Company has consistently borrowed money from its parent for the acquisition and development of its oil and gas properties. The amount due the parent as of December 31, 1997 is approximately \$52 million. All of the Common Stock of the Company has been pledged as collateral for parent company debt and the Company is a guarantor on certain Senior Secured Notes described below.

Senior Secured Notes of Parent Company

On May 20, 1997, the parent company sold in an unregistered offering to qualified institutional buyers and accredited institutional investors 75,000 Note Units, each consisting of \$1,000 principal amount of 13.5% Senior Secured Notes due May 1, 2004 and one Common Stock Purchase Warrant to purchase 85 shares of the parent's common stock, par value \$0.01 per share (the "Common Stock"), at an exercise price of \$3.09 per share, first exercisable after May 20, 1998.

Interest on the Notes is payable semi-annually on May 1 and November 1, commencing November 1, 1997. The Notes will mature on May 1, 2004. The Notes are not redeemable at the option of the parent prior to May 1, 2002, except that the parent may redeem, at its option prior to May 1, 2002, up to 35% of the original aggregate principal amount of the Notes, at a redemption price of 113.5% of the aggregate principal amount of the Notes, plus accrued and unpaid interest, if any, to the date of redemption, with the net proceeds of any equity offering completed within 90 days prior to such redemption; provided that at least \$48.75 million in aggregate principal amount of the Notes remain outstanding. On or after May 1, 2002, the Notes are redeemable at the option of the parent, in whole or in part, at an initial redemption price of 106.75% of the aggregate principal amount of the Notes until May 1, 2003, and at par thereafter, plus accrued and unpaid interest, if any, to the date of redemption.

The Senior Secured Notes restrict, among other things, the parent's and its subsidiaries ability to incur additional debt, incur liens, pay dividends, or make certain other restricted payments. It also limits the parent's ability to consummate certain asset sales, enter into certain transactions with affiliates, enter into mergers or consolidations, or dispose of substantially all the parent's assets. The parent's ability to comply with such covenants may be affected by events beyond its control. The breach of any of these covenants could result in a default. A default could allow holders of the Notes to declare all amounts outstanding and accrued interest immediately due and payable. A foreclosure on the stock of the Company could trigger Apache's right of first refusal under the Participation Agreement to purchase such stock or its option to purchase the parent's interest in the Contract. There can be no assurance that the assets of the parent and the Company, or any other Subsidiary Guarantors would be sufficient to fully repay the Notes and the parent's other indebtedness.

Supplemental Oil and Gas Information

The following supplementary information is presented in accordance with the requirements of Statement of Financial Accounting Standards No. 69 - "Disclosures About Oil and Gas Producing Activities."

Capitalized Costs

Capitalized costs relating to the Company's proved and unevaluated oil and gas properties, are as follows (000's):

	December 31	
	-----	-----
	1997	1996
	-----	-----
Proved and unevaluated properties under development	\$ 54,304	\$ 34,305
	=====	=====

The capitalized costs for the oil and gas properties represent cumulative expenditures related to the Zhao Dong Block Production Sharing Agreement and will not be depreciated, depleted or amortized until production is achieved.

The Company's investment in oil and gas properties as of December 31, 1997, includes proved and unevaluated properties which have been excluded from amortization. Such costs will be evaluated in future periods based on management's assessment of exploration activities, expiration dates of licenses, permits and concessions, changes in economic conditions and other factors. As these properties become evaluated or developed, their cost and related estimated future revenue will be included in the

calculation of the DD&A rate. Such costs were incurred as follows:

Costs for proved and unevaluated properties under development were incurred as follows (000's):

	Year Ended December 31				
	Total	1997	1996	1995	1994 and Prior
Property acquisition costs	\$ 40,616	\$ 14,208	\$ 4,223	\$ 7,023	\$ 15,162
Capitalized interest costs	13,688	5,791	2,767	2,596	2,534
Total proved and unevaluated properties under development	\$ 54,304	\$ 19,999	\$ 6,990	\$ 9,619	\$ 17,696

Capitalized Costs Incurred

Total capitalized costs incurred by the Company with respect to its oil and gas producing activities were as follows (000's):

	Year Ended December 31		
	1997	1996	1995
Costs incurred:			
Unproved properties acquired	\$ --	\$ --	\$ 5,298
Capitalized internal costs	2,466	822	135
Capitalized interest and amortized debt costs	5,791	2,767	2,596
Exploration	6,833	3,401	--
Development	4,909	--	1,590
Total costs incurred	\$ 19,999	\$ 6,990	\$ 9,619

Proved Oil and Gas Reserves (Unaudited)

The following table sets forth estimates of the Company's net interests in proved and proved developed reserves of oil and gas and changes in estimates of proved reserves.

	Crude Oil (MBbls)	
	1997	1996
Proved reserves -		
Beginning of year	10,579	--
Discoveries	1,183	10,579
Revisions of previous estimates	--	--
Production	--	--
Purchases (sales) of minerals in place	--	--
Transfer of property to assets held for sale	--	--
End of year	11,762	10,579
Proved developed reserves -		
Beginning of year	--	--
End of year	--	--

The Company's estimated quantities of oil and gas as of December 31, 1997 were prepared by H.J. Gruy and Associates, Inc., independent engineers.

Supplementary Information (Unaudited)

The supplementary information set forth below presents estimates of discounted future net cash flows from proved oil and gas reserves and changes in such estimates. This information has been prepared in accordance with requirements prescribed by the Financial Accounting Standards Board (FASB). Inherent in the underlying calculations of such data are many variables and assumptions, the most significant of which are briefly described below:

Future cash flows from proved oil and gas reserves were computed on the basis of (a) contractual prices for oil and gas - including escalations for gas - in effect at year-end, or (b) in the case of properties being commercially developed but not covered by contracts, the estimated market price for gas and the posted price for oil in effect at year-end. Probable and possible reserves - a portion of which, experience has indicated, generally become proved once further development work has been conducted - are not considered. Additionally, estimated future cash flows are dependent upon the assumed quantities of oil and gas delivered and purchased from the Company. Such deliverability estimates are highly complex and are not only based on the physical characteristics of a property but also include assumptions relative to purchaser demand. Future prices actually received may differ from the estimates in the standardized measure.

Future net cash flows have been reduced by applicable estimated operating costs, production taxes and future development costs, all of which are based on current costs.

Future net cash flows are further reduced by future income taxes which are calculated by applying the statutory federal income tax rate to pretax future net cash flows after utilization of available tax carryforwards.

To reflect the estimated timing of future net cash flows, such amounts have been discounted by the Securities and Exchange Commission prescribed annual rate of 10 percent.

In view of the uncertainties inherent in developing this supplementary information, it is emphasized that the information represents approximate amounts which may be imprecise and extreme caution should accompany its use and interpretation.

Standardized Measure of Discounted Future Net Cash Flows Related to Proved Oil and Gas Reserves

The standardized measure of discounted future net cash flows from proved oil and gas reserves, determined in accordance with rules prescribed by FASB No. 69 is summarized below, and does not purport to present the fair market value of the Company's oil and gas assets, but does present the present value of estimated future cash flows that would result under the assumptions used.:

The Company previously excluded from this table, the effect of income taxes because it believed it had a tax holiday in China. Subsequent to December 31, 1997, the Company determined that it would be subject to future income taxes at the maximum rate of 33% in China. Accordingly, the table below has been revised to include estimates of such income taxes.

	Year Ended December 31	
	-----	-----
	1997	1996
	----	----
	(Thousands of Dollars)	
Future cash inflows	\$ 205,765	\$ 222,797
Future costs:		
Production, including taxes	(45,623)	(39,033)
Development	(41,093)	(40,904)
	-----	-----
Future net inflows before income taxes	119,049	142,860
Future income taxes (1)	(22,916)	(35,658)
	-----	-----
Future net cash flows	96,133	107,202
10% discount factor	(42,285)	(44,596)
Transfer of properties to assets held for sale	--	--
	-----	-----
Standardized measure of discounted net cash flows	\$ 53,848	\$ 62,606
	=====	=====

(1) Future income taxws are computed by applying the maximum tax rate in China applicable to foreign-funded enterprises of 33%.

Year Ended December 31

	1997	1996
	----	----
	(Thousands of Dollars)	
Standardized measure-beginning of year	\$ 62,606	\$ --
Increases (decreases):		
Sales and transfers, net of production costs	--	--
Net change in sales and transfer prices, net of production costs	(16,396)	--
Extensions, discoveries and improved recovery, net of future costs	--	79,062
Changes in estimated future development costs	(219)	--
Development costs incurred during the period that reduced future development costs	--	--
Revisions of quantity estimates	--	--
Accretion of discount	--	--
Purchase (sales) of reserves in place	--	--
Changes in production rates (timing) and other	--	--
Reclassification of reserves to assets held for sale	--	--
Net change in income taxes	7,857	(16,456)
	-----	-----
Standardized measure-end of year	\$ 53,848	\$ 62,606
	=====	=====

Changes in and Disagreements on Accounting and Financial Disclosure.

There have been no changes in and there are no disagreements with the Company's accountants on accounting and financial disclosure.

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No dealer, salesperson or any other person has been authorized to give any information or to make any representations in connection with the offer contained herein other than those contained in this Prospectus, and, if given or made, such information and representations must not be relied upon as having been authorized by the Company or the Initial Purchaser. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any security other than those to which it relates nor does it constitute an offer to sell, or a solicitation of an offer to buy, to any person in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making the offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

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[LOGO]

XCL Ltd.

1,219,199 Shares 9.50%
Amended Series A, Cumulative
Convertible Preferred Stock

33,592,721 Shares Common Stock

Prospectus

_____, 1998

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PART II

Information Not Required in the Prospectus

Item 13. Other Expenses of Issuance and Distribution

Expenses in connection with the issuance and distribution of the securities being registered are set forth in the following table. All amounts except the registration fee are estimated.

	Expenses

Registration Fee -	
Securities and Exchange Commission	\$ 80,585
AMEX Filing Fee	17,500
Transfer Agent Fees and Expenses	--
Accounting Fees and Expenses	20,000
Legal Fees and Expenses	30,000
Blue Sky Fees and Expenses	--
Miscellaneous	4,000

TOTAL	\$151,862
	=====

The Company will bear all of the expenses of the registration of the Securities being offered.

Item 14. Indemnification of Directors and Officers

The Company's Amended and Restated Certificate of Incorporation (the "Certificate") provides that:

(A) No director of the Company will be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

(B) Each person who was or is made a party or is threatened to be made a party to or involved in any action suit or proceeding whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director, officer or employee of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, will be indemnified and held harmless by the Company to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than said law permitted the Company to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, including excise taxes with respect to an employee benefit plan, or penalties and amounts paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification will continue as to a person who has ceased to be a director, officer, employee or agent and will inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as described in (C) below, the Company will indemnify any such person seeking indemnification in connection with a proceeding (or part hereof) initiated by such person only if such proceeding (or part thereof) was authorized by the board of directors of the Company. The right to indemnification described in this paragraph B includes the right to be paid by the Company the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that if the Delaware General Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, will be made only upon delivery to the Company of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it will ultimately be determined that such director or officer is not entitled to be indemnified under the Certificate or otherwise.

(C) If a claim described in paragraph (B) above is not paid in full by the Company within thirty (30) after written claim has been received by the Company, the claimant may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant will be entitled to be paid also the expense of prosecuting such claim. It will be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Company) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the Company to indemnify the claimant for the amount claimed, but the burden of proving such defense will be on the Company. Neither the failure of the Company (including its board of directors, independent legal

counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Company (including its board of directors, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, will be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(D) The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in the Certificate will not be exclusive of any right which any person may have or hereafter acquire under any statute, provision of the Certificate, the Amended and Restated Bylaws of the Company (the "Bylaws"), agreement, vote of stockholders or disinterested directors or otherwise.

(E) The Company may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Company or another corporation, partnership, joint venture, trust or other enterprise, including an employee benefit plan, against any such expense, liability or loss, whether or not the Company would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

(F) Upon resolution passed by the board of directors, the Company may establish a trust or other designated account, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of certain of its obligations arising under the indemnification provisions contained in the Certificate.

(G) If any part of the indemnification provisions contained in the Certificate will be found, in any action, suit or proceeding or appeal therefrom or in any other circumstances or as to any particular officer, director or employee to be unenforceable, ineffective or invalid for any reason, the enforceability, effect and validity of the remaining parts or of such parts in other circumstances will not be affected, except as otherwise required by applicable law.

The Bylaws provide that:

(i) the Company will indemnify to the full extent permitted by, and in the manner permissible under, the laws of the State of Delaware any person made, or threatened to be made, a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, his testator or intestate is or was a director or officer of the Company or any predecessor of the Company, or served any other enterprise as a director or officer at the request of the Company or any predecessor of the Company.

(ii) the rights of indemnification described in paragraph (i) above will be deemed to be a contract between the Company and each director and officer who serves in such capacity at any time while such provision is in effect, and any repeal or modification thereof will not affect any rights or obligations then existing or any action, suit or proceeding theretofore brought based in whole or in part upon any such state of facts;

(iii) the rights of indemnification described in paragraphs (i) and (ii) above will not be deemed exclusive of any other rights to which any director or officer may be entitled apart from the provisions of Article VIII of the Bylaws (governing indemnification); and

(iv) the board of directors in its discretion will have power on behalf of the Company to indemnify any person, other than a director or officer, made a party to any action, suit or proceeding by reason of

the fact that he, his testator or intestate, is or was an employee of the Company.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Item 15. Recent Sales of Unregistered Securities

Common Stock and Common Stock Purchase Warrants/Debt Securities

- - - - -

The following issuances which occurred prior to December 17, 1997 have not been adjusted to reflect the Company's one-for-fifteen reverse stock split effected on December 17, 1997.

O Effective September 17, 1998, the Company sold 351,015 (post split) shares of Common Stock to Cumberland Partners through the exercise of a stock purchase warrant exercisable at \$2.50 per share. The Company received \$877,537 in payment of the exercise price. The securities issued in this transaction were not registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), in reliance upon the exemption provided by Section 4(2) thereof.

O Effective August 19, 1998, the Company agreed to issue 65,622 (post split) shares of Common Stock to William Wang, a resident of Taiwan, in respect of \$222,500 payable in shares of Common Stock pursuant to the terms of an agreement between the Company and Mr. Wang dated October 1, 1997. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S.

O Effective June 30, 1998, the Company agreed to issue 35,000 (post split) shares of Common Stock and 17,000 (post-split) Common Stock purchase warrants to Mr. Patrick B. Collins, as consideration under a consulting agreement dated June 15, 1998. The warrants are exercisable at \$3.75 per share and expire on June 30, 2003. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

O On March 11, 1998, the Company sold an aggregate of 128,887 (post split) shares of Common Stock, through the exercise of stock purchase warrants to four partnerships of KAIM Non-Traditional, L.P. The warrants were exercisable at \$1.875 per share and the Company received \$241,663 in payment of the exercise price. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

O On March 11, 1998, the Company sold an aggregate of 455,809 (post split) shares of Common Stock, through the exercise of stock purchase warrants to five partnerships of KAIM Non-Traditional, L.P. The warrants were exercisable at \$0.15 per share and the Company received \$68,371 in payment of the exercise price. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

O On January 23, 1998, the Company sold 11,333 (post split) shares of Common Stock, through the exercise of stock purchase warrants to Mr. Hans Ulrich Nadig. The warrants were exercisable at \$1.875 per share and the Company received \$21,250 in payment of the exercise price. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

O On January 19, 1998, the Company issued 55,625 (post split) shares of Common Stock, to William Wang, a resident of Taiwan, in respect of \$222,500 payable in shares of Common Stock, pursuant to the terms of an agreement between the Company and Mr. Wang dated October 1, 1997. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

O In December 1997, the Company issued 86,190 (post split) shares of Common Stock to certain holders of the Secured Subordinated Notes in respect of \$233,082.73 interest payable April 1, 1997, including penalty interest thereon. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) with respect to 21,547 shares and Regulation S with respect to 64,643 shares.

O In December 1997, the Company issued 133,385 (post split) shares of Common Stock to the holders of the Secured Subordinated Notes in respect of \$506,634.66 interest payable October 1, 1997, including penalty interest thereon. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) with respect to 90,510 shares and Regulation S with respect to 42,875 shares.

O On November 3, 1997, the Company issued an aggregate of 12,906 shares of Amended Series A Preferred Stock in respect of dividends payable thereon in additional shares of Amended Series A Preferred Stock due November 1, 1997. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

O In November 1997, the Company issued 400,000 shares of Common Stock and 200,000 Stock Purchase Warrants at an exercise price of \$0.25 per share on or before February 20, 2002 to Patrick B. Collins as compensation under a Consulting Agreement dated February 20, 1997. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

O On October 28 and 29, 1997, pursuant to an agreement effective October 1, 1997, the Company issued to designees of William Wang, who were all non-U.S. persons, an aggregate of 800,000 shares of Common Stock as compensation and to settle certain instruments relating to prior compensation arrangements between the Company and William Wang, a resident of Taiwan who has performed services for the Company since 1991. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

O On October 21, 1997, the Company sold 1,000,000 shares of Common Stock, and on October 30, 1997, the Company sold 500,000 shares of Common Stock, both transactions through the exercise of stock purchase warrants, to Providence Capital Limited of the Cayman Islands. The warrants were exercisable at \$0.1875 per share and the Company received \$281,250 in payment of the exercise price. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

O On October 3, 1997, the Company sold 360,000 shares of Common Stock, through the exercise of stock purchase warrants, to Bank Hofmann AG of Zurich, Switzerland. The warrants were exercisable at \$0.125 per share and the Company received \$45,000 in payment of the exercise price. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

O On October 3, 1997, the Company issued an aggregate of 450,000 shares of Common Stock in settlement of litigation initiated by Ms. Kathy McIlhenny, a former employee of the Company. Ms. McIlhenny received 300,000 shares and her attorneys, Jacques F. Bezou and Robert H. Matthews, received 90,000 and 60,000 shares respectively. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

O On July 1, 1997, the Company issued 3 million stock purchase warrants to Providence Capital Ltd. as compensation pursuant to a Consulting Agreement entered into effective July 1, 1997, whereby Providence Capital Ltd. will assist the Company in locating sources of financing in capital markets in Canada. The warrants are exercisable at \$0.1875 per share and expire August 13, 2001. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

On August 19, 1997, the Company sold in a series of private placements in compliance with Regulation S under the Securities Act, an aggregate of 638,000 shares of Common Stock through the exercise of warrants previously granted to Providence Capital Ltd. The warrants were exercisable at \$0.125 per share and the Company received \$79,750 in payment of the exercise price. The warrants were exercised outside the U.S. by persons or entities who certified that they were non-U.S. persons as defined in Regulation S and the shares were all delivered against payment outside the U.S. in accordance with such Regulation.

As set forth below, the Company sold in a series of private placement in compliance with Regulation S under the Securities Act, an aggregate of 870,000 shares of Common Stock through the exercise of warrants previously granted to Sreedeswar Holdings, Inc. These warrants were initially issued on December 22, 1995, in connection with a series of Unit offerings conducted through Rauscher Pierce & Clark, Inc., and its wholly-owned subsidiary, Rauscher Pierce & Clark Ltd., as the Placement Agent, in compliance with Regulation S of the Securities Act. The Company agreed to reduce the exercise price of such warrants provided the warrants were immediately exercised. Pursuant to such agreement the initial warrant exercise prices of \$0.25 per share were reduced to \$0.21 per share, net, with the Placement Agent accepting \$0.01 per share rather than 8% of the exercise price as set forth in the Placement Agreement.

Exercise Date	Warrants Exercised	Shares Issued	Net Consideration
May 22, 1997	870,000	870,000	\$182,700

In all instances the warrants were exercised outside the U.S. by persons or entities who certified that they were non-U.S. person as defined in Regulation S and the shares were all delivered against payment outside the U.S. in accordance with such Regulation.

On May 20, 1997, the Company consummated (i) a private offering of 75,000 units (the "Debt Units"), each consisting of \$1,000 principal amount of 13.50% Senior Secured Notes due May 1, 2004 and one Common Stock Purchase Warrant to purchase 1,280 shares of the Common Stock and (ii) a private offering of 294,118 units (the "Equity Units," and together with the Debt Units, the "Units"), each consisting of one share of Amended Series A Preferred Stock and one Warrant to purchase 327 shares of the Company's common stock. The Units were sold to the Initial Purchaser in transactions not registered under the Securities Act in reliance upon Section 4(2) of the Securities Act and thereupon offered and sold by the Initial Purchaser only to certain qualified institutional buyers and institutional accredited investors. The aggregate offering price of the Debt Units was \$75,000,000 and the aggregate offering price of the Equity Units was \$25,000,030. The aggregate discount to the Initial Purchaser with respect to the Debt Units was \$3,000,000 and with respect to the Equity Units was \$1,500,000.

On April 8, 1997, the Company sold an aggregate of 276,000 shares of Common Stock to Je Hyun Lee, a non-U.S. person, for which it received consideration of \$51,750. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

As set forth below, the Company sold in a private placement in compliance with Regulation S under the Securities Act, an aggregate of 3,000,000 shares of Common Stock through the exercise of warrants previously granted to Providence Capital Ltd. These warrants were initially issued on December 31, 1996 as incentive to exercise 4,168,000 warrants acquired in connection with series of Unit offerings conducted through Rauscher Pierce & Clark, Inc., and its wholly-owned subsidiary, Rauscher Pierce & Clark Ltd., as the Placement Agent, in compliance with Regulation S of the Securities Act.

Further, on April 22, 1997, the Company sold in a private placement in compliance with Regulation S under the Securities Act, 66,900 shares of Common Stock through the exercise of warrants previously granted to Sreedeswar Holdings, Inc. These warrants were initially issued on December 22, 1995, in connection with a series of Unit offerings conducted through

Rauscher Pierce & Clark, Inc., and its wholly-owned subsidiary, Rauscher Pierce & Clark Ltd., as the Placement Agent, in compliance with Regulation S of the Securities Act. The Company agreed to reduce the exercise price of such warrants provided the warrants were immediately exercised. Pursuant to such agreement the initial warrant exercise prices of \$0.25 per share were reduced to \$0.21 per share, net, with the Placement Agent accepting \$0.01 per share rather than 8% of the exercise price as set forth in the Placement Agreement.

Exercise Date	Warrants Exercised	Shares Issued	Net Consideration
April 18, 1997	440,289	440,289	\$ 55,036
April 22, 1997	66,900	66,900	\$ 14,049
April 30, 1997	2,559,711	2,559,711	\$319,964

In all instances the warrants were exercised outside the U.S. by persons or entities who certified that they were non-U.S. persons as defined in Regulation S and the shares were all delivered against payment outside the U.S. in accordance with such Regulation.

0 On April 10, 1997, in connection with obtaining a loan for XCL-China Ltd. of \$3.1 million, the Company granted an aggregate of 10,092,980 warrants to a group of four limited partnerships managed by Kayne Anderson Investment Management, Inc. ("KAIM") (6,837,180); J. Edgar Monroe Foundation (325,580); Estate of J. Edgar Monroe (976,740); Boland Machine & Mfg. Co., Inc. (325,580); and Construction Specialists, Inc. d/b/a Con-Spec, Inc. (1,627,900), entitling such lenders the right to acquire 10,092,980 shares of Common Stock at \$0.01 per share, exercisable on or before April 9, 2002. All proceeds of this financing were applied to reduce the Company's indebtedness to Apache incurred in connection with Zhao Dong Block operations. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

0 Stock Purchase Warrants dated April 10, 1997, were issued to ING (U.S.) Capital Corporation, as consideration for entering into a Forbearance Agreement with the Company. Each warrant is exercisable at \$0.01 per share on or before April 9, 2002, entitling ING to purchase up to 7,000,000 shares of Common Stock. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

0 On March 26, 1997, the Company sold 3,200,000 shares of Common Stock to Je Hyun Lee, a non-U.S. person, for consideration of \$600,000. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

0 As set forth below, the Company sold in a series of private placements in compliance with Regulation S under the Securities Act, an aggregate of 73,000 shares of Common Stock through the exercise of warrants previously granted to Sreedeswar Holdings, Inc. These warrants were initially issued on December 22, 1995, in connection with a series of Unit offerings conducted through Rauscher Pierce & Clark, Inc., and its wholly-owned subsidiary, Rauscher Pierce & Clark Ltd., as the Placement Agent, in compliance with Regulation S of the Securities Act. The Company agreed to reduce the exercise price of such warrants provided the warrants were immediately exercised. Pursuant to such agreement the initial warrant exercise prices of \$0.25 per share were reduced to \$0.21 per share, net, with the Placement Agent accepting \$0.01 per share rather than 8% of the exercise price as set forth in the Placement Agreement.

Exercise Date	Warrants Exercised	Shares Issued	Net Consideration
March 21, 1997	73,000	73,000	\$ 15,330

In all instances the warrants were exercised outside the U.S. by persons or entities who certified that they were non-U.S. persons as defined in Regulation S and the shares were all delivered against payment outside the U.S. in accordance with such Regulation.

0 During February 1997, the Company sold its remaining

interest (41.089%) in the Seller Notes securing the Litcher Moore Tract (\$217,961 in principal) to accredited investors for \$193,916 net after discount. In connection with the sale, the Company issued stock purchase warrants to Donald A. and Joanne R. Westerberg and T. Jerald Hanchey pursuant to which the purchasers can acquire 1,874,467 shares of Common Stock at an exercise price of \$0.25 per share, expiring on December 31, 1999. The securities issued by the Company in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

0 As set forth below, the Company sold in a series of private placements in compliance with Regulation S under the Securities Act, an aggregate of 1,630,100 shares of Common Stock through the exercise of warrants previously granted to Sreedeswar Holdings, Inc. These warrants were initially issued on December 22, 1995, in connection with a series of Unit offerings conducted through Rauscher Pierce & Clark, Inc., and its wholly-owned subsidiary, Rauscher Pierce & Clark Ltd., as the Placement Agent, in compliance with Regulation S of the Securities Act. The Company agreed to reduce the exercise price of such warrants provided the warrants were immediately exercised. Pursuant to such agreement the initial warrant exercise prices of \$0.25 per share were reduced to \$0.21 per share, net, with the Placement Agent accepting \$0.01 per share rather than 8% of the exercise price as set forth in the Placement Agreement.

Exercise Date	Warrants Exercised	Shares Issued	Net Consideration
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February 4, 1997	1,000,000	1,000,000	\$210,000
February 11, 1997	340,200	340,200	\$ 71,442
February 20, 1997	184,800	184,800	\$ 38,808
February 24, 1997	105,100	105,100	\$ 22,071

In all instances the warrants were exercised outside the U.S. by persons or entities who certified that they were non-U.S. persons as defined in Regulation S and the shares were all delivered against payment outside the U.S. in accordance with such Regulation.

0 As set forth below, the Company sold in a series of private placements in compliance with Regulation S under the Securities Act, an aggregate of 4,168,000 shares of Common Stock through the exercise of warrants previously granted to Janz Financial Corp. Ltd., now known as Providence Capital Ltd., or a designee thereof, who certified that it was not a U.S. person as defined in Regulation S. These warrants were initially issued on March 8, 1996, and August 14, 1996, in connection with a series of Unit offerings conducted through Rauscher Pierce & Clark, Inc., and its wholly-owned subsidiary, Rauscher Pierce & Clark Ltd., as the Placement Agent, in compliance with Regulation S of the Securities Act. By agreement dated November 19, 1996, the Company agreed to reduce the exercise prices of such warrants provided the warrants were immediately exercised. Pursuant to such agreement the initial warrant exercise prices of \$0.35 and \$0.25 per share were reduced to \$0.125 per share.

Exercise Date	Warrants Exercised	Shares Issued	Net Consideration
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December 27, 1996	664,000	664,000	\$ 83,000
December 31, 1996	664,000	664,000	\$ 83,000
December 31, 1996	800,000	800,000	\$100,000
January 8, 1997	530,000	530,000	\$ 66,250
January 9, 1997	1,510,000	1,510,000	\$188,750

In all instances the warrants were exercised outside the U.S. by persons or entities who certified that they were non-U.S. persons as defined in Regulation S and the shares were all delivered against payment outside the U.S. in accordance with such Regulation.

0 In December 1996 and January 1997, the Company issued Stock Purchase Warrants dated December 31, 1996 (2,128,000 warrants) and January 8, 1997 (2,040,000 warrants) to purchase up to an aggregate of 4,168,000 shares of Common Stock at \$0.125 per share on or before August 13, 2001 to Providence Capital Ltd. as additional consideration for the immediate exercise of 4,168,000 warrants described above at the reduced exercise price. The

securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

O In November 1996, the Company issued 6,271,288 shares of Common Stock to holders of its Secured Subordinated Notes in respect of \$1,064,415.08 of interest payable October 1, 1996, including penalty interest thereon. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) with respect to 5,330,594 shares and Regulation S with respect to 940,694 shares.

O In November 1996, the Company issued Stock Purchase Warrants dated November 26, 1996, in connection with a sale of a 58.911% interest in a 50% interest in certain promissory notes (\$314,500 in principal) securing the Lutcher Moore Tract held by one of the Company's wholly-owned subsidiaries for \$250,000 in cash, net after discount, entitling the following holders thereto to purchase up to 2,666,666 shares of Common Stock at \$0.125 per share on or before December 31, 1999:

Warrant Holder	Warrants
Opportunity Associates, L.P.	133,333
Kayne Anderson Non-Traditional Investments, L.P.	666,666
Arbco Associates, L.P.	800,000
Offense Group Associates, L.P.	333,333
Foremost Insurance Company	266,667
Nobel Insurance Company	133,333
Evanston Insurance Company	133,333
Topa Insurance Company	200,000

The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

O On October 30, 1996, the Company issued 33,125 shares of Common Stock and warrants to purchase an additional 33,125 shares of Common Stock to Mr. A. Rosenbloom issued in lieu of \$14,326 cash compensation. The shares of Common Stock and the warrants were subsequently returned to the Company by the recipient for personal business reasons. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

O On October 30, 1996, the Company issued 1,325,000 shares of Common Stock and warrants to purchase an additional 2,466,875 shares of Common Stock to Mr. Mitch Leigh in lieu of approximately \$580,000 in cash compensation under a consulting agreement dated July 10, 1996. In February 1997, effective October 1996, Mr. Leigh cancelled the consulting agreement and returned the above-referenced shares of Common Stock and warrants to the Company. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

O In August 1996, the Company sold 1,500,000 shares of Common Stock in a private placement transaction to Provincial Securities Ltd. for net consideration of \$200,000. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

O In August 1996, the Company issued Common Stock Purchase Warrants to Terrenex Acquisitions Corp. dated August 16, 1996, entitling the holder thereof to purchase up to 300,000 shares of Common Stock at \$0.25 per share on or before December 31, 1998 as compensation for locating a purchaser for 1,500,000 shares of Common Stock sold to Provincial Securities Ltd. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

O In August 1996, the Company issued 2,800,000 shares of Common Stock and 2,800,000 Common Stock Purchase Warrants to Janz Financial Corp. Ltd. ("Janz"), who placed the units with their clients. Each unit was comprised of one share of Common Stock and one five-year warrant to purchase one share of Common Stock. The Company received \$402,000 in proceeds from the placement. The

securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

O In August 1996, the Company issued to Janz, as compensation for the placement of the 2,800,000 units described above, 280,000 Common Stock Purchase Warrants at an exercise price of \$0.25 per share until August 13, 2001. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

O In July 1996, the Company issued 1,500,000 Common Stock Purchase Warrants exercisable at \$.25 per share expiring five years after the date of issuance, to Arthur Rosenbloom as consideration for past fundraising services. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

O In July 1996, the Company issued 50,000 shares of Common Stock held as treasury stock to an accredited non-U.S. institutional investor, The Securities Management Trust Limited A/C K, in a brokered transaction, for net proceeds after fees and discounts of \$12,875. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

O In June 1996, the Company issued 920,000 shares of Common Stock held as treasury stock to an accredited non-U.S. institutional investor, The Securities Management Trust Limited A/C K, in a series of brokered transactions, for net proceeds after fees and discounts of \$133,900. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

O In May 1996, the Company issued an aggregate of 4,442,689 shares of Common Stock to the holders of its Secured Subordinated Notes in consideration for \$1,060,261.27 in interest payable April 1, 1996, including penalty interest thereon. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) with respect to 3,776,285 shares and Regulation S with respect to 666,404 shares.

O On May 16, 1996, the Company issued 72,880 shares of Common Stock to EnCap Investments, L.C. as consideration for a finders fee of 4% (\$22,775) earned in connection with the Regulation S unit offering in Europe conducted by Rauscher Pierce & Clark, as placement agent. The fee was based on the offering price of \$0.3125 per share. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

O On the following dates, the Company issued the following numbers of Common Stock Purchase Warrants to Rauscher Pierce & Clark in consideration for acting as placement agent for Regulation S Units offerings conducted in Europe:

Closing Date	Warrants
December 22, 1995	696,000
March 8, 1996	204,000
April 23, 1996	180,000

The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

O On the following dates the Company issued units, each unit consisting of one share of Common Stock and Stock Purchase Warrants to acquire one share of Common Stock, in connection with a Regulation S unit offering conducted through Rauscher Pierce & Clark, as placement agent, as follows:

Closing Date	Consideration	Common Stock	Warrants
December 22, 1995	\$1,800,000	6,960,000	6,960,000
March 8, 1996	\$ 400,000	2,040,000	2,040,000

The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Regulation S thereof.

- O On February 9, 1996, the Company sold from treasury stock 416,667 units, each unit consisting of one share of Common Stock and one warrant to purchase Common Stock, to Longhorn Partners, at a unit price of \$0.30 per unit. The warrants are exercisable on or before December 28, 2000 at an exercise price of \$0.50 per share. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.
- O On February 9, 1996, the Company issued to EnCap Investments L.C. 50,000 shares of Common Stock held as treasury stock as compensation for assisting the Company in transactions related to the Zhao Dong Block. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.
- O On February 9, 1996, the Company issued 317,264 shares of Common Stock to EnCap Investments, L.C. as consideration for a finders fee of 4% (\$99,145) in connection with the Regulation S unit offering in Europe conducted by Rauscher Pierce & Clark, as placement agent. The fee was based on the offering price of \$0.3125 per share. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.
- O In January 1996, the Company issued 2,063,686 shares of Common Stock to the holders of the Company's Secured Subordinated Notes in respect of \$1,091,184.11 of interest payable October 1, 1995, including penalty interest thereon. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) with respect to 1,754,133 shares and Regulation S with respect to 309,553 shares.
- O In January 1996, the Company issued to Target Benefit Pension Trust (66,667) and Butler Partners (416,667) Common Stock Purchase Warrants exercisable at \$.50 per share and expiring December 28, 2000 in consideration for their agreement to not sell shares of Common Stock acquired by them from certain institutional investors for a 90-day period following the acquisition. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.
- O In January 1996, the Company issued to the Trust of Mitch Leigh FBO David Leigh (216,663) and FBO Rebecca Leigh (216,667) Common Stock Purchase Warrants exercisable at \$.50 per share expiring January 2, 2001 in connection with a January 1996, in consideration for their agreement not to sell shares of common Stock acquired by them from certain institutional investors for a 90-day period following the acquisition. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.
- O On December 6, 1995, the Company sold to John Chandler, from shares of Common Stock reserved for payment to William Wang, 186,896 shares of Common Stock at \$0.35 per share. The proceeds of \$65,414 were applied to reduction of Mr. Wang's receivable with the Company. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.
- O In December 1995, the Company issued to Messrs. Steven Gottlieb (333,334); Ron Savarese (83,334) and Tushar Ramani (333,334) Common Stock Purchase Warrants exercisable at \$.50 per share in consideration for their agreement to not sell shares of Common Stock acquired by them from certain institutional investors for a 90-day period following the acquisition. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.
- O On September 21, 1995, the Company sold 75,000 units, each unit comprised of one share of Common Stock and warrant to

purchase Common Stock to Arthur Rosenbloom for a purchase price of \$32,438 at \$0.4325 per unit. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

0 On September 21, 1995, the Company sold 3,000,000 units, each unit comprised of one share of Common Stock and warrants to purchase Common Stock to Mitch Leigh for a purchase price of \$1,297,500 at \$0.4325 per unit. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

0 On September 21, 1995, the Company issued 50,000 shares of Common Stock and 100,000 warrants to purchase Common Stock to Arthur Rosenbloom in lieu of \$22,125 of cash compensation for placing 3,000,000 units (described below). In February 1997, Mr. Rosenbloom returned these securities with the value of such securities applied to Mr. Rosenbloom's subscription for Series F Preferred Stock issued in February 1997. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof.

0 In August 1995, the Company issued an aggregate of 4,266,861 shares of Common Stock to its certain holders of Series A Preferred Stock in respect of \$1.2 million in dividends payable December 31, 1994 and \$1.3 million in dividends payable June 30, 1995. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemptions provided by Section 4(2) and Regulation S thereof.

0 In June 1995, the Company issued 1,640,602 shares of Common Stock to the holders of the Secured Subordinated Notes in respect of \$1,074,664.07 interest payable April 1, 1995, including penalty interest thereon. The securities issued in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) with respect to 1,394,511 shares and Regulation S with respect to 246,091 shares.

Series A Preferred Stock

During 1990, the Company completed a rights offering of 600,000 units of 50 U.K. Pounds Sterling per "unit," each unit consisting of 1 share of Series A, Cumulative Convertible Preferred Stock, par value \$1.00 per share ("Series A Preferred Stock") and 10 warrants to purchase Common Stock which expired unexercised pursuant to their terms. Until November 10, 1997 the Series A Preferred Stock was listed on the London Stock Exchange, and: ranked senior to Common Stock and pari passu with the Company's Series B, Series E and Series F Preferred Stock with respect to payment of dividends and distributions on liquidation; had a liquidation preference of 50 U.K. Pounds Sterling per share plus accrued and unpaid dividends; was not redeemable in certain limited circumstances; was nonvoting as a class, except in certain circumstances, including the right to cast 21 votes for each share of Series A Preferred Stock held on all resolutions proposed at a meeting of shareholders if, at the date of notice convening a meeting of shareholders, the dividend on the Series A Preferred Stock was six months or more in arrears. The Series A Preferred Stock was convertible, at the holder's option, on the basis of 21 shares of Common Stock for every one share of Series A Preferred Stock, subject to adjustment and bore a cumulative dividend fixed at an annual rate of 4.50 U.K. Pounds Sterling per share, payable semi-annually in cash, or, at the Company's election, in additional shares of Series A Preferred Stock.

During the second quarter of 1996, the Company issued 450,261 shares of Common Stock upon conversion of 21,441 shares of Series A Preferred Stock, pursuant to the terms thereof. During March 1997 an additional 39 shares of Series A Preferred Stock were converted into 819 shares of Common Stock.

During February 1997, the Company sold 13,458 shares of Series A Preferred Stock to accredited investors for \$157,240. The proceeds were used to pay the withholding taxes and fractional interests with respect to the December 31, 1995 dividend payment. The securities issued by the Company in this transaction were not registered under the Securities Act in reliance upon the exemption provided by Section 4(2) thereof. In

March 1997, the Company issued an additional 50,137 shares of Series A Preferred Stock to holders of Series A Preferred Stock in payment of this dividend, therefore fulfilling its obligation for such dividend period. Effective November 10, 1997, the Company recapitalized and combined the Series A Preferred Stock into an aggregate of 726,907 shares of Amended Series A Preferred Stock (including approximately \$900,000 in unpaid dividends declared for June 30, 1995 and accrued and unpaid dividends from June 30, 1996 through November 9, 1997).

Series B Preferred Stock/Amended Series B Preferred Stock

The Series B, Cumulative Convertible Preferred Stock, par value \$1.00 per share (the "Series B Preferred Stock") bears a cumulative fixed dividend at an annual rate of \$10 per share, payable semiannually, and is entitled to 50 votes per share on all matters on which Common Stockholders are entitled to vote and separately as a class on certain matters; ranks senior to the Common Stock and pari passu with the Series A and Series E Preferred Stocks of the Company with respect to the payment of dividends and distributions on liquidation; and has a liquidation preference of \$100 per share plus accumulated dividends.

The Company had the option through May 1994, to pay the dividend in shares of Common Stock, in which case the annual dividend rate was \$12 per share, with the holder being entitled to require the Company to use its best efforts to sell such shares on their behalf and to reimburse such holder for the difference, if any, between such net proceeds and \$11 per share per annum. The Company is currently entitled to pay the redemption price of the Series B Preferred Stock in shares of Common Stock.

Effective June 30, 1994, the terms of the Series B Preferred Stock were amended to permit the Company to issue shares of Common Stock in lieu of cash dividends for so long as the Series B Preferred Stock remains outstanding. In consideration for this amendment, the Series B Preferred Stock was further amended: (i) to reduce the exercise price of the remaining 2.5 million warrants outstanding from \$2.00 to \$1.50 per share and to increase the number of shares of Common Stock covered by such warrants to 3.325 million shares and (ii) to extend the option of the holders to redeem their shares of Series B Preferred Stock, which were only redeemable on the third, fourth and fifth anniversaries of the dates of their issuance and automatically upon exercise of the remaining warrants, upon ninety days notice to the Company, at any time and from time to time, after August 31, 1994, with the Company retaining the right to pay the redemption price in Common Stock.

In May 1995, the holder of the Series B Preferred Stock exercised its redemption rights. In July 1997, the holder commenced a lawsuit against the Company and its then-directors regarding the redemption of the shares. Effective December 31, 1997, the Company and the holder of the Series B Preferred Stock entered into an interim settlement with respect to the action, conditioned upon the closing of the final settlement on or before February 27, 1998 which was later extended to March 6, 1998. The closing of the final settlement took place on March 3, 1998, and on that date the holder of the Series B Preferred Stock sold the stock and accompanying warrants to Arbco Associates, L.P., Kayne Anderson Non-Traditional Investments, L.P., Offense Group Associates, L.P. and Opportunity Associates, L.P., each a California limited partnership whose general partner is KAIM Non-Traditional, L.P. The purchasers exchanged the Series B Preferred Stock and accompanying warrants for an aggregate of 44,465 shares of Amended Series B Preferred Stock and warrants to purchase 250,000 shares of Common Stock, subject to adjustment, and received 2,620 shares of Amended Series B Preferred Stock in payment of all accrued and unpaid dividends on the shares of Series B Preferred Stock exchanged by them.

On June 30, 1998, the Company issued 1,320 shares of Amended Series B Preferred Stock in respect of an in-kind dividend payable on that date.

Series E Preferred Stock

During the third quarter of 1995 and first quarter of 1996, the Company completed a private placement of up to an aggregate of 50,000 shares of a new series of Preferred Stock designated the Series E, Cumulative Convertible Preferred Stock, \$1.00 par value per share ("Series E Preferred Stock"). The Company placed 44,129 shares of Series E Preferred Stock for which it received approximately \$1.9 million in cash and 2.8 million shares of its unregistered Common stock valued at \$1.4 million in consideration. During 1996, the Company issued 2,525 shares of Series E Preferred Stock in payment of the December 31, 1995 and June 30, 1996 dividends. During 1997, the Company issued 5,261 shares of Series E Preferred Stock in payment of the December 31, 1996 and June 30, 1997 dividends. Effective November 10, 1997, the Company recapitalized and combined the Series E Preferred Stock into an aggregate of 63,706 shares of Amended Series A Preferred Stock (including accrued and unpaid dividends paid in kind).

Series F Preferred Stock

In December 1996, XCL authorized the issuance of up to 50,000 shares of a new series of Preferred Stock designated the Series F, Cumulative Convertible Preferred Stock, \$1.00 par value per share ("Series F Preferred Stock") to two existing stockholders of XCL. During February 1997, the Company issued a total of 21,057 shares of Series F Preferred Stock to Mitch Leigh, Abby Leigh and Arthur Rosenbloom in consideration of \$225,000, assignment of 1,408,125 shares of Common Stock and 2,500,000 warrants to purchase Common Stock and the release by the purchasers of certain claims against the Company arising from the Company's inability to perform under the terms of existing agreements. Each share of Series F Preferred Stock is convertible into 400 shares of Common Stock. In July 1997, the Company issued 1,261 shares of Series F Preferred Stock in payment of the June 30, 1997 dividends. In January 1998, the forced conversion feature of the Series F Preferred Stock was amended and effective January 16, 1998, the Company exercised its right to force conversion of the Series F Preferred Stock into 633,893 (post split) shares of Common Stock including accrued and unpaid dividends thereon.

All of the aforementioned securities were issued in transactions intended to qualify for an exemption from registration under the Securities Act afforded by Section 4(2) thereof and Regulation D and/or Regulation S promulgated thereunder.

Item 16. Exhibits and Financial Schedules

The following instruments and documents are included as Exhibits to this Registration Statement. Exhibits incorporated by reference are so indicated by parenthetical information.

Exhibit No.	Exhibit
3.1	Amended and Restated Certificate of Incorporation of the Company. (S)(i)
3.2	Amended and Restated By-Laws of the Company. (A)(i)
4.1	Forms of Common Stock Certificates. (R)(i)
4.2	Form of Warrant dated January 31, 1994 to purchase 2,500,000 shares of Common Stock at an exercise price of \$1.00 per share, subject to adjustment, issued to INCC. (D)(i)
4.3	Form of Registrar and Stock Transfer Agency Agreement, effective March 18, 1991, entered into between the Company and Manufacturers Hanover Trust Company (predecessor to Chemical Bank), whereby Chemical Bank (now known as ChaseMellon Shareholder Services) serves as the Company's Registrar and U.S. Transfer Agent. (E)
4.4	Copy of Warrant Agreement and Stock Purchase Warrant dated March 1, 1994 to purchase 500,000 shares of Common Stock at an exercise price of \$1.00 per share, subject to adjustment, issued to EnCap Investments, L.C. (D)(ii)

4.5 Copy of Warrant Agreement and form of Stock Purchase Warrant dated March 1, 1994 to purchase an aggregate 600,000 shares of Common Stock at an exercise price of \$1.00 per share, subject to adjustment, issued to principals of San Jacinto Securities, Inc. in connection with its financial consulting agreement with the Company. (D)(iii)

4.6 Form of Warrant Agreement and Stock Purchase Warrant dated April 1, 1994, to purchase an aggregate 6,440,000 shares of Common Stock at an exercise price of \$1.25 per share, subject to adjustment, issued to executives of the Company surrendering all of their rights under their employment contracts with the Company. (C)(i)

4.7 Form of Warrant Agreement and Stock Purchase Warrant dated April 1, 1994, to purchase an aggregate 878,900 shares of Common Stock at an exercise price of \$1.25 per share, subject to adjustment, issued to executives of the Company in consideration for salary reductions sustained under their employment contracts with the Company. (C)(ii)

4.8 Form of Warrant Agreement and Stock Purchase Warrant dated April 1, 1994, to purchase 200,000 shares of Common Stock at an exercise price of \$1.25 per share, subject to adjustment, issued to Thomas H. Hudson. (C)(iii)

4.9 Form of Warrant Agreement and Stock Purchase Warrant dated May 25, 1994, to purchase an aggregate 100,000 shares of Common Stock at an exercise price of \$1.25 per share, subject to adjustment, issued to the holders of Purchase Notes B, in consideration of amendment to payment terms of such Notes. (C)(iv)

4.10 Form of Warrant Agreement and Stock Purchase Warrant dated May 25, 1994, to purchase an aggregate 100,000 shares of Common Stock at an exercise price of \$1.25 per share, subject to adjustment, issued to the holders of Purchase Notes B, in consideration for the granting of an option to further extend payment terms of such Notes. (C)(v)

4.11 Form of Purchase Agreement between the Company and each of the Purchasers of Units in the Regulation S Unit Offering conducted by Rauscher Pierce & Clark with closings as follows:

December 22, 1995	116 Units
March 8, 1996	34 Units
April 23, 1996	30 Units (J)(i)

4.12 Form of Warrant Agreement between the Company and each of the Purchasers of Units in the Regulation S Unit Offering conducted by Rauscher Pierce & Clark, as follows:

Closing Date	Warrants	Exercise Price
December 22, 1995	6,960,000	\$.50
March 8, 1996	2,040,000	\$.35
April 23, 1996	1,800,000	\$.35 (J)(ii)

4.13 Form of Warrant Agreement between the Company and Rauscher Pierce & Clark in consideration for acting as placement agent in the Regulation S Units Offering, as follows:

Closing Date	Warrants	Exercise Price
December 22, 1995	696,000	\$.50
March 8, 1996	204,000	\$.35
April 23, 1996	180,000	\$.35 (J)(iii)

4.14 Form of a series of Stock Purchase Warrants issued to Janz Financial Corp. Ltd. dated August 14, 1996, entitling the holders thereof to purchase up to 3,080,000 shares of Common Stock at \$0.25 per share on or before August 13, 2001. (M)(i)

4.15 Stock Purchase Agreement between the Company and Provincial Securities Ltd. dated August 16, 1996, whereby Provincial purchased 1,500,000 shares of Common Stock in a Regulation S transaction. (M)(ii)

4.16 Stock Purchase Warrant issued to Terrenex Acquisitions Corp. dated August 16, 1996, entitling the holder thereof to purchase up to 3,000,000 shares of Common Stock at \$0.25 per share on or before December 31, 1998. (M)(iii)

4.17 Form of a series of Stock Purchase Warrants dated November 26, 1996, entitling the following holders thereto to purchase up to 2,666,666 shares of Common Stock at \$0.125 per share on or before December 31, 1999:

Warrant Holder	Warrants
Opportunity Associates, L.P.	133,333
Kayne Anderson Non-Traditional Investments, L.P.	666,666
Arbco Associates, L.P.	800,000
Offense Group Associates, L.P.	333,333
Foremost Insurance Company	266,667
Nobel Insurance Company	133,333
Evanston Insurance Company	133,333
Topa Insurance Company	200,000 (N)(i)

4.18 Form of a series of Stock Purchase Warrants dated December 31, 1996 (2,128,000 warrants) and January 8, 1997 (2,040,000 warrants) to purchase up to an aggregate of 4,168,000 shares of Common Stock at \$0.125 per share on or before August 13, 2001. (N)(ii)

4.19 Form of Stock Purchase Warrants dated February 6, 1997, entitling the following holders to purchase an aggregate of 1,874,467 shares of Common Stock at \$0.25 per share on or before December 31, 1999:

Warrant Holder	Warrants
Donald A. and Joanne R. Westerberg	241,660
T. Jerald Hanchey	1,632,807 (N)(iii)

4.20 Form of a series of Stock Purchase Warrants dated April 10, 1997, issued as a part of a unit offered with Unsecured Notes of XCL-China Ltd., exercisable at \$0.01 per share on or before April 9, 2002, entitling the following holders to purchase up to an aggregate of 10,092,980 shares of Common Stock:

Warrant Holder	Warrants
Kayne Anderson Offshore L.P.	651,160
Offense Group Associates, L.P.	1,627,900
Kayne Anderson Non-Traditional Investments, L.P.	1,627,900
Opportunity Associates, L.P.	1,302,320
Arbco Associates, L.P.	1,627,900
J. Edgar Monroe Foundation	325,580
Estate of J. Edgar Monroe	976,740
Boland Machine & Mfg. Co., Inc.	325,580
Construction Specialists, Inc. d/b/a Con-Spec, Inc.	1,627,900 (N)(iv)

4.21 Form of Purchase Agreement dated May 13, 1997, between the Company and Jefferies & Company, Inc. (the "Initial Purchaser") with respect to 75,000 Units each consisting of \$1,000 principal amount of 13.5% Senior Secured Notes due May 1, 2004, Series A and one warrant to purchase 1,280 shares of the Company's Common Stock with an exercise price of \$0.2063 per share ("Note Warrants"). (O)(i)

4.22 Form of Purchase Agreement dated May 13, 1997, between the Company and Jefferies & Company, Inc. (the "Initial Purchaser") with respect to 294,118 Units each consisting of one share of Amended Series A, Cumulative Convertible Preferred Stock ("Amended Series A Preferred Stock") and one warrant to purchase 327 shares of the Company's Common Stock with an exercise price of \$0.2063 per share ("Equity Warrants"). (O)(ii)

4.23 Form of Warrant Agreement and Warrant Certificate dated May 20, 1997, between the Company and Jefferies & Company, Inc., as the Initial Purchaser, with respect to the Note

Warrants. (O)(iii)

- 4.24 Form of Warrant Agreement and Warrant Certificate dated May 20, 1997, between the Company and Jefferies & Company, Inc., as the Initial Purchaser, with respect to the Equity Warrants. (O)(iv)
- 4.25 Form of Designation of Amended Series A Preferred Stock dated May 19, 1997. (O)(v)
- 4.26 Form of Amended Series A Preferred Stock certificate. (O)(vi)
- 4.27 Form of Global Unit Certificate for 75,000 Units consisting of 13.5% Senior Secured Notes due May 1, 2004 and Warrants to Purchase Shares of Common Stock. (O)(vii)
- 4.28 Form of Global Unit Certificate for 293,765 Units consisting of Amended Series A Preferred Stock and Warrants to Purchase Shares of Common Stock. (O)(viii)
- 4.29 Form of Warrant Certificate dated May 20, 1997, issued to Jefferies & Company, Inc., with respect to 12,755 warrants to purchase shares of Common Stock of the Company at an exercise price of \$0.2063 per share. (O)(ix)
- 4.30 Form of Stock Purchase Agreement dated effective as of October 1, 1997, between the Company and William Wang, whereby the Company issued 800,000 shares of Common Stock to Mr. Wang, as partial compensation pursuant to a Consulting Agreement. (Q)(i)
- 4.31 Form of Stock Purchase Warrants dated effective as of February 20, 1997, issued to Mr. Patrick B. Collins with respect to 200,000 warrants to purchase shares of Common Stock of the Company at an exercise price of \$0.25 per share, issued as partial compensation pursuant to a Consulting Agreement. (Q)(ii)
- 4.32 Certificate of Amendment to the Certificate of Designation of Series F, Cumulative Convertible Preferred Stock dated January 6, 1998. (R)(ii)
- 4.33 Form of Stock Purchase Warrants dated January 16, 1998, issued to Arthur Rosenbloom (6,389), Abby Leigh (12,600) and Mitch Leigh (134,343) to purchase shares of Common Stock of the Company at an exercise price of \$0.15 per share, on or before December 31, 2001. (R)(iii)
- 4.34 Certificate of Designation of Amended Series B, Cumulative Convertible Preferred Stock dated March 4, 1998. (R)(iv)
- 4.35 Correction to Certificate of Designation of Amended Series B, Cumulative Convertible Preferred Stock dated March 5, 1998. (R)(v)
- 4.36 Second Correction to Certificate of Designation of Amended Series B Preferred Stock dated March 19, 1998. (R)(vi)
- 4.37 Form of Stock certificate representing shares of Amended Series B Preferred Stock. (S)(ii)
- 4.38 Form of Agreement dated March 3, 1998 between the Company and Arbco Associates, L.P., Kayne Anderson Non-Traditional Investments, L.P., Offense Group Associates, L.P. and Opportunity Associates, L.P. for the exchange of Series B Preferred Stock and associated warrants into Amended Series B Preferred Stock and warrants. (S)(iii)
- 4.39 Form of Stock Purchase Warrants dated March 3, 1998 between the Company and the following entities:

Holder	Warrants
Arbco Associates, L.P.	85,107
Kayne Anderson Non-Traditional Investments, L.P.	79,787
Offense Group Associates, L.P.	61,170

- 4.40 Form of Stock Purchase Warrant dated effective as of June 30, 1998, issued to Mr. Patrick B. Collins with respect to 17,000 warrants to purchase shares of Common Stock of the Company at an exercise price of \$3.75 per share, issued as partial compensation pursuant to a Consulting Agreement.*
- 4.41 Form of Warrant Exchange Agreement and Stock Purchase Warrant dated September 15, 1998 to purchase an aggregate of 351,015 shares of Common Stock at an exercise price of \$2.50 per share, subject to adjustment, issued to Cumberland Partners in exchange for certain warrants held by Cumberland Partners.*
- 5.1 Opinion of Satterlee Stephens Burke & Burke LLP (to be filed by Amendment).
- 10.1 Contract for Petroleum Exploration, Development and Production on Zhao Dong Block in Bohai Bay Shallow Water Sea Area of The People's Republic of China between China National Oil and Gas Exploration and Development Corporation and XCL-China Ltd., dated February 10, 1993. (B)
- 10.2 Form of Net Revenue Interest Assignment dated February 23, 1994, between the Company and the purchasers of the Company's Series D, Cumulative Convertible Preferred Stock. (D)(iv)
- 10.3 Modification Agreement for Petroleum Contract on Zhao Dong Block in Bohai Bay Shallow Water Sea Area of The People's Republic of China dated March 11, 1994, between the Company, China National Oil and Gas Exploration and Development Corporation and Apache China Corporation LDC. (D)(v)
- 10.4 Consulting agreement between the Company and Sir Michael Palliser dated April 1, 1994. (F)(i)
- 10.5 Consulting agreement between the Company and Mr. Arthur W. Hummel, Jr. dated April 1, 1994. (F)(ii)
- 10.6 Letter of Intent between the Company and CNPC United Lube Oil Corporation for a joint venture for the manufacture and sale of lubricating oil dated January 14, 1995. (G)(i)
- 10.7 Farmout Agreement dated May 10, 1995, between XCL China Ltd., a wholly owned subsidiary of the Company and Apache Corporation whereby Apache will acquire an additional interest in the Zhao Dong Block, Offshore People's Republic of China. (G)(ii)
- 10.8 Modification Agreement of Non-Negotiable Promissory Note and Waiver Agreement between Lutcher & Moore Cypress Lumber Company and L.M. Holding Associates, L.P. dated June 15, 1995. (H)(i)
- 10.9 Third Amendment to Credit Agreement between Lutcher-Moore Development Corp., Lutcher & Moore Cypress Lumber Company, The First National Bank of Lake Charles, Mary Elizabeth Mecom, The Estate of John W. Mecom, The Mary Elizabeth Mecom Irrevocable Trust, Matilda Gray Stream, The Opal Gray Trust, Harold H. Stream III, The Succession of Edward M. Carmouche, Virginia Martin Carmouche and L.M. Holding Associates, L.P. dated June 15, 1995. (H)(ii)
- 10.10 Second Amendment to Appointment of Agent for Collection and Agreement to Application of Funds between Lutcher-Moore Development Corp., Lutcher & Moore Cypress Lumber Company, L.M. Holding Associates, L.P. and The First National Bank of Lake Charles, dated June 15, 1995. (H)(iii)
- 10.11 Contract of Chinese Foreign Joint Venture dated July 17, 1995, between United Lube Oil Corporation and XCL China Ltd. for the manufacturing and selling of lubricating oil and related products. (H)(iv)
- 10.12 Letter of Intent dated July 17, 1995 between CNPC

United Lube Oil Corporation and XCL Ltd. for discussion of further projects. (H)(v)

- 10.13 Copy of Letter Agreement dated March 31, 1995, between the Company and China National Administration of Coal Geology for the exploration and development of coal bed methane in Liao Ling Tiefa and Shanxi Hanchang Mining Areas. (I)(i)
- 10.14 Memorandum of Understanding dated December 14, 1995, between XCL Ltd. and China National Administration of Coal Geology. (J)(iv)
- 10.15 Form of Fourth Amendment to Credit Agreement between Lutcher-Moore Development Corp., Lutcher & Moore Cypress Lumber Company, The First National Bank of Lake Charles, Mary Elizabeth Mecom, The Estate of John W. Mecom, The Mary Elizabeth Mecom Irrevocable Trust, Matilda Gray Stream, The Opal Gray Trust, Harold H. Stream III, The Succession of Edward M. Carmouche, Virginia Martin Carmouche and L.M. Holding Associates, L.P. dated January 16, 1996. (J)(v)
- 10.16 Form of Third Amendment to Appointment of Agent for Collection and Agreement to application of Funds between Lutcher-Moore Development Corp., Lutcher & Moore Cypress Lumber Company, L.M. Holding Associates, L.P. and The First National Bank of Lake Charles, dated January 16, 1996. (J)(vi)
- 10.17 Copy of Purchase and Sale Agreement dated March 8, 1996, between XCL-Texas, Inc. and Tesoro E&P Company, L.P. for the sale of the Gonzales Gas Unit located in south Texas. (J)(vii)
- 10.18 Copy of Limited Waiver between the Company and Internationale Nederlanden (U.S.) Capital Corporation dated April 3, 1996. (J)(viii)
- 10.19 Copy of Purchase and Sale Agreement dated April 22, 1996, between XCL-Texas, Inc. and Dan A. Hughes Company for the sale of the Lopez Gas Units located in south Texas. (K)
- 10.20 Form of Sale of Mineral Servitude dated June 18, 1996, whereby the Company sold its 75 percent mineral interest in the Phoenix Lake Tract to the Stream Family Limited Partners and Virginia Martin Carmouche Gayle. (L)(i)
- 10.21 Form of Fifth Amendment to Credit Agreement between Lutcher-Moore Development Corp., Lutcher & Moore Cypress Lumber Company, The First National Bank of Lake Charles, Mary Elizabeth Mecom, The Estate of John W. Mecom, The Mary Elizabeth Mecom Irrevocable Trust, Matilda Gray Stream, The Opal Gray Trust, Harold H. Stream III, The Succession of Edward M. Carmouche, Virginia Martin Carmouche and L.M. Holding Associates, L.P. dated August 8, 1996. (N)(v)
- 10.22 Form of Assignment and Sale between XCL Acquisitions, Inc. and purchasers of an interest in certain promissory notes held by XCL Acquisitions, Inc. as follows:
- | Date | Purchaser | Principal Amount | Purchase Price |
|-------------------|--|------------------|----------------|
| November 19, 1996 | Opportunity Associates, L.P. | \$15,627.39 | \$12,499.98 |
| November 19, 1996 | Kayne Anderson Non-Traditional Investments, L.P. | \$78,126.36 | \$62,499.98 |
| November 19, 1996 | Offense Group Associates, L.P. | \$39,063.18 | \$31,249.99 |
| November 19, 1996 | Arbco Associates, L.P. | \$93,743.14 | \$75,000.04 |
| November 19, 1996 | Nobel Insurance Company | \$15,627.39 | \$12,499.98 |
| November 19, 1996 | Evanston Insurance Company | \$15,627.39 | \$12,499.98 |
| November 19, 1996 | Topa Insurance Company | \$23,435.79 | \$18,750.01 |
| November 19, 1996 | Foremost Insurance Company | \$31,249.48 | \$25,000.04 |
| February 10, 1997 | Donald A. and Joanne R. Westerberg | \$25,000.00 | \$28,100.00 |
| February 10, 1997 | T. Jerald Hanchey | \$168,915.74 | \$189,861.29 |
- (N)(vi)
- 10.23 Form of Sixth Amendment to Credit Agreement between

Lutcher-Moore Development Corp., Lutcher & Moore Cypress Lumber Company, The First National Bank of Lake Charles, The Estate of Mary Elizabeth Mecom, The Estate of John W. Mecom, The Mary Elizabeth Mecom Irrevocable Trust, Matilda Gray Stream, The Opal Gray Trust, Harold H. Stream III, The Succession of Edward M. Carmouche, Virginia Martin Carmouche and L.M. Holding Associates, L.P. dated January 28, 1997. (N)(vii)

10.24 Form of Act of Sale between the Company and The Schumacher Group of Louisiana, Inc. dated March 31, 1997, wherein the Company sold its office building. (N)(viii)

10.25 Amendment No. 1 to the May 1, 1995 Agreement with Apache Corp. dated April 3, 1997, effective December 13, 1996. (N)(ix)

10.26 Form of Guaranty dated April 9, 1997 by XCL-China Ltd. in favor of ING (U.S.) Capital Corporation executed in connection with the sale of certain Unsecured Notes issued by XCL-China Ltd. (N)(x)

10.27 Form of First Amendment to Stock Pledge Agreement dated April 9, 1997, between the Company and ING (U.S.) Capital Corporation adding XCL Land Ltd. to the Stock Pledge Agreement dated as of January 31, 1994. (N)(xi)

10.28 Form of Agreement dated April 9, 1997, between ING (U.S.) Capital Corporation, XCL-China and holders of the Senior Unsecured Notes, subordinating the Guaranty granted by XCL-China in favor of ING to the Unsecured Notes. (N)(xii)

10.29 Form of Forbearance Agreement dated April 9, 1997 between the Company and ING (U.S.) Capital Corporation. (N)(xiii)

10.30 Form of a series of Unsecured Notes dated April 10, 1997, between the Company and the following entities:

Note Holder	Principal Amount
Kayne Anderson Offshore, L.P.	\$200,000
Offense Group Associates, L.P.	\$500,000
Kayne Anderson Non-Traditional Investments, L.P.	\$500,000
Opportunity Associates, L.P.	\$400,000
Arbco Associates, L.P.	\$500,000
J. Edgar Monroe Foundation	\$100,000
Estate of J. Edgar Monroe	\$300,000
Boland Machine & Mfg. Co., Inc.	\$100,000
Construction Specialists, Inc. d/b/a Con-Spec, Inc.	\$500,000 (N)(xiv)

10.31 Form of Subscription Agreement dated April 10, 1997, by and between XCL-China, Ltd., the Company and the subscribers of Units, each unit comprised of \$100,000 in Unsecured Notes and 325,580 warrants. (N)(xv)

10.32 Form of Intercompany Subordination Agreement dated April 10, 1997, between the Company, XCL-Texas, Ltd., XCL Land Ltd., The Exploration Company of Louisiana, Inc., XCL-Acquisitions, Inc., XCL-China Coal Methane Ltd., XCL-China LubeOil Ltd., XCL-China Ltd., and holders of the Unsecured Notes. (N)(xvi)

10.33 Form of Indenture dated as of May 20, 1997, between the Company, as Issuer and Fleet National Bank, as Trustee ("Indenture"). (O)(x)

10.34 Form of 13.5% Senior Secured Note due May 1, 2004, Series A issued May 20, 1997 to Jefferies & Company, Inc. as the Initial Purchaser (Exhibit A to the Indenture). (O)(xi)

10.35 Form of Pledge Agreement dated as of May 20, 1997, between the Company and Fleet National Bank, as Trustee (Exhibit C to the Indenture). (O)(xii)

- 10.36 Form of Cash Collateral and Disbursement Agreement dated as of May 20, 1997, between the Company and Fleet National Bank, as Trustee and Disbursement Agent, and Herman J. Schellstede & Associates, Inc., as Representative (Exhibit F to the Indenture). (O)(xiii)
- 10.37 Form of Intercreditor Agreement dated as of May 20, 1997, between the Company, ING (U.S.) Capital Corporation, the holders of the Secured Subordinated Notes due April 5, 2000 and Fleet National Bank, as trustee for the holders of the 13.5% Senior Secured Notes due May 1, 2004 (Exhibit G to the Indenture). (O)(xiv)
- 10.38 Registration Rights Agreement dated as of May 20, 1997, by and between the Company and Jefferies & Company, Inc. with respect to the 13.5% Senior Secured Notes due May 1, 2004 and 75,000 Common Stock Purchase Warrants (Exhibit H to the Indenture). (O)(xv)
- 10.39 Form of Security Agreement, Pledge and Financing Statement and Perfection Certificate dated as of May 20, 1997, by the Company in favor of Fleet National Bank, as Trustee (Exhibit I to the Indenture). (O)(xvi)
- 10.40 Registration Rights Agreement dated as of May 20, 1997, by and between the Company and Jefferies & Company, Inc. with respect to the 9.5% Amended Series A Preferred Stock and Common Stock Purchase Warrants. (O)(xvii)
- 10.41 Form of Restated Forbearance Agreement dated effective as of May 20, 1997, between the Company, XCL-Texas, Inc. and ING (U.S.) Capital Corporation. (O)(xviii)
- 10.42 Form of Seventh Amendment to Credit Agreement between Lutcher-Moore Development Corp., Lutcher & Moore Cypress Lumber Company, The First National Bank of Lake Charles, The Estate of Mary Elizabeth Mecom, The Estate of John W. Mecom, The Mary Elizabeth Mecom Irrevocable Trust, Matilda Gray Stream, The Opal Gray Trust, Harold H. Stream III, The Succession of Edward M. Carmouche, Virginia Martin Carmouche and L.M. Holding Associates, L.P. dated May 8, 1997. (P)(i)
- 10.43 Form of Eighth Amendment to Credit Agreement between Lutcher-Moore Development Corp., Lutcher & Moore Cypress Lumber Company, The First National Bank of Lake Charles, The Estate of Mary Elizabeth Mecom, The Estate of John W. Mecom, The Mary Elizabeth Mecom Irrevocable Trust, Matilda Gray Stream, The Opal Gray Trust, Harold H. Stream III, The Succession of Edward M. Carmouche, Virginia Martin Carmouche and L.M. Holding Associates, L.P. dated July 29, 1997. (P)(ii)
- 10.44 Form of Consulting Agreement dated February 20, 1997, between the Company and Mr. Patrick B. Collins, whereby Mr. Collins performs certain accounting advisory services. (Q)(ii)
- 10.45 Form of Consulting Agreement dated effective as of June 1, 1997, between the Company and Mr. R. Thomas Feters, Jr., a director of the Company, whereby Mr. Feters performs certain geological consulting services. (Q)(iii)
- 10.46 Form of Agreement dated October 1, 1997, between the Company and Mr. William Wang, whereby Mr. Wang performs certain consulting services with respect to its investments in China. (Q)(iv)
- 10.47 Form of Services Agreement dated August 1, 1997, between the Company and Mr. Benjamin B. Blanchet, an officer of the Company. (Q)(v)
- 10.48 Form of Promissory Note dated August 1, 1997, in a principal amount of \$100,000, made by Mr. Benjamin B. Blanchet in favor of the Company. (Q)(vi)
- 10.49 Form of Consulting Agreement dated June 15, 1998, between the Company and Mr. Patrick B. Collins, whereby Mr. Collins performs certain accounting advisory services.*

- 10.50 Amended and Restated Long Term Stock Incentive Plan effective June 1, 1997. (T)(i)
- 10.51 Form of Restricted Stock Award Agreement.*
- 10.52 Form of Nonqualified Stock Option Agreement.*
- 10.53 Appreciation Option for M. W. Miller, Jr. (T)(ii)
- 10.54 Zhang Dong Petroleum Sharing Contract.*
- 21.1 Subsidiaries of the Company
- XCL-China Ltd.
XCL-China LubeOil Ltd.
XCL-China Coal Methane Ltd.
XCL-Cathay Ltd.
XCL-Texas Inc.
XCL-Acquisitions, Inc.
The Exploration Company of Louisiana, Inc.
XCL Land Ltd.
- 23.1 Consent of PricewaterhouseCoopers LLP*
- 23.2 Consent of H.J. Gruy and Associates, Inc.*
- 23.3 Consent of Satterlee Stephens Burke & Burke LLP (included in Exhibit 5.1)
- 24.1 Power of Attorney (U)
- 99.1 Reserve report dated January 1, 1998, prepared by H.J. Gruy and Associates, Inc. (V)

*Filed herewith.

- (A) Incorporated by reference to the Registration Statement on Form 8-B filed on July 28, 1988, where it appears as Exhibits 3(c).
- (B) Incorporated by reference to a Registration Statement on Form S-3 (File No. 33-68552) where it appears as Exhibit 10.1.
- (C) Incorporated by reference to Post-Effective Amendment No. 2 to Registration Statement on Form S-3 (File No. 33-68552) where it appears as: (i) Exhibit 4.29; (ii) Exhibit 4.30; and (iii) through (v) Exhibits 4.34 through 4.36, respectively.
- (D) Incorporated by reference to Amendment No. 1 to Annual Report on Form 10-K filed April 15, 1994, where it appears as: (i) Exhibit 4.32; (ii) Exhibit 4.36; (iii) Exhibit 4.37; (iv) through (v) Exhibit 10.41 through Exhibit 10.47, respectively; and (v) Exhibit 10.49.
- (E) Incorporated by reference to an Annual Report on Form 10-K for the fiscal year ended December 31, 1990, filed April 1, 1991, where it appears as Exhibit 10.27.
- (F) Incorporated by reference to Amendment No. 1 to an Annual Report on Form 10-K/A No. 1 for the fiscal year ended December 31, 1994, filed April 17, 1995, where it appears as: (i) through (ii) Exhibits 10.22 through 10.23, respectively.
- (G) Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, filed May 15, 1995, where it appears as: (i) Exhibit 10.26; and (ii) Exhibit 10.28.
- (H) Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended June 30, 1995, filed August 14, 1995, where it appears as: (i) through (v) Exhibits 10.29 through 10.33, respectively.

- (I) Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, filed November 13, 1995, where it appears as Exhibit 10.35.
- (J) Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1995, filed April 15, 1996, where it appears as: (i) through (iii) Exhibits 4.28 through 4.30, respectively; and (iv) Exhibit 10.31 and (v) through (vii) Exhibits 10.33 through 10.36, respectively.
- (K) Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, filed May 15, 1996, where it appears as Exhibit 10.37.
- (L) Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended June 30, 1996, filed August 14, 1996, where it appears as Exhibit 10.38.
- (M) Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, filed November 14, 1996, where it appears as (i) through (iii) Exhibits 4.32 through 4.34.
- (N) Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1996, filed April 15, 1997, where it appears as (i) through (iii) Exhibits 4.35 through 4.38; (iv) Exhibit 4.40; and (v) through (xvi) Exhibits 10.39 through 10.50.
- (O) Incorporated by reference to Current Report on Form 8-K dated May 20, 1997, filed June 3, 1997, where it appears as (i) through (ix) Exhibits 4.1 through 4.9 and (x) through (xviii) Exhibits 10.51 through 10.59.
- (P) Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, filed August 14, 1997, where it appears as (i) and (ii) Exhibits 10.60 and 10.61.
- (Q) Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, filed November 14, 1997, where it appears as (i) Exhibit 4.52; and (ii) through (vi) Exhibits 10.61 through 10.66.
- (R) Incorporated by reference to Annual Report on Form 10-K for the year ended December 31, 1997, filed April 15, 1998, where it appears as (i) Exhibit 4.1; (ii) through (vi) Exhibits 4.32 through 4.36, respectively.
- (S) Incorporated by reference to Amendment No. 1 to Annual Report on Form 10-K for the year ended December 31, 1997, filed April 22, 1998, where it appears as (i) Exhibit 3.1; and (ii) through (iv) Exhibits 4.37 through 4.39, respectively.
- (T) Incorporated by reference to Proxy Statement dated November 20, 1997 filed November 6, 1997, where it appears as (i) Appendix C; and (ii) Appendix D, respectively.
- (U) Incorporated by reference to Registration Statement on Form S-1 filed May 6, 1998, where it appears as Exhibit 24.1.
- (V) Incorporated by reference to Amendment No. 2 to the Annual Report on Form 10-K for the year ended December 31, 1997, filed on October 23, 1998, where it appears as Exhibit

Item 17. Undertakings

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high and of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the undersigned registrant pursuant to the provisions described under Item 14 above, or otherwise, the undersigned registrant has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the undersigned registrant of expenses incurred or paid by a director, officer or controlling person of the undersigned registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the undersigned registrant will, unless, in the opinion of its counsel, the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 2 to the Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Lafayette, State of Louisiana on the 23rd day of October, 1998.

XCL LTD.

/s/ Benjamin B. Blanchet
By: _____
Benjamin B. Blanchet
Executive Vice President

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 2 to the Registration Statement on Form S-1 has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
-----	-----	----

/s/ Marsden W. Miller, Jr.

----- Marsden W. Miller, Jr.	Chairman of the Board and Chief Executive Officer (principal executive officer) and Acting Chief Financial Officer (principal financial and accounting officer)	October 23, 1998
/s/ John T. Chandler -----		
John T. Chandler	Vice Chairman of the Board	October 23, 1998
/s/ Benjamin B. Blanchet -----		
Benjamin B. Blanchet	Executive Vice President and Director	October 23, 1998
/s/ R. Thomas Feters, Jr. *		
----- R. Thomas Feters, Jr.	Director	October 23, 1998
/s/ Fred Hofheinz* -----		
Fred Hofheinz	Director	October 23, 1998
/s/ Francis J. Reinhardt, Jr. * -----		
Francis J. Reinhardt, Jr.	Director	October 23, 1998
/s/ Arthur W. Hummel, Jr. * -----		
Arthur W. Hummel, Jr.	Director	October 23, 1998
/s/ Michael Palliser* -----		
Sir Michael Palliser	Director	October 23, 1998

Peter F. Ross	Director	-----, 1998

* By Benjamin B. Blanchet, Attorney In Fact

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XCL LTD.

WARRANT CERTIFICATE

THE WARRANTS REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY OTHER FEDERAL OR STATE SECURITIES OR BLUE SKY LAWS OF ANY OTHER DOMESTIC OR FOREIGN JURISDICTION. NO OFFER, SALE, TRANSFER, PLEDGE OR OTHER DISPOSITION (COLLECTIVELY, A "DISPOSAL") OF THE WARRANTS REPRESENTED BY THIS CERTIFICATE MAY BE MADE UNLESS (i) REGISTERED UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES OR BLUE SKY LAWS OR (ii) XCL LTD. (THE "COMPANY") RECEIVES A WRITTEN OPINION OF UNITED STATES LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO IT TO THE EFFECT THAT SUCH DISPOSAL IS EXEMPT FROM SUCH REGISTRATION REQUIREMENTS.

No. PBC-9

WARRANTS TO PURCHASE
COMMON STOCK OF XCL LTD.

Initial Issuance on June 30, 1998
Void after 5:00 p.m. New York Time, June 30, 2003

THIS CERTIFIES THAT, for value received, PATRICK B. COLLINS or registered assigns (the "Holder") is the registered holder of warrants (the "Warrants") to purchase from XCL Ltd., a Delaware corporation (the "Company"), at any time or from time to time beginning on June 30, 1998 and until 5:00 p.m., New York time, on June 30, 2003 (the "Expiration Date"), subject to the conditions set forth herein, at the initial exercise price of \$3.75 per share (the "Initial Exercise Price"), subject to adjustment as set forth herein (the "Exercise Price"), up to an aggregate of seventeen thousand (17,000) fully paid and non-assessable common shares, par value \$0.01 per share (the "Common Stock"), of the Company (the "Shares") upon surrender of this warrant certificate (the "Certificate") and payment of the Exercise Price multiplied by the number of Shares in respect of which Warrants are then being exercised (the "Purchase Price") at the principal office of the Company presently located at 110 Rue Jean Lafitte, Lafayette, LA 70508, United States of America.

1. Exercise of Warrants.

(a) The exercise of any Warrants represented by this Certificate is subject to the conditions set forth below in paragraph 4, "Compliance with U.S. Securities Laws."

(b) Subject to compliance with all of the conditions set forth herein, the Holder shall have the right at any time and from time to time after June 30, 1998 to purchase from the Company the number of Shares which the Holder may at the time be entitled to purchase pursuant hereto, upon surrender of this Certificate to the Company at its principal office, together with the form of election to purchase attached hereto duly completed and signed, and upon payment to the Company of the Purchase Price.

No Warrant may be exercised after 5:00 p.m., New York time, on the Expiration Date, after which time all Warrants evidenced hereby shall be void.

(c) Payment of the Purchase Price shall be made in cash, by wire transfer of immediately available funds or by certified check or banker's draft payable to the order of the Company, or any combination of the foregoing.

(d) The Warrants represented by this Certificate are exercisable at the option of the Holder, in whole or in part (but not as to fractional Shares). Upon the exercise of less than all of the Warrants evidenced by this Certificate, the Company shall forthwith issue to the Holder a new certificate of like tenor representing the number of unexercised Warrants.

(e) Subject to compliance with all of the conditions set forth herein, upon surrender of this Certificate to the Company at its principal office, together with the form of election to purchase attached hereto duly completed and signed, and upon payment of the Purchase Price, the Company shall cause to be delivered promptly to or upon the written order of the Holder and in such name or names as the Holder may designate, a share certificate or share certificates for the number of whole Shares purchased upon the exercise of the Warrants. Such share certificate or share certificates representing the Shares shall be free of any restrictive legend. The Company shall ensure that no "stop transfer" or similar instruction or order with respect to the Shares purchased upon exercise of the Warrants shall be in effect at ChaseMellon Shareholders Services, IRG Plc or any successor transfer agent for the Common Stock of the Company (the "Transfer Agent").

2. Elimination of Fractional Interests. The Company shall not be required to issue certificates representing fractions of Shares and shall not be required to issue scrip in lieu of fractional interests. Instead of any fractional Shares that would otherwise be issuable to the Holder, the Company shall pay to the Holder a cash adjustment in respect of such fractional interest in an amount equal to such fractional interest of the then-current Market Price per share (as defined in Section 7(f) hereof).

3. Payment of Taxes. The Company will pay all documentary stamp taxes, if any, attributable to the issuance and delivery of the Shares upon the exercise of the Warrants;

provided, however, that the Company shall not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any Warrant or any Shares in any name other than that of the Holder, which transfer taxes shall be paid by the Holder, and until payment of such transfer taxes, if any, the Company shall not be required to issue such Shares.

4. Compliance with U.S. Securities Laws. The Warrants have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or any other federal or state securities or blue sky laws. No offer, sale, transfer, pledge or other disposition (collectively, a "Disposal") of the Warrants represented by this Certificate may be made unless (i) registered under the Act and any applicable State securities or blue sky laws or (ii) the Company receives a written opinion of United States legal counsel in form and substance satisfactory to it to the effect that such Disposal is exempt from such registration requirements..

5. Transfer of Warrants.

(a) The Warrants shall be transferable only on the books of the Company maintained at the Company's principal office upon delivery of this Certificate with the form of assignment attached hereto duly completed and signed by the Holder or by its duly authorized attorney or representative, accompanied by proper evidence of succession, assignment or authority to transfer. The Company may, in its discretion, require, as a condition to any transfer of Warrants, a signature guarantee, which may be provided by a commercial bank or trust company, by a broker or dealer which is a member of the National Association of Securities Dealers, Inc., or by a member of a United States national securities exchange, The Securities and Futures Authority Limited in the United Kingdom, or The London Stock Exchange Limited in London, England. Upon any registration of transfer, the Company shall deliver a new warrant certificate or warrant certificates of like tenor and evidencing in the aggregate a like number of Warrants to the person entitled thereto in exchange for this Certificate, subject to the limitations provided herein, without any charge except for any tax or other governmental charge imposed in connection therewith.

(b) Notwithstanding anything in this Certificate to the contrary, neither any of the Warrants nor any of the Shares issuable upon exercise of any of the Warrants shall be transferable, except upon compliance by the Holder with any applicable provisions of the Securities Act and any applicable state securities or blue sky laws.

6. Exchange and Replacement of Warrant Certificates; Loss or Mutilation of Warrant Certificates.

(a) This Certificate is exchangeable without cost, upon the surrender hereof by the Holder at the principal office of the Company, for new warrant certificates of like tenor and date representing in the aggregate the right to purchase the same number of Shares in such denominations as shall be designated by the Holder at the time of such surrender. Any transfer not made in such compliance shall be null and void and shall be given no effect hereunder.

(b) Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Certificate and, in case of such loss, theft or destruction, of indemnity and security reasonably satisfactory to it, and reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Certificate, if mutilated, the Company will make and deliver a new warrant certificate of like tenor, in lieu thereof.

7. Initial Exercise Price; Adjustment of Exercise Price and Number of Shares.

(a) The Warrants initially are exercisable at the Initial Exercise Price per Share, subject to adjustment from time to time as provided herein. No adjustments will be made for cash

dividends, if any, paid to shareholders of record prior to the date on which the Warrants are exercised.

(b) In case the Company shall at any time after the date of this Certificate (i) declare a dividend on the shares of Common Stock payable in shares of Common Stock, or (ii) subdivide or split up the outstanding shares of Common Stock, the amount of Shares to be delivered upon exercise of any Warrant will be appropriately increased so that the Holder will be entitled to receive the amount of Shares that such Holder would have owned immediately following such actions had such Warrant been exercised immediately prior thereto, and the Exercise Price in effect immediately prior to the record date for such dividend or the effective date for such subdivision shall be proportionately decreased, all effective immediately after the record date for such dividend or the effective date for such subdivision or split up. Such adjustments shall be made successively whenever any event listed above shall occur.

(c) In case the Company shall at any time after the date of this Certificate combine the outstanding shares of Common Stock into a smaller number of shares the amount of Shares to be delivered upon exercise of any Warrant will be appropriately decreased so that the Holder will be entitled to receive the amount of Shares that such Holder would have owned immediately following such action had such Warrant been exercised immediately prior thereto, and the Exercise Price in effect immediately prior to the record date for such combination shall be proportionately increased, effective immediately after the record date for such combination. Such adjustment shall be made successively whenever any such combinations shall occur.

(d) In the event that the Company shall at any time after the date of this Certificate (i) issue or sell any shares of Common Stock (other than the Shares) or securities convertible or exchangeable into Common Stock without consideration or at a price per share (or having a conversion price per share, if a security convertible into Common Stock) less than the Market Value per share of Common Stock (as defined in Section 7(f) hereof), or (ii) issue or sell options, rights or warrants to subscribe for or purchase Common Stock at a price per share less than the Market Price per share of Common Stock (as defined in Section 7(f) hereof), the Exercise Price to be in effect after the date of such issuance shall be determined by multiplying the Exercise Price in effect on the day immediately preceding the relevant issuance or record date, as the case may be, used in determining such Market Value or Market Price, by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding on such issuance or record date plus the number of shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so to be issued or to be offered for subscription or purchase (or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such Market Value or Market Price, as the case may be, and the denominator of which shall be the number of shares of Common Stock outstanding on such issuance or record date plus the number of additional shares of Common Stock to be issued or to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible); such adjustment shall become effective immediately after the close of business on such issuance or record date; provided, however, that no such adjustment shall be made for the issuance of (s) options to purchase shares of Common Stock granted pursuant to the Company's employee stock option plans approved by shareholders of the Company (and the shares of Common Stock issuable upon exercise of such options) (provided that option exercise prices shall not be less than the Market Value of the Common Stock (as defined in Section 7(f) hereof) on the date of the grant of such options), (t) the Company's warrants to purchase shares of Common Stock (and the shares of Common Stock issuable upon exercise of such warrants), outstanding on the date hereof, (u) the Company's shares of Amended Series A, Cumulative Convertible Preferred Stock (and the shares of such Preferred Stock issued in lieu of dividend payments thereunder and the shares of Common Stock issuable upon conversion or redemption of such Preferred Stock), outstanding on the date hereof, or (v) the Company's shares of Amended Series B, Cumulative Convertible Preferred Stock (and the shares of Common Stock issued in lieu of dividend payments thereunder and the shares of Common Stock issuable upon conversion or redemption of such Preferred Stock),

outstanding on the date hereof. In case such subscription price may be paid in a consideration, part or all of which shall be in a form other than cash, the value of such consideration shall be as determined reasonably and in good faith by the Board of Directors of the Company. Shares of Common Stock owned by or held for the account of the Company or any wholly-owned subsidiary shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever the date of such issuance is fixed (which date of issuance shall be the record date for such issuance if a record date therefor is fixed); and, in the event that such shares or options, rights or warrants are not so issued, the Exercise Price shall again be adjusted to be the Exercise Price which would then be in effect if the date of such issuance had not been fixed.

(e) In case the Company shall make a distribution to all holders of Common Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing corporation) of evidences of its indebtedness, securities other than Common Stock or assets (other than cash dividends or cash distributions payable out of consolidated earnings or earned surplus or dividends payable in Common Stock), the Exercise Price to be in effect after such date of distribution shall be determined by multiplying the Exercise Price in effect on the date immediately preceding the record date for the determination of the shareholders entitled to receive such distribution by a fraction, the numerator of which shall be the Market Price per share of Common Stock (as defined in Section 7(f) hereof) on such date, less the then-fair market value (as determined reasonably and in good faith by the Board of Directors of the Company of the portion of the assets, securities or evidences of indebtedness so to be distributed applicable to one share of Common Stock and the denominator of which shall be such Market Price per share of Common Stock, such adjustment to be effective immediately after the distribution resulting in such adjustment. Such adjustment shall be made successively whenever a date for such distribution is fixed (which date of distribution shall be the record date for such distribution if a record date therefor is fixed); and, if such distribution is not so made, the Exercise Price shall again be adjusted to be the Exercise Price which would then be in effect if such date of distribution had not been fixed.

(f) For the purposes of any computation under this Section 7, the "Market Price per share" of Common Stock on any date shall be deemed to be the average of the closing bid price for the 20 consecutive trading days ending on the record date for the determination of the shareholders entitled to receive any rights, dividends or distributions described in this Section 7, and the "Market Value per share" of Common Stock on any date shall be deemed to be the closing bid price on the date of the issuance of the securities for which such computation is being made, as reported on the principal United States securities exchange on which the Common Stock is listed or admitted to trading or if the Common Stock is not then listed on any United States stock exchange, the average of the closing sales price on each such day during such 20 day period, in the case of the Market Price computation, or on such date of issuance, in the case of the Market Value computation, in the over-the-counter market as reported by the National Association of Securities Dealers' Automated Quotation System ("NASDAQ"), or, if not so reported, the average of the closing bid and asked prices on each such day during such 20 day period in the case of the Market Price computation, or on such date of issuance, in the case of the Market Value computation, as reported in the "pink sheets" published by the National Quotation Bureau, Inc. or any successor thereof, or, if not so quoted, the average of the middle market quotations for such 20 day period in the case of the Market Price computation, or on such date of issuance, in the case of the Market Value computation, as reported on the daily official list of the prices of stock listed on The London Stock Exchange Limited ("The Stock Exchange Daily Official List"). "Trading day" means any day on which the Common Stock is available for trading on the applicable securities exchange or in the applicable securities market. In the case of Market Price or Market Value computations based on The Stock Exchange Daily Official List, the Market Price or Market Value shall be converted into United States dollars at the then spot market exchange rate of pounds sterling (UK) into United States dollars as quoted by Chemical Bank or any successor bank thereto on the

date of determination. If a quotation of such exchange rate is not so available, the exchange rate shall be the exchange rate of pounds sterling in United States dollars as quoted in The Wall Street Journal on the date of determination.

(g) No adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least \$.02 in such price; provided that any adjustments which by reason of this Section 7(g) are not required to be made shall be carried forward and taken into account in any subsequent adjustment; provided, further that such adjustment shall be made in all events (regardless of whether or not the amount thereof or the cumulative amount thereof amounts to \$.02 (or more) upon the happening of one or more of the events specified in Sections 7(b), (c) or (i). All calculations under this Section 7 shall be made to the nearest cent.

(h) If at any time, as a result of an adjustment made pursuant to Section 7(b) or (c) hereof, the Holder of any Warrant thereafter exercised shall become entitled to receive any shares of the Company other than shares of Common Stock, thereafter the number of such other shares so receivable upon exercise of any Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Shares contained in this Section 7, and the provisions of this Certificate with respect to the Shares shall apply on like terms to such other shares.

(i) In the case of (1) any capital reorganization of the Company, or of (2) any reclassification of the shares of Common Stock (other than a subdivision or combination of outstanding shares of Common Stock), or (3) any consolidation or merger of the Company, or (4) the sale, lease or other transfer of all or substantially all of the properties and assets of the Company as, or substantially as, an entirety to any other person or entity, each Warrant shall after such capital reorganization, reclassification of the shares of Common Stock, consolidation, or sale be exercisable, upon the terms and conditions specified in this Certificate, for the number of shares of stock or other securities or assets to which a holder of the number of Shares purchasable (immediately prior to the effectiveness of such capital reorganization, reclassification of shares of Common Stock, consolidation, or sale) upon exercise of a Warrant would have been entitled upon such capital reorganization, reclassification of shares of Common Stock, consolidation, merger or sale; and in any such case, if necessary, the provisions set forth in this Section 7 with respect to the rights thereafter of the Holder shall be appropriately adjusted (as determined reasonably and in good faith by the Board of Directors of the Company) so as to be applicable, as nearly as may reasonably be, to any shares of stock or other securities or assets thereafter deliverable on the exercise of a Warrant. The Company shall not effect any such consolidation or sale, unless prior to or simultaneously with the consummation thereof, the successor corporation, partnership or other entity (if other than the Company) resulting from such consolidation or the corporation, partnership or other entity purchasing such assets or the appropriate entity shall assume, by written instrument, the obligation to deliver to the Holder of each Warrant the shares of stock, securities or assets to which, in accordance with the foregoing provisions, such Holder may be entitled and all other obligations of the Company under this Certificate. For purposes of this Section 7(i) a merger to which the Company is a party but in which the Common Stock outstanding immediately prior thereto is changed into securities of another corporation shall be deemed a consolidation with such other corporation being the successor and resulting corporation.

(j) Irrespective of any adjustments in the Exercise Price or the number or kind of shares purchasable upon the exercise of the Warrant, Warrant Certificates theretofore or thereafter issued may continue to express the same Exercise Price per share and number and kind of Shares as are stated on the Warrant Certificates initially issuable pursuant to this Warrant.

(k) The Company may, in its sole discretion, at any time and from time to time before the Expiration Date, reduce the Exercise Price to any lower amount by notice to the Holders, in the manner provided in Section 12.

8. Notices to Warrant Holders. Nothing contained in this Certificate shall be construed as conferring upon the Holder the right to vote or to consent or to receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights whatsoever as a stockholder of the Company. If, however, at any time prior to the exercise or expiration of the Warrants, any of the following events shall occur:

- (i) the holders of shares of the Common Stock shall be entitled to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment of such dividend or distribution on the books of the Company; or
- (ii) the Company shall offer to all the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchangeable for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or
- (iii) a dissolution, liquidation or winding-up of the Company (other than in connection with a consolidation or merger) or a sale of all or substantially all of its property, assets and business as an entirety shall be approved by the Company's Board of Directors; or
- (iv) there shall be any capital reorganization or reclassification of the capital stock of the Company (other than a change in the number of outstanding shares of Common Stock or a change in the par value of the Common Stock), or consolidation or merger of the Company with another entity;

then, in any one or more of said events, the Company shall give written notice of such event at least fifteen (15) days prior to the date fixed as a record date or the date of closing the transfer books for the determination of the stockholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, options or warrants, or entitled to vote on such proposed dissolution, liquidation, winding-up or sale. Such notice shall specify such record date or the date of closing the transfer books, as the case may be. Failure to give such notice or any defect therein shall not affect the validity of any action taken in connection with the declaration or payment of any such dividend or distribution, or the issuance of any convertible or exchangeable securities or subscription rights, options or warrants, or any proposed dissolution, liquidation, winding-up or sale.

9. Reservation and Listing of Securities.

(a) The Company covenants and agrees that at all times during the period after June 30, 1998, the Company shall reserve and keep available, free from preemptive rights, out of its authorized and unissued shares of Common Stock or out of its authorized and issued shares of Common Stock held in its treasury, solely for the purpose of issuance upon exercise of the Warrants, such number of Shares as shall be issuable upon the exercise of the Warrants.

(b) The Company covenants and agrees that, upon exercise of the Warrants in accordance with their terms and payment of the Purchase Price, all Shares issued or sold upon such exercise shall not be subject to the preemptive rights of any stockholder and when issued and delivered in accordance with the terms of the Warrants shall be duly and validly issued, fully paid and non-assessable, and the Holder shall receive good and valid title to such Shares free and clear from any adverse claim (as defined in the applicable Uniform Commercial Code), except such as have been created by the Holder.

(c) As long as the Warrants shall be outstanding, the Company shall use its reasonable efforts to cause all Shares

issuable upon the exercise of the Warrants to be quoted by or listed on any national securities exchange or other securities listing service on which the shares of Common Stock of the Company are then listed.

10. Survival. All agreements, covenants, representations and warranties herein shall survive the execution and delivery of this Certificate and any investigation at any time made by or on behalf of any party hereto and the exercise, sale and purchase of the Warrants and the Shares (and any other securities or properties) issuable on exercise hereof.

11. Remedies. The Company agrees that the remedies at law of the Holder, in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms hereof, may not be adequate and such terms may, in addition to and not in lieu of any other remedy, be specifically enforced by a decree of specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

12. Registered Holder. The Company may deem and treat the registered Holder hereof as the absolute owner of this Certificate and the Warrants represented hereby (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise of the Warrants, of any notice, and of any distribution to the Holder hereof, and for all other purposes, and the Company shall not be affected by any notice to the contrary.

13. Notices. All notices and other communications from the Company to the Holder of the Warrants represented by this Certificate shall be in writing and shall be deemed to have been duly given if and when personally delivered, two (2) business days after sent by overnight courier or ten (10) days after mailed by certified, registered or international recorded mail, postage prepaid and return receipt requested, or when transmitted by telefax, telex or telegraph and confirmed by sending a similar mailed writing, if to the Holder, to the last address of such Holder as it shall appear on the books of the Company maintained at the Company's principal office or to such other address as the Holder may have specified to the Company in writing.

14. Headings. The headings contained herein are for convenience of reference only and are not part of this Certificate.

Governing Law. This Certificate shall be deemed to be a contract made under the laws of the State of Delaware and for all purposes shall be governed by, and construed in accordance with, the laws of said state, without regard to the conflict of laws provisions thereof.

IN WITNESS WHEREOF, the Company has caused this Amended and Restated Warrant Certificate to be duly executed by its duly authorized officers under its corporate seal.

Dated: June 30, 1998

XCL LTD.

By: _____
Name: _____
Title: _____

Attest:

Corporate Secretary

XCL LTD.

if such Holder desires to exercise Warrants)

The undersigned registered Holder hereby irrevocably elects to exercise the right of purchase represented by this Warrant Certificate for, and to purchase, _____ Shares hereunder, and herewith tenders in payment for such Shares cash, a wire transfer, a certified check or a banker's draft payable to the order of XCL Ltd. in the amount of _____, all in accordance with the terms hereof. The undersigned requests that a share certificate for such Shares be registered in the name of and delivered to:

(Please Print Name and Address)

and, if said number of Shares shall not be all the Shares purchasable hereunder, that a new Warrant Certificate for the balance remaining of the Shares purchasable hereunder be registered in the name of the undersigned Warrant Holder or his Assignee as below indicated and delivered to the address stated below.

DATED: _____

Name of Warrant Holder:
(Please Print)

Address:

Signature:

Note: The above signature must correspond in all respects with the name of the Holder as specified on the face of this Warrant Certificate, without alteration or enlargement or any change whatsoever, unless the Warrants represented by this Warrant Certificate have been assigned.

XCL LTD.

FORM OF ASSIGNMENT

(To be executed by the registered Holder if such Holder desires to transfer the Warrant Certificate)

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers to:

(Please Print Name and Address of Transferee)

Warrants to purchase up to _____ Shares represented by this Warrant Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____, Attorney, to transfer such Warrants on the books of the Company, with full power of substitution in the premises. The undersigned requests that if said number of Shares shall not be all of the Shares purchasable under this Warrant Certificate that a new Warrant Certificate for the balance remaining of the Shares purchasable under this Warrant Certificate be registered in the name of the undersigned Warrant Holder and delivered to the registered address of said Warrant Holder.

DATED:

Signature of registered Holder:

Note: The above signature must correspond in all respects with the name of the Holder as specified on the

face of this Warrant Certificate, without alteration or enlargement or any change whatsoever. The above signature of the registered Holder must be guaranteed by a commercial bank or trust company, by a broker or dealer which is a member of the National Association of Securities Dealers, Inc. or by a member of a national securities exchange, The Securities and Futures Authority Limited in the United Kingdom or The London Stock Exchange Limited in London, England. Notarized or witnessed signatures are not acceptable as guaranteed signatures.

Signature Guaranteed:

Authorized Officer

Name of Institution

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September 15, 1998

XCL Ltd.
110 Rue Jean Lafitte, 2nd Floor
Lafayette, LA 70508

Ladies and Gentlemen:

In connection with the proposed exchange (the "Exchange") of warrants, each dated May 20, 1998 (the "Old Warrants"), to purchase an aggregate of 351,015 shares of the common stock, par value \$.01 per share ("Common Stock"), of XCL Ltd. (the "Company") for one new warrant to purchase an aggregate of 351,015 shares of Common Stock (the "Warrant Shares") at an exercise price of \$2.50 per share, subject to adjustment (the "Exercise Price"), which expires on September 30, 1998, in substantially the form attached hereto as Exhibit A (the "New Warrant", and together with the Warrant Shares, the "Securities"), we confirm that:

1. We have received a copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997; the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1998 and the Preliminary Prospectus dated May 8, 1998 as filed with the Securities and Exchange Commission (the "SEC") as part of the Registration Statement on Form S-1 (File No. 333-51937) (the "Preliminary Prospectus") (which Preliminary Prospectus is subject to SEC comment and amendment) and such other information as we deem necessary in order to make our investment decision to participate in the Exchange and to acquire the Securities. We acknowledge that we have read and agreed to the matters stated in the sections entitled "Disclosure Regarding Forward Looking Information", "Risk Factors" and "Selling Security Holders" of such Preliminary Prospectus which are incorporated by reference herein and that we are aware of the high degree of risk attendant to an investment in the Securities. We have had the opportunity to ask questions and receive answers from the management of the Company concerning the terms and conditions of the Exchange and the Securities and the Company, its business, financial condition and prospects and to obtain any additional information which the Company possesses or can acquire without unreasonable effort or expense that is necessary to verify the accuracy of the

information that has been furnished to us.

2. We understand that any subsequent transfer of the Securities is subject to certain restrictions and conditions set forth in the New Warrant and the undersigned agrees to be bound by, and not to resell, pledge or otherwise transfer the Securities except in compliance with, such restrictions and conditions and the Securities Act of 1933, as amended (the "Securities Act") and all applicable State securities laws and the rules and regulations promulgated thereunder, including, without limitation, Regulation M promulgated under the Securities Act.
3. We understand that the Exchange and the issuance of the Securities have not been registered under the Securities Act, and that the Securities may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as permitted in the following sentence. We agree, on our own behalf and on behalf of any accounts for which we are acting as hereinafter stated, that if we should sell any Securities, we will do so only (i) to the Company or any subsidiary thereof, (ii) inside the United States in accordance with Rule 144A under the Securities Act to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) that, prior to such transfer furnishes (or has furnished on its behalf by a U.S. broker-dealer) to the Warrant Agent (as defined in the New Warrant) if other than the Company, and to the Company, a signed letter containing certain representations, warranties and agreements relating to the restrictions on transfer of the Securities (the form of which letter can be obtained from the Company), (iii) outside the United States in accordance with Rule 904 of Regulation S promulgated under the Securities Act, (iv) pursuant to an exemption from registration provided by Rule 144 under the Securities Act (if available), or (v) pursuant to an effective registration statement under the Securities Act, and we further agree to provide to any person purchasing any of the Securities from us a notice advising such purchaser that resales of the Securities are restricted as stated herein and in the New Warrant.
4. We understand that, on any proposed resale of the Securities, and on any proposed exercise of the New Warrant by a "foreign person", we (or such foreign person) will be required to furnish to the Company and the Warrant Agent (if other than the Company), such certifications, legal opinions and other information as they may reasonably require to confirm that the proposed sale or exercise complies with the foregoing restrictions. We further understand that the Securities acquired by us will bear a legend to the foregoing effect.
5. We are an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act) and have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of our investment in the Securities, and we and any accounts for which we are acting are each able to bear the economic risk of our or their investment, as the case may be.
6. We are acquiring the Securities for our account or for one or more accounts (each of which is an institutional "accredited investor") as to each of which we exercise sole investment discretion.
7. We acknowledge and agree that the New Warrant will be issued against delivery of the Old Warrants (or evidence satisfactory to the Company of their guaranteed delivery) free and clear of all liens, charges and encumbrances. We acknowledge and agree that any income tax consequences attributable to the Exchange and the acquisition of the Securities shall be borne by the acquirer of the Securities. We represent

and warrant to the Company that no broker-dealer or other third party has been retained to act as agent for or represent the undersigned in connection with the Exchange and that no commission or other remuneration is being paid or given, or is required to be paid or given, directly or indirectly, in connection with the Exchange. We agree, and each subsequent holder of the New Warrant will agree to execute and deliver to the Company all such further notices, documentation and certifications as may be required to be filed under applicable securities and Federal and State income tax laws, rules and regulations relating or attributable to the Exchange, the issuance of the Securities or as the Company may reasonably request

8. The Company hereby represents, warrants and agrees with you as follows: (i) in the event that on or prior to March 15, 1999 the Company makes an offer to the holders of warrants of the same class or issue as the Old Warrants to either (x) exchange their warrants for new warrants with an exercise price which is lower than the Exercise Price of the New Warrant or (y) reduce the exercise price of their warrants, or increase the number of shares subject to such warrants, or both, either by amendment of the terms of such warrants or pursuant to the unilateral powers granted the Company under the terms of such warrants, resulting in such warrant holders being offered the right to acquire shares of Common Stock at an effective price per share below the Exercise Price of the New Warrant, then the Company shall offer the holder of the New Warrant the right to acquire that number of shares of Common Stock at a purchase price of \$.01 per share which would result in an effective reduction in the Exercise Price of the New Warrant so that it equals such reduced effective exercise price offered such other warrant holders; and (ii) the Warrant Shares shall be considered "Registrable Securities", for purposes of that certain Registration Rights Agreement dated May 20, 1997 (the benefits of which the Company hereby agrees to extend to the holder of the New Warrant), which the Company hereby agrees to include in the Registration Statement on Form S-1 referred to in paragraph 1 above pursuant to the "Piggy-Back Registration Rights" provisions of Section 8(a) of such Agreement which are incorporated by reference herein.

You, the Warrant Agent and others are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

CUMBERLAND PARTNERS

By: _____

Name: _____

Title: _____

XCL LTD. HEREBY AFFIRMS
THE REPRESENTATIONS,
WARRANTIES AND AGREEMENTS
SET FORTH IN PARAGRAPH 8, ABOVE.

XCL LTD.
BY: _____
ITS: Executive Vice President
DATE: September 16, 1998

EXHIBIT A

XCL LTD.
WARRANT CERTIFICATE

THE WARRANTS REPRESENTED BY THIS CERTIFICATE AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE OF THE WARRANTS (THE "SHARES") HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY OTHER SECURITIES OR BLUE SKY LAWS OF ANY OTHER DOMESTIC OR FOREIGN JURISDICTION. NO OFFER, SALE, TRANSFER, PLEDGE OR OTHER DISPOSITION (COLLECTIVELY, A "DISPOSAL") OF THE WARRANTS REPRESENTED BY THIS CERTIFICATE AND THE SHARES MAY BE MADE UNLESS (i) REGISTERED UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES OR BLUE SKY LAWS OR (ii) XCL LTD. (THE "COMPANY") RECEIVES A WRITTEN OPINION OF UNITED STATES LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO IT TO THE EFFECT THAT SUCH DISPOSAL IS EXEMPT FROM SUCH REGISTRATION REQUIREMENTS.

No.

WARRANTS TO PURCHASE
COMMON STOCK OF XCL LTD.

Initial Issuance on September 15, 1998

Void after 5:00 p.m. New York Time, September 30, 1998

THIS CERTIFIES THAT, for value received, Cumberland Partners or registered assigns (the "Holder") is the registered holder of warrants (the "Warrants") to purchase from XCL Ltd., a Delaware corporation (the "Company"), at any time or from time to time beginning on September 15, 1998 and until 5:00 p.m., New York time, on September 30, 1998 (the "Expiration Date"), subject to the conditions set forth herein, at the initial exercise price of \$2.50 per share (the "Initial Exercise Price"), subject to adjustment as set forth herein (the "Exercise Price"), up to an aggregate of Three Hundred Fifty One Thousand Fifteen (351,015) fully paid and non-assessable common shares, par value \$0.01 per share (the "Common Stock"), of the Company (the "Shares", and together with the Warrants, the "Securities") upon surrender of this warrant certificate (the "Certificate") and payment of the Exercise Price multiplied by the number of Shares in respect of which Warrants are then being exercised (the "Purchase Price") at the principal office of the Company presently located at 110 Rue Jean Lafitte, Lafayette, LA 70508, United States of America.

1. Exercise of Warrants.

(a) The exercise of any Warrants represented by this Certificate is subject to the conditions set forth below in Section 3, "Compliance with Securities Laws."

(b) Subject to compliance with all of the conditions set forth herein, the Holder shall have the right at any time and from time to time after September 15, 1998 to purchase from the Company the number of Shares which the Holder may at the time be entitled to purchase pursuant hereto, upon surrender of this Certificate to the Company at its principal office, together with the form of election to purchase attached hereto duly completed and signed, and upon payment to the Company of the Purchase Price.

No Warrant may be exercised after 5:00 p.m., New York time, on the Expiration Date, after which time all Warrants evidenced hereby shall be void.

(c) Payment of the Purchase Price shall be made in cash, by wire transfer of immediately available funds or by certified check or banker's draft payable to the order of the Company, or any combination of the foregoing.

(d) The Warrants represented by this Certificate are exercisable at the option of the Holder, in whole or in part (but not as to fractional Shares). Upon the exercise of less than all of the Warrants evidenced by this Certificate, the Company shall forthwith issue to the Holder a new certificate of like tenor representing the number of unexercised Warrants.

(e) Subject to compliance with all of the conditions set forth herein, upon surrender of this Certificate to the Company at its principal office, together with the form of

election to purchase attached hereto duly completed and signed, and upon payment of the Purchase Price, the Company shall cause to be delivered promptly to or upon the written order of the Holder and in such name or names as the Holder may designate, a share certificate or share certificates for the number of whole Shares purchased upon the exercise of the Warrants. Such share certificate or share certificates representing the Shares shall be free of any restrictive legend. The Company shall ensure that no "stop transfer" or similar instruction or order with respect to the Shares purchased upon exercise of the Warrants shall be in effect at ChaseMellon Shareholders Services, IRG Plc or any successor transfer agent for the Common Stock of the Company (the "Transfer Agent").

2. Payment of Taxes. The Company will pay all documentary stamp taxes, if any, attributable to the issuance and delivery of the Securities; provided, however, that the Company shall not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any Securities or any Shares in any name other than that of the Holder, which transfer taxes shall be paid by the Holder, and until payment of such transfer taxes, if any, the Company shall not be required to issue such Securities.

3. Compliance with Securities Laws. The Securities have not been, and are not required to be, registered under the United States Securities Act of 1933, as amended (the "Act"), or any other securities or blue sky laws of any other domestic or foreign jurisdiction (collectively, the "Securities Laws"). No offer, sale, transfer, pledge or other disposition (collectively, a "Disposal") of the Securities may be made unless (i) registered under the Act and any other applicable Securities Laws or (ii) the Company receives a written opinion of United States legal counsel in form and substance satisfactory to it to the effect that such Disposal is exempt from such registration requirements.

4. Transfer of Warrants.

(a) The Warrants shall be transferable only on the books of the Company maintained at the Company's principal office upon delivery of this Certificate with the form of assignment attached hereto duly completed and signed by the Holder or by its duly authorized attorney or representative, accompanied by proper evidence of succession, assignment or authority to transfer. The Company may, in its discretion, require, as a condition to any transfer of Warrants, a signature guarantee, which may be provided by a commercial bank or trust company, by a broker or dealer which is a member of the National Association of Securities Dealers, Inc., or by a member of a United States national securities exchange, The Securities and Futures Authority Limited in the United Kingdom, or The London Stock Exchange Limited in London, England. Upon any registration of transfer, the Company shall deliver a new warrant certificate or warrant certificates of like tenor and evidencing in the aggregate a like number of Warrants to the person entitled thereto in exchange for this Certificate, subject to the limitations provided herein, without any charge except for any tax or other governmental charge imposed in connection therewith.

(b) Notwithstanding anything in this Certificate to the contrary, neither any of the Warrants nor any of the Shares issuable upon exercise of any of the Warrants shall be transferable, except upon compliance by the Holder with any applicable provisions of the Act and any other applicable Securities Laws.

5. Exchange and Replacement of Warrant
Certificates; Loss or Mutilation of
Warrant Certificates.

(a) This Certificate is exchangeable without cost, upon the surrender hereof by the Holder at the principal office of the Company, for new warrant certificates of like tenor and date representing in the aggregate the right to purchase the same number of Shares in such denominations as shall be designated by

the Holder at the time of such surrender. Any transfer not made in such compliance shall be null and void and shall be given no effect hereunder.

(b) Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Certificate and, in case of such loss, theft or destruction, of indemnity and security reasonably satisfactory to it, and reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Certificate, if mutilated, the Company will make and deliver a new warrant certificate of like tenor, in lieu thereof.

6. Adjustment of Exercise Price and Number of Shares Issuable.

The number and kind of Shares purchasable upon the exercise of each Warrant and the Exercise Price shall be subject to adjustment from time to time as follows:

(a) Stock Splits, Combinations, etc. In case the Company shall hereafter (A) pay a dividend or make a distribution on its Common Stock in shares of its capital stock (whether shares of Common Stock or of capital stock of any other class), (B) subdivide its outstanding shares of Common Stock or (C) combine its outstanding shares of Common Stock into a smaller number of shares, the (a) number of Shares purchasable upon exercise of each Warrant immediately prior thereto shall be adjusted so that the holder of any Warrant thereafter exercised shall be entitled to receive the number of Shares which such holder would have owned immediately following such action had such Warrant been exercised immediately prior thereto, and (b) the Exercise Price shall be adjusted by multiplying such Exercise Price immediately prior to such adjustment by a fraction, the numerator of which shall be the number of Shares purchasable upon the exercise of each Warrant immediately prior to such adjustment, and the denominator of which shall be the number of Shares purchasable immediately thereafter. An adjustment made pursuant to this Section 6(a) shall become effective immediately after the record date in the case of a dividend and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification. If, as a result of an adjustment made pursuant to this Section 6(a), the holder of any Warrant thereafter exercised shall become entitled to receive shares of two or more classes of capital stock of the Company, the Board of Directors of the Company (whose determination shall be conclusive) shall determine the allocation of the adjusted Exercise Price between or among shares of such classes of capital stock.

(b) Reclassification, Combinations, Mergers, etc. In case of any reclassification or change of outstanding shares of Common Stock (other than as set forth in paragraph (a) above and other than a change in par value, or from par value to no par value, or from no par value to par value), or in case of any consolidation or merger of the Company with or into another corporation or other entity (other than a merger in which the Company is the continuing corporation and which does not result in any reclassification or change of the then outstanding shares of Common Stock or other capital stock of the Company (other than a change in par value, or from par value to no par value, or from no par value to par value or as a result of a subdivision or combination)) or in case of any sale or conveyance to another corporation or other entity of all or substantially all of the assets of the Company, then, as a condition of such reclassification, change, consolidation, merger, sale or conveyance, the Company or such a successor or purchasing corporation or other entity, as the case may be, shall forthwith make lawful and adequate provision whereby the holder of such Warrant then outstanding shall have the right thereafter to receive on exercise of such Warrant the kind and amount of shares of stock and other securities and property receivable upon such reclassification, change, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock issuable upon exercise of such Warrant immediately

prior to such reclassification, change, consolidation, merger, sale or conveyance and enter into a warrant amendment so providing. Such provisions shall include provision for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 6. If the issuer of securities deliverable upon exercise of Warrants under the supplemental warrant agreement is an affiliate of the formed, surviving or transferee corporation or other entity, that issuer shall join in the supplemental warrant agreement. The above provisions of this Section 6 (b) shall similarly apply to successive reclassifications and changes of shares of Common Stock and to successive consolidations, mergers, sales or conveyances.

In case of any such reclassification, merger, consolidation or disposition of assets, the successor or acquiring corporation or other entity (if other than the Company) shall expressly assume the due and punctual observance and performance of each and every covenant and condition of this Warrant to be performed and observed by the Company and all the obligations and liabilities hereunder, subject to such modifications as may be deemed appropriate (as determined by resolution of the Board of Directors of the Company) in order to provide for adjustments of shares of the Common Stock for which each Warrant is exercisable, which shall be as nearly equivalent as practicable to the adjustments provided for in this Section 6. The foregoing provisions of this Section 6(b) shall similarly apply to successive reorganizations, reclassifications, mergers, consolidations or dispositions of assets.

(c) Issuance of Options or Convertible Securities. In the event the Company shall, at any time or from time to time after the date hereof, issue, sell, distribute or otherwise grant in any manner (including by assumption) to all holders of the Common Stock any rights to subscribe for or to purchase, or any warrants or options for the purchase of, Common Stock or any stock or securities convertible into or exchangeable for Common Stock (any such rights, warrants or options being herein called "Options" and any such convertible or exchangeable stock or securities being herein called "Convertible Securities") or any Convertible Securities (other than upon exercise of any Option), whether or not such Options or the rights to convert or exchange such Convertible Securities are immediately exercisable, and the price per share at which Common Stock is issuable upon the exercise of such Options or upon the conversion or exchange of such Convertible Securities (determined by dividing (i) the aggregate amount, if any, received or receivable by the Company as consideration for the issuance, sale, distribution or granting of such Options or any such Convertible Security, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise of all such Options or upon conversion or exchange of all such Convertible Securities, plus, in the case of Options to acquire Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the conversion or exchange of all such Convertible Securities, by (ii) the total maximum number of shares of Common Stock issuable upon the exercise of all such Options or upon the conversion or exchange of all such Convertible Securities or upon the conversion or exchange of all Convertible Securities issuable upon the exercise of all Options) shall be less than the current Market Price per Share of Common Stock (determined pursuant to Section 6(f)) on the record date for the issuance, sale, distribution or granting of such Options (any such event being herein called a "Distribution") then, effective upon such Distribution, the Exercise Price shall be reduced to the price (calculated to the nearest 1/1,000 of one cent) determined by multiplying the Exercise Price in effect immediately prior to such Distribution by a fraction, the numerator of which shall be the sum of (i) the number of shares of Common Stock outstanding (exclusive of any treasury shares) immediately prior to such Distribution multiplied by the current Market Price per Share of Common Stock (determined pursuant to Section 6(f)) on the date of such Distribution plus (ii) the

consideration, if any, received by the Company upon such Distribution, and the denominator of which shall be the product of (A) the total number of shares of Common Stock outstanding (exclusive of any treasury shares) immediately after such Distribution multiplied by (B) the current Market Price per Share of Common Stock (determined pursuant to Section 6(f)) on the record date for such Distribution. For purposes of the foregoing, the total maximum number of shares of Common Stock issuable upon exercise of all such Options or upon the conversion or exchange of all such Convertible Securities or upon the conversion or exchange of the total maximum amount of the Convertible Securities issuable upon the exercise of all such Options shall be deemed to have been issued as of the date of such Distribution and thereafter shall be deemed to be outstanding and the Company shall be deemed to have received as consideration therefor such price per share, determined as provided above. Except as provided in Sections 6(i) and (j) below, no additional adjustment of the Exercise Price shall be made upon the actual exercise of such Options or upon conversion or exchange of the Convertible Securities or upon the conversion or exchange of the Convertible Securities issuable upon the exercise of such Options. Notwithstanding anything in this Section 6 to the contrary, neither the payment of dividends on any shares of Amended Series A Preferred Stock in additional shares of Amended Series A Preferred Stock, nor the issuance of shares of Common Stock on conversion of the Amended Series A Preferred Stock, nor the issuance of shares of Common Stock in payment of any dividends due on any shares of Preferred Stock of the Company outstanding on the Issue Date, nor on redemption of any such shares, nor in payment of any interest due under the Company's Secured Subordinated Notes, nor upon exercise of any options granted to management pursuant to an employee benefit plan approved by stockholders of the Company, nor upon the exercise of any outstanding Warrants (including Warrants issued in the Concurrent Debt Offering (as defined below)), shall require any adjustment to either the Exercise Price of the Warrants or the number of shares issuable upon exercise of the Warrants.

(d) Dividends and Distributions. In the event the Company shall, at any time or from time to time after the date hereof, distribute to all the holders of Common Stock any dividends or other distribution of cash, evidences of its indebtedness, other securities or other properties or assets (in each case other than (i) dividends payable in Common Stock, Options or Convertible Securities and (ii) any cash dividend from current or retained earnings), or any options, warrants or other rights to subscribe for or purchase any of the foregoing, then (A) the Exercise Price shall be decreased to a price determined by multiplying the Exercise Price then in effect by a fraction, the numerator of which shall be the current Market Price per Share of Common Stock (determined pursuant to Section 6(f)) on the record date for such distribution less the sum of (X) the cash portion, if any, of such distribution per share of Common Stock outstanding (exclusive of any treasury shares) on the record date for such distribution plus (Y) the then fair market value (as determined in good faith by the Board of Directors of the Company) per share of Common Stock outstanding (exclusive of any treasury shares) on the record date for such distribution of that portion, if any, of such distribution consisting of evidences of indebtedness, other securities, properties, assets (other than cash), options, warrants or subscription or purchase rights, and the denominator of which shall be such current market price per share of Common Stock and (B) the number of Shares purchasable upon the exercise of each Warrant shall be increased to a number determined by multiplying the number of shares of Common Stock so purchasable immediately prior to the record date for such distribution by a fraction, the numerator of which shall be the Exercise Price in effect immediately prior to the adjustment required by clause (A) of this sentence and the denominator of which shall be the Exercise Price in effect immediately after such adjustment. The adjustments required by this Section 6(d) shall be made whenever any such distribution occurs retroactive to the record date for the determination of stockholders entitled to receive such distribution.

(e) Self-Tenders. In case of the consummation of a tender or exchange offer (other than an odd-lot tender offer) made by the Company or any subsidiary of the Company for all or any portion of the Common Stock to the extent that the cash and value of any other consideration included in such payment per share of Common Stock exceeds the first reported sales price per share of Common Stock on the trading day next succeeding the last time tenders or exchanges may be made pursuant to the tender or exchange offer (the "Expiration Time"), the Exercise Price shall be reduced so that the same shall equal the price determined by multiplying the Exercise Price in effect immediately prior to the Expiration Time by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding (including any tendered or exchanged shares) at the Expiration Time multiplied by the first reported sales price of the Common Stock on the trading day next succeeding the Expiration Time, and the denominator of which shall be the sum of (A) the fair market value (determined by the Board of Directors of the Company, whose determination shall be conclusive and described in a resolution of the Board of Directors) of the aggregate consideration payable to stockholders based on the acceptance (up to any maximum specified in the terms of the tender or exchange offer) of all shares validly tendered or exchanged and not withdrawn as of the Expiration Time (the shares deemed so accepted, up to any such maximum, being referred to as the "Purchased Shares") and (B) the product of the number of shares of Common Stock outstanding (less any Purchased Shares) on the Expiration Time and the first reported sales price of the Common Stock on the trading day next succeeding the Expiration Time, such reduction to become effective immediately prior to the opening of business on the day following the Expiration Time.

(f) Current Market Price. For the purpose of any computation of current market price, the current "Market Price per Share of Common Stock" at any date shall be (x) for purposes of Section 7 herein (dealing with fractional interests), the closing price on the trading day immediately prior to the exercise of the applicable Warrant and (y) in all other cases, the average of the daily closing prices for the shorter of (i) the 20 consecutive trading days ending on the last full trading day on the exchange or market specified in the second succeeding sentence prior to the Time of Determination (as defined below) and (ii) the period commencing on the date next succeeding the first public announcement of the issuance, sale, distribution or granting in question through such last full trading day prior to the Time of Determination. The term "Time of Determination" as used herein shall be the time and date of the earlier to occur of (A) the date as of which the current market price is to be computed and (B) the last full trading day on such exchange or market before the commencement of "ex-dividend" trading in the Common Stock relating to the event giving rise to the adjustment required by paragraph (a), (b), (c) or (d). The closing price for any day shall be the last reported sale price regular way or, in case no such reported sale takes place on such day, the average of the closing bid and asked prices regular way for such day, in each case (1) on the principal national securities exchange on which the shares of Common Stock are listed or to which such shares are admitted to trading or (2) if the Common Stock is not listed or admitted to trading on a national securities exchange, in the over-the-counter market as reported by the Nasdaq NMS or any comparable system or (3) if the Common Stock is not listed on the Nasdaq NMS or a comparable system, as furnished by two members of the American Stock Exchange, Inc. selected from time to time in good faith by the Board of Directors of the Company for that purpose. In the absence of all of the foregoing, or if for any other reason the current Market Price per Share cannot be determined pursuant to the foregoing provisions of this Section 6(f), the current Market Price per Share shall be the fair market value thereof as determined in good faith by the Board of Directors of the Company.

(g) Certain Distributions. If the Company shall pay a dividend or make any other distribution payable

in Options or Convertible Securities, then, for purposes of paragraph (c) above, such Options or Convertible Securities shall be deemed to have been issued or sold without consideration.

(h) Consideration Received. If any shares of Common Stock, Options or Convertible Securities shall be issued, sold or distributed for a consideration other than cash, the amount of the consideration other than cash received by the Company in respect thereof shall be deemed to be the then fair market value of such consideration (as determined in good faith by the Board of Directors of the Company). If any Options shall be issued in connection with the issuance and sale of other securities of the Company, together comprising one integral transaction in which no specific consideration is allocated to such Options by the parties thereto, such Options shall be deemed to have been issued without consideration; provided, however, that if such Options have an exercise price equal to or greater than the current Market Price per Share of the Common Stock on the date of issuance of such Options, then such Options shall be deemed to have been issued for consideration equal to such exercise price.

(i) Deferral of Certain Adjustments. No adjustment to the Exercise Price (including the related adjustment to the number of Shares purchasable upon the exercise of each Warrant) shall be required hereunder unless such adjustment, together with other adjustments carried forward as provided below, would result in an increase or decrease of at least one percent (1%) of the Exercise Price; provided, however, that any adjustments which by reason of this paragraph (i) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. No adjustment need be made for a change in the par value of the Common Stock. All calculations under this Section 6 shall be made to the nearest 1/1,000 of one cent or to the nearest 1/1,000th of a Share, as the case may be.

(j) Changes in Options and Convertible Securities. If the exercise price provided for in any Options referred to in Section 6(c) above, the additional consideration, if any, payable upon the conversion or exchange of any Convertible Securities referred to in Section 6(c) above, or the rate at which any Convertible Securities referred to in Section 6(c) above are convertible into or exchangeable for Common Stock shall change at any time (other than under or by reason of provisions designed to protect against dilution upon an event which results in a related adjustment pursuant to this Section 6), the Exercise Price then in effect and the number of Shares purchasable upon the exercise of each Warrant shall forthwith be readjusted (effective only with respect to any exercise of any Warrant after such readjustment) to the Exercise Price and number of Shares so purchasable that would then be in effect had the adjustment made upon the issuance, sale, distribution or granting of such Options or Convertible Securities been made based upon such changed purchase price, additional consideration or conversion rate, as the case may be, but only with respect to such Options and Convertible Securities as then remain outstanding.

(k) Expiration of Options and Convertible Securities. If, at any time after any adjustment to the number of Shares purchasable upon the exercise of each Warrant shall have been made pursuant to Sections 6(c) or (j) above or this Section 6(k), any Options or Convertible Securities shall have expired unexercised, the number of such Shares so purchasable shall, upon such Expiration, be readjusted and shall thereafter be such as they would have been had they been originally adjusted (or had the original adjustment not been required, as the case may be) as if (i) the only shares of Common Stock deemed to have been issued in connection with such Options or Convertible Securities were the shares of Common Stock, if any, actually issued or sold upon the exercise of such Options or Convertible Securities and (ii) such shares of Common Stock, if any, were issued or sold for the consideration actually received by the Company upon such exercise plus the aggregate consideration, if any, actually received by the Company for

the issuance, sale, distribution or granting of all such Options or Convertible Securities, whether or not exercised; provided, however, that no such readjustment shall have the effect of decreasing the number of such shares so purchasable by an amount (calculated by adjusting such decrease to account for all other adjustments made pursuant to this Section 6 following the date of the original adjustment referred to above) in excess of the amount of the adjustment initially made in respect of the issuance, sale, distribution or granting of such Options or Convertible Securities.

(l) Other Adjustments. In the event that at any time, as a result of an adjustment made pursuant to this Section 6, holders of Warrants shall become entitled to receive any securities of the Company other than shares of Common Stock, including shares of Amended Series A Preferred Stock as provided in Section 6(o) below, thereafter the number of such other securities so receivable upon exercise of each Warrant and the Exercise Price applicable to such exercise shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Shares of Common Stock contained in this Section 6.

(m) Other Action Affecting Common Stock. In case at any time or from time to time the Company shall take any action in respect of its outstanding shares of Common Stock, then the number of Shares for which each Warrant is exercisable shall be adjusted in such manner as may be equitable in the circumstances. If the Company shall at any time and from time to time issue or sell (i) any shares of any class of common stock other than Common Stock, (ii) any evidences of its indebtedness, shares of stock or other securities which are convertible into or exchangeable for such shares of common stock, with or without the payment of additional consideration in cash or property, or (iii) any warrants or other rights to subscribe for or purchase any such shares of common stock or any such evidences, shares of stock or other securities referred to in (ii) above, then in each such case such issuance shall be deemed to be of, or in respect of, Common Stock for purposes of this Section 6; provided, however, that, without limiting the generality of the foregoing, if the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend payable in, or other distribution of, common stock other than Common Stock, including shares of non-voting common stock, then the number of Shares for which each Warrant is exercisable immediately after the occurrence of any such event shall be adjusted to equal the aggregate number of shares of such common stock and of Common Stock which a record holder of the same number of Shares for which each Warrant is exercisable immediately prior to the occurrence of such event would own or be entitled to receive after the happening of such event.

(n) Statement of Warrant Certificates. Irrespective of any adjustment in the number or kind of Shares issuable upon the exercise of each Warrant or the Exercise Price, Warrant Certificates theretofore or thereafter issued shall continue to express the same number and kind of Shares and Exercise Price as are stated in the Warrant Certificates initially issuable pursuant to this Agreement.

(o) Increased Shares or Reduced Exercise Price. From time to time, the Company may, for a period of not less than 20 days, in its discretion, increase the number of Shares purchasable upon the exercise of this Warrant, without making any adjustment to the Exercise Price, or reduce the Exercise Price, without making any adjustment to the number of Shares purchasable upon the exercise of this Warrant. The Company hereby represents, warrants and agrees with you as follows: (i) in the event that on or prior to the expiration of this Warrant the Company makes an offer to the holders of warrants dated May 20, 1997 issued pursuant to a Warrant Agreement dated such date ("Old Warrants") to either (x) exchange their Old Warrants for new warrants with an exercise price which is lower than the Exercise Price of this Warrant or (y) reduce the exercise price of the Old Warrants, or increase the number of shares subject to such Warrants, or both,

either by amendment of the terms of such Warrants or pursuant to the unilateral powers granted the Company under the terms of such Warrants, resulting in such Warrant holders being offered the right to acquire shares of Common Stock at an effective price per share below the Exercise Price of this Warrant, then the Company shall offer the holder of this Warrant the right to acquire that number of shares of Common Stock at a purchase price of \$.01 per share which would result in an effective reduction in the Exercise Price of this Warrant so that it equals such reduced effective exercise price offered such holders of Old Warrants; and (ii) the Warrant Shares shall be considered "Registrable Securities", for purposes of that certain Registration Rights Agreement dated May 20, 1997 (the benefits of which the Company hereby agrees to extend to the holder of this Warrant), which the Company hereby agrees to include in the Registration Statement on Form S-1 filed by the Company with the Securities and Exchange Commission on May 8, 1998 (File No. 333-51937) pursuant to the "Piggy-Back Registration Rights" provisions of Section 8(a) of such Agreement which are incorporated by reference herein.

7. Fractional Interest. The Company shall not be required to issue fractional shares of Common Stock on the exercise of Warrants. If more than one Warrant shall be presented for exercise in full at the same time by the same holder, the number of full shares of Common Stock which shall be issuable upon such exercise shall be computed on the basis of the aggregate number of shares of Common Stock acquirable on exercise of the Warrants so presented. If any fraction of a share of Common Stock would, except for the provisions of this Section 7, be issuable on the exercise of any Warrant, the Company shall either (i) pay an amount in cash calculated by the Company to equal the then current Market Price per Share (determined pursuant to Section 6(f)) multiplied by such fraction computed to the nearest whole cent or (ii) aggregate all such fractional shares into a whole number of shares and sell such aggregated fractional shares on behalf of the holders entitled thereto in a public or private sale and distribute the net cash proceeds from the sale thereof to such holders pro rata. While the Company will endeavor to use its best efforts to secure the best available sales price for such aggregated fractional shares, such price shall not necessarily be the highest price obtainable for such shares. Holders of Warrants, by their acceptances of this Warrant Certificate, expressly waive any and all rights to receive any fraction of a share of Common Stock or a stock certificate or scrip representing a fraction of a share of Common Stock.

8. Notices to Warrant Holders. Nothing contained in this Certificate shall be construed as conferring upon the Holder the right to vote or to consent or to receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights whatsoever as a stockholder of the Company. If, however, at any time prior to the exercise or expiration of the Warrants, any of the following events shall occur:

- (i) the holders of shares of the Common Stock shall be entitled to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment of such dividend or distribution on the books of the Company; or
- (ii) the Company shall offer to all the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchangeable for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or
- (iii) a dissolution, liquidation or winding-up of the Company (other than in connection with a consolidation or merger) or a sale of all or substantially all of its property, assets and business as an entirety shall be approved by the Company's Board of Directors; or
- (iv) there shall be any capital reorganization or

reclassification of the capital stock of the Company (other than a change in the number of outstanding shares of Common Stock or a change in the par value of the Common Stock), or consolidation or merger of the Company with another entity;

then, in any one or more of said events, the Company shall give written notice of such event at least fifteen (15) days prior to the date fixed as a record date or the date of closing the transfer books for the determination of the stockholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, options or warrants, or entitled to vote on such proposed dissolution, liquidation, winding-up or sale. Such notice shall specify such record date or the date of closing the transfer books, as the case may be. Failure to give such notice or any defect therein shall not affect the validity of any action taken in connection with the declaration or payment of any such dividend or distribution, or the issuance of any convertible or exchangeable securities or subscription rights, options or warrants, or any proposed dissolution, liquidation, winding-up or sale.

9. Reservation and Listing of Securities.

The Company covenants and agrees that at all times during the period after September 15, 1998, the Company shall reserve and keep available, free from preemptive rights, out of its authorized and unissued shares of Common Stock or out of its authorized and issued shares of Common Stock held in its treasury, solely for the purpose of issuance upon exercise of the Warrants, such number of Shares as shall be issuable upon the exercise of the Warrants.

(b) The Company covenants and agrees that, upon exercise of the Warrants in accordance with their terms and payment of the Purchase Price, all Shares issued or sold upon such exercise shall not be subject to the preemptive rights of any stockholder and when issued and delivered in accordance with the terms of the Warrants shall be duly and validly issued, fully paid and non-assessable, and the Holder shall receive good and valid title to such Shares free and clear from any adverse claim (as defined in the applicable Uniform Commercial Code), except such as have been created by the Holder.

(c) As long as the Warrants shall be outstanding, the Company shall use its reasonable efforts to cause all Shares issuable upon the exercise of the Warrants to be quoted by or listed on any national securities exchange or other securities listing service on which the shares of Common Stock of the Company are then listed.

10. Survival. All agreements, covenants, representations and warranties herein shall survive the execution and delivery of this Certificate and any investigation at any time made by or on behalf of any party hereto and the exercise, sale and purchase of the Warrants and the Shares (and any other securities or properties) issuable on exercise hereof.

11. Remedies. The Company agrees that the remedies at law of the Holder, in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms hereof, may not be adequate and such terms may, in addition to and not in lieu of any other remedy, be specifically enforced by a decree of specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

12. Registered Holder. The Company may deem and treat the registered Holder hereof as the absolute owner of this Certificate and the Warrants represented hereby (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise of the Warrants, of any notice, and of any distribution to the Holder hereof, and for all other purposes, and the Company shall not be affected by any notice to the contrary.

13. Notices. All notices and other communications from the Company to the Holder of the Warrants represented by this Certificate shall be in writing and shall be deemed to have been duly given if and when personally delivered, two (2) business days after sent by overnight courier or ten (10) days after mailed by certified, registered or international recorded mail, postage prepaid and return receipt requested, or when transmitted by telefax, telex or telegraph and confirmed by sending a similar mailed writing, if to the Holder, to the last address of such Holder as it shall appear on the books of the Company maintained at the Company's principal office or to such other address as the Holder may have specified to the Company in writing.

14. Headings. The headings contained herein are for convenience of reference only and are not part of this Certificate.

15. Governing Law. This Certificate shall be deemed to be a contract made under the laws of the State of Delaware and for all purposes shall be governed by, and construed in accordance with, the laws of said state, without regard to the conflict of laws provisions thereof.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed by its duly authorized officers under its corporate seal.

Dated: September 15, 1998

XCL LTD.

By: _____
Name: _____
Title: _____

Attest:

Corporate Secretary

XCL LTD.

FORM OF ELECTION TO PURCHASE
(To be executed by the registered Holder
if such Holder desires to exercise Warrants)

The undersigned registered Holder hereby irrevocably elects to exercise the right of purchase represented by this Warrant Certificate for, and to purchase, Shares hereunder, and herewith tenders in payment for such Shares cash, a wire transfer, a certified check or a banker's draft payable to the order of XCL Ltd. in the amount of , all in accordance with the terms hereof. The undersigned requests that a share certificate for such Shares be registered in the name of and delivered to:

(Please Print Name and Address)

and, if said number of Shares shall not be all the Shares purchasable hereunder, that a new Warrant Certificate for the balance remaining of the Shares purchasable hereunder be registered in the name of the undersigned Warrant Holder or his Assignee as below indicated and delivered to the address stated below.

DATED:

Name of Warrant Holder:
(Please Print)

Address:

Signature:

Note: The above signature must correspond in all respects with the name of the Holder as specified on the face of this Warrant Certificate, without alteration or enlargement or any change whatsoever, unless the Warrants represented by this Warrant Certificate have been assigned.

XCL LTD.

FORM OF ASSIGNMENT

(To be executed by the registered Holder if such Holder desires to transfer the Warrant Certificate)

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers to:

(Please Print Name and Address of Transferee)

Warrants to purchase up to _____ Shares represented by this Warrant Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____, Attorney, to transfer such Warrants on the books of the Company, with full power of substitution in the premises. The undersigned requests that if said number of Shares shall not be all of the Shares purchasable under this Warrant Certificate that a new Warrant Certificate for the balance remaining of the Shares purchasable under this Warrant Certificate be registered in the name of the undersigned Warrant Holder and delivered to the registered address of said Warrant Holder.

DATED:

Signature of registered Holder:

Note: The above signature must correspond in all respects with the name of the Holder as specified on the face of this Warrant Certificate, without alteration or enlargement or any change whatsoever. The above signature of the registered Holder must be guaranteed by a commercial bank or trust company, by a broker or dealer which is a member of the National Association of Securities Dealers, Inc. or by a member of a national securities exchange, The Securities and Futures Authority Limited in the United Kingdom or The London Stock Exchange Limited in London, England. Notarized or witnessed signatures are not acceptable as guaranteed signatures.

Signature Guaranteed:

Authorized Officer

Name of Institution

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT ("Agreement"), effective as of June 15, 1998 and expiring on the later of March 31, 1999 or the date on which the Company files its 1998 Form 10-K report with the Securities and Exchange Commission, by and between XCL Ltd., a Delaware corporation, with offices at 110 Rue Jean Lafitte, Lafayette, Louisiana 70508 (hereinafter the "Company") and Patrick B. Collins, 14018 Taylorcrest, Houston, Texas 77079 (hereinafter "Consultant").

W I T N E S S E T H:

WHEREAS, Consultant has substantial experience and ability in financial reporting and oil and gas accounting; and

WHEREAS, the Company desires to retain and secure for itself the experience and ability of Consultant for the purpose of assisting the Company with its financial reporting requirements; and

WHEREAS, the Company and Consultant desire to enter into a consulting agreement to set forth this proposed consulting relationship;

NOW, THEREFORE, the parties to this Agreement hereby agree as follows:

ARTICLE I

Rights and Duties Under Consulting Agreement

1.1 Term of Agreement and Duties. The Company and Consultant agree that for the period commencing June 15, 1998 and expiring on the later of March 31, 1999 or the date on which the company files its 1998 Form 10-K report with the Securities and Exchange Commission, Consultant shall perform consulting services for the Company with regard to the financial reporting obligations of the Company, including oil and gas accounting matters, review of 1998 financial statements, presentation of financial statements, projections and footnotes thereto in any debt and equity offering memoranda of the Company. The Consultant's duty will also assist the Company and its outside auditors with regard to any activity involving the preparation or review of 1998 quarterly 10-Q reports, the annual 1998 10-K report, and any Securities and Exchange Commission filing or report the Company is required to file during the term of this agreement.

1.2 A. Compensation. For consulting services performed by Consultant during the term of this Agreement, the Company shall pay Consultant by the issuance of 35,000 shares of Common Stock and warrants to purchase 17,000 shares of Common Stock of the Company at an exercise price of \$3.75 per share, exercisable for a five-year period.

B. Restricted Securities. Consultant acknowledges that the Common Stock and stock purchase warrants, and the shares of Common Stock issuable upon exercise thereof, (hereinafter collectively referred to as the "Securities"), being delivered pursuant to Section 1.2 of this Agreement, are being issued (i) without registration under the Securities Act of 1933, as amended (the "Act"), or any other securities laws; no federal or state agency has made any finding or determination as to the fairness for investment, nor any recommendation or endorsement of an investment in the Securities, and the Securities are "restricted securities" as defined in Rule 144 promulgated under the Act; (ii) to you for your own account, for investment and not with any present intention to distribute or resell, directly or indirectly, all or any portion of the interest therein; (iii) you warrant and represent that you are financially able to bear the economic risk associated with these Securities for an indefinite period of time with no assurance of any return thereon; (iv) you

warrant and represent that you have the requisite knowledge and experience in financial matters, and you have had access to all information regarding the Company and the Securities which you have requested, to enable you to evaluate the merits and risks associated with the Securities; (v) you warrant and represent that, in making your investment decision with respect to the Securities, you have reviewed the Company's latest Annual Report on form 10-K and Quarterly Report on Form 10-Q and that you have solely relied upon your own investigation of the Company and its affairs, it being understood that the Company makes no representations and warranties with respect to the Securities or the Company, its business affairs, financial condition or prospects; and (vi) acknowledge that; the Securities may not be sold or offered for sale in the absence of an effective registration statement for the Securities under the Act, or an opinion of counsel acceptable to the Company to the effect that such registration is not required; the certificate(s) evidencing the Securities may be imprinted with a suitable restrictive legend substantially to such effect that the Company is under no obligation to take any steps to register the Securities under the Act or otherwise cause the Securities to become freely transferable (including, without limitation, to make the provisions of Rule 144 available for any resales of the Securities under such Rule).

1.3 Reimbursement of Expenses. The Company shall reimburse Consultant for all reasonable and necessary travel, or other related out-of-pocket expenses actually incurred by it during the term of this Agreement in carrying out its duties and responsibilities hereunder.

1.4 Time Requirements under Consulting Agreement. Subject to the foregoing, Consultant agrees to provide the time necessary for the performance of its consulting hereunder.

1.5 Place of Performance of Consulting Services. Consultant shall perform its services hereunder in Lafayette, Louisiana; Houston, Texas; and/or such other places as the Company may direct.

1.6 Indemnification. The Company shall indemnify Consultant for all liabilities in connection with any proceeding arising from services performed pursuant to this Agreement, other than liability arising from the Consultants gross negligence or willful misconduct.

1.7 Confidentiality of Company's Business. Consultant acknowledges that the Company's business is highly competitive and that the Company's books, records and documents, the Company's technical information concerning its products, equipment, services and processes, procurement procedures and pricing techniques, the names of and other information (such as credit and financial data) concerning the Company's customers and business affiliates, all comprise confidential business information and trade secrets of the Company and are valuable, special, and unique proprietary assets of the Company ("Confidential Information"). Consultant further acknowledges that protection of Company's Confidential Information against unauthorized disclosure and use is of critical importance to the company in maintaining its competitive position. Accordingly, Consulting hereby agrees that he will not, at any time during or after the term of this Agreement, make any disclosure of any Confidential Information, or make any use thereof, except for the benefit of, and on behalf of, the Company. However, the Consultant's obligation under this Section 1.7 shall not extend to information which is or becomes part of the public domain or is available to the public by publication or otherwise than through the Consultant. The provisions of this Section 1.7 shall survive the termination of this Agreement. Money damages would not be sufficient remedy for breach of this Section 1.7 by Consultant, and the Company shall be entitled to specific performance and injunctive relief as remedies for such breach or any threatened breach. Such remedies for a breach of this Section 1.7 by the Consultant, but shall be in addition to all remedies available at law or in equity to the Company including the recovery of damages from the Consultant. For the purposes of this paragraph, the term Company shall also include affiliates of the Company.

1.8 Covenants of Consultant. Consultant agrees to

use his best efforts, skill and abilities so long as Consultant's Services are retained hereunder to promote the best interest of Company and its business. As part of the consideration for the compensation to be paid to Consultant hereunder, and as an additional incentive for the Company to enter into this Agreement, Company and Consultant agree to the noncompetitive provisions of this Section 1.8. During the term of this Agreement, Consultant agrees that:

(i) Consultant will not directly or indirectly for himself or for others consult, advise, counsel or otherwise assist any customer, supplier, or direct competitor of the Company or an affiliate on any matter involving the Company that, in any manner, would have, or is likely to have, an adverse effect upon the Company or any affiliate;

(ii) Consultant will not knowingly or intentionally do or say any act or thing which will or may impair, damage, or destroy the good will and esteem of the Company with any of its suppliers, employees, and others who may at any time have or have had business relations with the Company;

(iii) Consultant will not reveal to any third person any differences of opinion, if there be such at any time, between him and the management of the Company as to the Company's personnel, policies, practices or prospects; and

(iv) Consultant will not knowingly or intentionally do any act or thing detrimental to the Company or its business.

Consultant understands that the foregoing restrictions may limit Consultant's ability to engage in a business similar to the Company's business during the period provided for above, but acknowledges that Consultant will receive sufficiently high remuneration and other benefits from the Company hereunder to justify such restrictions. The Company shall be entitled to enforce the provisions of this Section 1.8 by resorting to appropriate legal and equitable action.

It is expressly understood and agreed that the Company and Consultant consider the restrictions contained in this Section 1.8 to be reasonable and necessary for the purposes of preserving and protecting the goodwill and Confidential Information and proprietary information of the Company. Nevertheless, if any of the aforesaid restrictions are found by a court having jurisdiction to be unreasonable, or over broad as to geographic area or time, or otherwise unenforceable, the parties intend for the restrictions therein set forth to be modified by such court so as to be reasonable and enforceable and, as so modified by the court, to be fully enforced.

1.9 Independent Contractor:

(i) The parties hereby agree that the services rendered by Consultant in the fulfillment of the terms and obligations of this Agreement shall be as an independent contractor and not as an employee, and with respect thereto, Consultant is not entitled to the benefits provided by the Company to its employees including, but not limited to, group insurance and participation in the Company's employee benefit and pension plan. Further, Consultant is not an agent, partner, or joint venture of the Company. Consultant shall not represent himself to third persons to be other than an independent contractor of the Company, nor shall he permit himself to offer or offer or agree to incur or assume any obligations or commitments in the name of the Company or for the Company without the prior written consent and authorization of the Company. Consultant warrants that the services to be provided hereunder will not cause of conflict with any other duties or obligations of Consultant to third parties. Consultant shall not subcontract or assign any of the work to be performed hereunder without obtaining the prior written consent of the Company, provided, however, nothing contained herein shall prohibit

Consultant from incorporating and rendering services hereunder as a corporation.

(ii) Consultant shall be responsible for payment of all taxes including Federal, State and local taxes arising out of the Consultant's activities under this Agreement, including by way of illustration but not limitation, Federal and State income tax, Social Security tax, Unemployment Insurance taxes, and any other taxes or business license fees as required.

ARTICLE II

Miscellaneous

2.1 Succession. This Agreement shall inure to the benefit of and be binding upon the Company, its successors and assigns, and upon Consultant. Consultant shall be prohibited from assigning this Agreement without prior written approval of the Company.

2.2 Notice. Any notice to be given to the Company hereunder shall be deemed sufficient if addressed to the Company in writing and personally delivered or mailed by certified mail to its office at the address set forth above. Any notice to be given to Consultant hereunder shall be sufficient if addressed to it in writing and personally delivered or mailed by certified mail to its address set forth above. Either party may, by notice as aforesaid, designate a different address for the receipt of notice.

2.3 Amendment. This Agreement may not be amended or supplemented in any respect, except by a subsequent written instrument entered into by both parties hereto.

2.5 Severability. In the event any provision of this Agreement shall be held to be illegal, invalid or unenforceable for any reasons, the illegality, invalidity, or unenforceability thereof shall not affect the remaining provisions hereof, but such illegal, invalid, or unenforceable provision shall be fully severable and this Agreement shall be construed and enforced as if the illegal, invalid, or unenforceable provision had never been included herein.

2.6 Headings. The titles and headings of Articles and Sections are included for convenience of reference only and are not to be considered in connection with the construction or enforcement of the provisions hereof.

2.7 Governing Law. This Agreement shall be governed in all respects by the laws of the State of Delaware.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the 15th day of June, 1998.

XCL LTD.

By: _____
Name: _____

Title: _____

PATRICK B. COLLINS

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XCL LTD.

RESTRICTED STOCK AWARD AGREEMENT

XCL LTD., a Delaware corporation (the "Company" or "XCL"), effective as of the []st of [], 199[], hereby grants to []

("Grantee"), in consideration of services rendered and to be rendered by the Grantee (the "Award"), [] shares of the Company's fully-paid and non-assessable common stock, par value \$.01 per share (the "Shares") pursuant to the Company's Long-Term Stock Incentive Plan, as amended and restated effective as of [], 199[] (the "Plan"), with such Award to be evidenced by a certificate or certificates for all Shares registered in the name of the Grantee which shall be promptly drawn and held for the Grantee by the Company, subject however to the following terms and conditions:

1. Forfeiture Restrictions. The Shares may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of to the extent then subject to the Forfeiture Restrictions (as hereinafter defined). The prohibition against transfer and the obligation to forfeit and surrender Shares to the Company upon termination of employment are herein referred to as the "Forfeiture Restrictions." The Forfeiture Restrictions shall be binding upon and enforceable against any transferee of Shares.

2. Release of Restrictions.

(a) Subject to (b) below, and provided the Grantee has been continuously employed by the Company from the date of this Award through the Lapse Date specified in the table below ("Lapse Table"), the Forfeiture Restrictions shall be released as to the number of Shares on the applicable Lapse Date, but only if the "Fair Market Value" or "FMV" (as hereinafter defined) of the Company's common stock, without any allowance for any dividends of any kind paid by the Company on such common stock, has reached the required FMV on such Lapse Date:

Lapse Date	Number of Shares	FMV of Common Stock
[]	The first []	\$[]
[]	An additional []	[]
[]	An additional []	[]

"FMV" of the Company's common stock shall mean the last sales price, regular way, per share of the common stock on such day as reported in the principal consolidated reporting system with respect to the common stock listed on the principal United States securities exchange on which the common stock is listed or admitted to trading, or if the common stock is not then listed on any United States stock exchange, the last sales price reported on each such day in the National Market System of the National Association of Securities Dealers' Automated Quotation System ("NASDAQ"), or, if not so reported, the average of the bid and asked prices on each such day as reported in the "pink sheets" published by the National Quotation Bureau, Inc. or any successor thereof, or, if not so reported, the average of the middle market quotations on each such day as reported on The Stock Exchange Daily Official List or, if applicable, the closing price on any stock exchange on which the common stock is traded or, if not so traded, the FMV shall be determined in good faith by the Board.

If the required FMV of the Company's common stock on the pertinent Lapse Date is not equal to the FMV specified in the Lapse Table above for such Lapse Date, the Forfeiture Restrictions as to such Shares shall not lapse, and such Shares shall become "Suspended Shares" as of such Lapse Date. The Forfeiture Restrictions with respect to Suspended Shares shall lapse, if on any subsequent Lapse Date, the FMV of the Company's common stock is equal to, or greater than, the required FMV referenced in the Lapse Table for such Lapse Date.

(b) Paragraph (a) above to the contrary notwithstanding, the Forfeiture Restrictions on all Shares to the extent then still applicable shall lapse in full on [], 200[], if Grantee is employed by the Company on such date. Paragraph (a) above further to the contrary notwithstanding, the Forfeiture Restrictions on all Shares to the extent then still applicable shall lapse in full if Grantee's employment with the Company is terminated for any reason other than termination of such employment by the Company for "cause" or termination of such employment by Grantee without "good reason." For purposes of this Agreement, the term "cause" shall mean the termination of Grantee's employment with the Company due to the Grantee's (i) engagement in gross negligence or willful misconduct in the performance of his duties with respect to the Company or any of

its affiliates, (ii) conviction of a felony or misdemeanor, (iii) refusal without proper legal reason to perform his duties and responsibilities to the Company or any of its affiliates or (iv) breach of any provision of a written employment agreement between Grantee and the Company; provided, however, that if Grantee's employment with the Company is subject to and governed by the terms of a written employment contract as of the date of Grantee's termination of employment, the term "cause" for purposes of this Agreement shall include only those events or circumstances which, pursuant to the terms of such employment agreement, enable the Company to terminate Grantee's employment without liability to Grantee (whether in the nature of breach of contract damages, liquidated damages, punitive damages, compensatory damages or otherwise). For purposes of this Agreement, the term "good reason" shall mean (i) the removal of Grantee as Vice Chairman of the Company, (ii) a reduction in Grantee's annual base salary by more than 10% unless such reduction was pursuant to a Company-wide cost reduction program pursuant to which all Company employees were treated substantially equally, (iii) a breach by the Company of any obligation owed to Grantee under any written agreement between Grantee and the Company with respect to Grantee's employment with, or benefits from, the Company or any of its affiliates, or (iv) death or total disability of Grantee.

(c) Notwithstanding any provision in this Agreement or the Plan to the contrary, the Forfeiture Restrictions as to all Shares shall lapse and cease to be applicable upon the occurrence of an event which constitutes a change of control of XCL. For purposes of this Paragraph (c), a "change in control of XCL" shall mean a change in control of a nature that would be required to be reported in response to Item 5(f) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); provided that, without limitation, such a change in control shall be deemed to have occurred if (Y) any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act), other than XCL or any person who on the date the Plan is amended is a director or officer of XCL is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of XCL representing 20% or more of the combined voting power of XCL's then outstanding securities, unless such person owns, directly or indirectly, as of the date the Plan is amended, more than 25% of the combined voting power of XCL's then outstanding securities, in which case, if any such person (a "Major Stockholder") becomes the beneficial owner, directly or indirectly, of 33a% or more of the combined voting power of XCL's then outstanding securities; provided, further, however, that acquisition of 33a% or more of such combined voting power shall not constitute a "change in control of XCL" if (1) such combined voting power does not exceed 372% or more of the combined voting power of XCL's then outstanding securities, and (2) either (i) to the extent any such increase in a Major Stockholder's beneficial ownership results from a redemption or purchase by XCL of its securities, or (ii) if the Board of Directors of XCL, by vote of two-thirds (b) of the full Board, in good faith, determines (hereinafter referred to as a "Determination") both (A) that such acquisition does not constitute, in fact, a change in the control of XCL and (B) that such Major Stockholder does not and cannot then control XCL or (Z) during any period of two consecutive years prior to the date of such Determination, individuals who at the beginning of such period constituted the Board of Directors cease for any reason to constitute at least a majority thereof, unless the election of each director who was not a director at the beginning of such period has been approved in advance by directors representing at least two-thirds of the directors then in office who were directors at the beginning of the period. Further notwithstanding any provision in this Agreement or the Plan to the contrary, upon the occurrence of a "change in control of XCL" and the lapse of the Forfeiture Restrictions on the Shares resulting therefrom, Grantee shall have the right at any time during the sixty-day period immediately following such "change in control of XCL" to require the Company to purchase from Grantee at their then Fair Market Value up to 40% (as elected by Grantee) of the Shares as to which the Forfeiture Restrictions lapsed as a result of such "change in control of XCL". Grantee shall exercise the put option provided pursuant to the preceding sentence by written notice to the Company specifying the number of Shares which Grantee demands that the Company purchase. The purchase price for Shares purchased by the

Company from Grantee pursuant to the put option provided hereunder shall be paid in cash and in full no later than thirty days after the date of Grantee's notice to Company of Grantee's exercise of the put option provided herein and tender of the Shares as to which such put option is being exercised.

3. Adjustments on Recapitalization. The number of Shares subject hereto shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from the subdivision or consolidation of Shares, or the payment of a stock dividend on the Shares or increase in the Shares outstanding effected without receipt of consideration by the Company, provided that any fractional Shares resulting from such adjustments shall be eliminated.

If the Company shall at any time merge or consolidate with or into another corporation, Grantee (or other party entitled to the Award) will thereafter receive the securities or property to which a holder of the number of Shares then deliverable upon the lapse of the Forfeiture Restrictions of the Award would have been entitled upon such merger or consolidation, and the Company shall take such steps in connection with such merger or consolidation as may be necessary to assure that provisions of the Plan shall thereafter be applicable, as nearly as reasonably may be, in relation to any securities or property thereafter deliverable upon lapse of the Forfeiture Restrictions of the Award. A sale of all or substantially all of the assets of the Company for a consideration (apart from the assumption of obligations) constituted primarily of securities shall be deemed a merger or consolidation for the foregoing purposes. In the event of the proposed dissolution, liquidation or reorganization of the Company, other than pursuant to a merger or consolidation as hereinabove provided, the Forfeiture Restrictions on the Award shall terminate as of a date to be fixed by the Company's Compensation Advisory Committee; provided that not less than 120 days (or such shorter period as shall elapse between the date the Board of Directors shall decide upon a dissolution, liquidation or reorganization and the effective date of such dissolution, liquidation or reorganization) prior written notice shall be given to Grantee and Grantee shall have the right, during such period, to receive unrestricted Shares covered by the Award, including Shares granted pursuant to the Award as to which the Forfeiture Restrictions would not otherwise have lapsed.

4. Status of Shares.

(a) The Grantee agrees that (i) the Shares will not be sold or otherwise disposed of in any manner which would constitute a violation of any applicable federal or state laws, (ii) the certificates representing the Shares shall bear such legend or legends as the Committee deems appropriate in order to reflect the Forfeiture Restrictions and to assure compliance with applicable securities laws, (iii) the Company may refuse to register the transfer of the Shares on the stock transfer records of the Company if such proposed transfer would constitute a violation of the Forfeiture Restrictions or, in the opinion of counsel satisfactory to the Company, any applicable securities laws, and (iv) the Company may give related instructions to its transfer agent, if any, to stop registration of the transfer of Shares.

(b) As the Forfeiture Restrictions on the Award are released, a certificate without the legend describing such Forfeiture Restrictions and evidencing the number of Shares with respect to which restrictions have been released will be delivered to the Grantee as soon as practicable.

5. Subject to Plan. The Award granted hereunder has been issued under the Plan and is specifically subject to and conditioned upon approval by the stockholders of the Company of the June 1, 1997 amendment and restatement of the Plan and shall be null and void ab initio if such approval is not obtained. In addition to the provisions hereof, this Award will be subject to the power under the Plan of the Company's Compensation Advisory Committee and the Board of Directors to make interpretations of the Plan and of any awards granted thereunder, and to make determinations and take other actions with respect to the Plan; provided, however, that if any such interpretations, determinations or other actions shall conflict with any of the provisions of this Agreement, the provisions shall hereof

control. By acceptance hereof, Grantee acknowledges receipt of a copy of the Plan and recognizes and agrees that determinations, interpretations or other actions respecting the Plan may be made by a majority of the Board of Directors or by the Compensation Advisory Committee.

6. Securities Laws. Grantee acknowledges that he has been informed of, or is otherwise familiar with, the nature and the limitations imposed by the Securities Act of 1933, as amended (the "Act"), the Exchange Act, state securities or Blue Sky laws, and the rules and regulations thereunder (in particular, Rule 144, promulgated under the Act and Section 16 of the Exchange Act, and Rule 16b-3 promulgated thereunder), concerning the restricted stock awarded under this Agreement and agrees to be bound by the restrictions embodied in such Act, the Exchange Act, state securities or Blue Sky laws, and all the rules and regulations promulgated thereunder.

7. Grantee a Stockholder. Grantee shall be entitled to all rights of a stockholder of the Company, including the right to vote and to receive all dividends and other distributions made or paid with respect to the Shares.

8. The Company's Right to Terminate Employment. Nothing contained in this Agreement shall confer upon Grantee the right to employment by the Company or any of its affiliates.

9. Withholding. Grantee hereby agrees that he will make such arrangements as the Company deems necessary to discharge any federal, state or local taxes imposed upon the Company in respect of this Award.

10. Entire Agreement. This Agreement contains the entire agreement of the parties relative to the subject matter hereof, superseding and terminating all prior agreements or understandings, whether oral or written, between the parties hereto relative to the subject hereof, and this Agreement may not be extended, amended, modified or supplemented without written consent of the parties hereto.

11. Governing Law. This Agreement and all amendments or changes relating hereto shall be deemed to have been entered into pursuant to, and shall be governed by, the laws of the State of Delaware.

12. Notices. Notices given pursuant hereto shall be registered or certified mail and shall be deemed delivered four (4) days after deposit in the United States mail, postage prepaid, addressed as follows:

If to the Company:

XCL Ltd.
110 Rue Jean Lafitte
Lafayette, Louisiana 70508

If to Grantee:

IN WITNESS WHEREOF, this Agreement is executed as of the []st day of [], 199[].

Attest

XCL LTD.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

The undersigned Grantee hereby accepts the foregoing Restricted Stock Award Agreement dated as of the []st day of [], 199[] (the "Date of Grant"), and the undertaking on his part contained therein, and agrees to all of the terms and conditions thereto.

Grantee

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XCL LTD.

NONQUALIFIED STOCK OPTION AGREEMENT

XCL LTD., a Delaware corporation (the "Company" or "XCL"), effective as of the []st day of [], 199[], hereby irrevocably grants to [] ("Optionee") in consideration of services rendered and to be rendered by the Optionee, the right and option (the "Option") to purchase [] shares of the Company's fully-paid and non-assessable common stock, par value \$.01 per share (the "Shares") pursuant to the Company's Long-Term Stock Incentive Plan, as amended and restated effective as of June 1, 1997 (the "Plan") on or before [], 200[] (the "Expiration Date"), subject, however, to the following terms and conditions:

1. Exercise. The Option herein granted may be exercised subject to the provisions of the Plan and Section 5 hereof, as to the following amounts of the Shares:

[] Shares on or after []
As to an additional [] Shares on or after []
As to an additional [] Shares on or after []

by giving written notice of such exercise to the Company at any time (or exercised as to part of each allotment, from time to time), specifying the number of Shares to be purchased. A closing shall be held within ten days after receipt of notice of exercise.

2. Exercise Price. The aggregate purchase price of the Shares to be purchased pursuant to any exercise of this Option shall be equal to the product of the number of Shares to be purchased multiplied by the "Exercise Price", as defined hereinafter. The Exercise Price for all Shares to be purchased shall be \$[] per Share.

3. Adjustments on Recapitalization. The number of Shares subject hereto and the Exercise Price per Share shall be proportionately adjusted for any increase or decrease, after the date hereof, in the number of issued Shares resulting from the subdivision or consolidation of Shares, or the payment of a stock dividend on the Shares or increase in the Shares outstanding effected without receipt of consideration by the Company, provided that any Options to purchase fractional Shares resulting from such adjustments shall be eliminated.

If the Company shall at any time merge or consolidate with or into another corporation, Optionee (or other party entitled to the Option) will thereafter receive, upon the exercise of the Option, the securities or property to which a holder of the number of Shares then deliverable upon the exercise of the Option would have been entitled upon such merger or consolidation, and the Company shall take such steps in connection with such merger or consolidation as may be necessary to assure that provisions of the Company's stock option plans shall thereafter be applicable, as nearly as reasonably may be, in relation to any securities or property thereafter deliverable upon the exercise of the Option. A sale of all or substantially all of the assets of the Company for a consideration (apart from the assumption of obligations) constituted primarily of securities shall be deemed a merger or consolidation for the foregoing purposes. In the event of the proposed dissolution, liquidation or reorganization of the Company, other than pursuant to a merger or consolidation as hereinabove provided, the Option shall terminate as of a date to be fixed by the Company's Compensation Advisory Committee;

provided that not less than 120 days (or such shorter period as shall elapse between the date the Board of Directors shall decide upon a dissolution, liquidation or reorganization and the effective date of such dissolution, liquidation or reorganization) prior written notice shall be given to Optionee and Optionee shall have the right, during such period to exercise this Option as to all or part of the Shares covered thereby, including Shares as to which the Option would not otherwise be exercisable.

4. Adjustment upon Exercise. If Optionee exercises this Option by payment of all or a portion of the Exercise Price with Shares which Optionee has owned for at least six months, Optionee will receive an Option to purchase a number of Shares equal to the number of Shares used in payment of the Exercise Price of the original Option.

5. Closing. At the closing, full payment of the aggregate purchase price for the Shares purchased by the Optionee shall be made to the Company by delivery to the Company of consideration acceptable to the Company for such Shares and such Shares will then be delivered to Optionee. No Shares shall be issued until full payment therefor has been made, and Optionee shall have none of the rights of a shareholder with respect to any Shares subject to this Option until a certificate for such Shares shall have been issued. If the number of Shares purchased at the closing shall not be all the Shares purchasable under this Option, a new Nonqualified Stock Option Agreement with the same terms and conditions as this Option, including, without limitation, the Expiration Date, shall be issued for the balance remaining of the Shares purchasable hereunder. Consideration acceptable to the Company includes (i) cash (including a certified or official bank check) or the equivalent thereof acceptable to the Company, (ii) the equivalent fair market value of Shares, properly endorsed, (iii) the equivalent fair market value of any other property acceptable to the Company, or (iv) any combination of (i), (ii) and (iii).

6. Expiration.

(a) The Option shall expire and become null and void at 5:00 P.M. Lafayette, Louisiana time, on the Expiration Date. This Option shall not terminate upon the Optionee's termination of employment with the Company for any reason other than termination of such employment by the Company for "cause" or termination of such employment by Optionee without "good reason". For purposes of this Agreement, the term "cause" shall mean Optionee's (i) engagement in gross negligence or willful misconduct in the performance of his duties with respect to the Company or any of its affiliates, (ii) conviction of a felony or misdemeanor, (iii) refusal without proper legal reason to perform his duties and responsibilities to the Company or any of its affiliates or (iv) breach of any provision of a written employment agreement between Optionee and the Company; provided, however, that if Optionee's employment with the Company is subject to and governed by the terms of a written employment contract as of the date of Optionee's termination of employment, the term "cause" for purposes of this Agreement shall include only those events or circumstances which, pursuant to the terms of such employment agreement, enable the Company to terminate Optionee's employment without liability to Optionee (whether in the nature of breach of contract damages, liquidated damages, punitive damages, compensatory damages or otherwise). For purposes of this Agreement, the term "good reason" shall mean (i) the removal of Optionee as Vice Chairman of the Company, (ii) a reduction in Optionee's annual base salary by more than 10% unless such reduction was pursuant to a Company-wide cost reduction program pursuant to which all Company employees were treated substantially equally, (iii) a breach by the Company of any obligation owed to Optionee under any written agreement between Optionee and the Company with respect to Optionee's employment with, or benefit from, the Company or any of its affiliates or (iv) death or total disability of Optionee.

(b) Notwithstanding any provision in this Option to the contrary, this Option shall become immediately exercisable in whole or in part, at the election of Optionee, upon the occurrence of an event which constitutes a change in control of XCL, provided that under no circumstances shall an option be exercisable within six months (or such greater or lesser period

prescribed or permitted by any applicable rule promulgated under the Exchange Act, including, without limitation, Rule 16b-3 from its grant date. For purposes of this Paragraph (b), a "change in control of XCL" shall mean a change in control of a nature that would be required to be reported in response to Item 5(f) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); provided that, without limitation, such a change in control shall be deemed to have occurred if (Y) any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act), other than XCL or any person who on the date the Plan is amended is a director or officer of XCL is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of XCL representing 20% or more of the combined voting power of XCL's then outstanding securities, unless such person owns, directly or indirectly, as of the date the Plan is amended, more than 25% of the combined voting power of XCL's then outstanding securities, in which case, if any such person (a "Major Stockholder") becomes the beneficial owner, directly or indirectly, of 33a% or more of the combined voting power of XCL's then outstanding securities; provided, further, however, that acquisition of 33a% or more of such combined voting power shall not constitute a "change in control of XCL" if (1) such combined voting power does not exceed 372% or more of the combined voting power of XCL's then outstanding securities, and (2) either (i) to the extent any such increase in a Major Stockholder's beneficial ownership results from a redemption or purchase by XCL of its securities, or (ii) if the Board of Directors of XCL, by vote of two-thirds (b) of the full Board, in good faith, determines (hereinafter referred to as a "Determination") both (A) that such acquisition does not constitute, in fact, a change in the control of XCL and (B) that such Major Stockholder does not and cannot then control XCL or (Z) during any period of two consecutive years prior to the date of such Determination, individuals who at the beginning of such period constituted the Board of Directors cease for any reason to constitute at least a majority thereof, unless the election of each director who was not a director at the beginning of such period has been approved in advance by directors representing at least two-thirds of the directors then in office who were directors at the beginning of the period.

7. Transferability. This Option is granted in recognition of the personal services of the Optionee to the Company or its affiliates and is not assignable or transferable other than by will or by the laws of descent and distribution. During the lifetime of the Optionee, this Option shall be exercisable only by him.

8. Subject to Plan. The Option granted hereunder has been issued under the Plan and is specifically subject to and conditioned upon approval by the stockholders of the Company of the June 1, 1997 amendment and restatement of the Plan and shall be null and void ab initio if such approval is not obtained. In addition to the provisions hereof, this Option will be subject to the power under the Plan of the Company's Compensation Advisory Committee and the Board of Directors to make interpretations of the Plan and of any options granted thereunder, and to make determinations and take other actions with respect to the Plan; provided, however, that if any such interpretations, determinations or other actions shall conflict with any of the provisions of this Agreement, the provisions shall hereof control; and provided further, that this Option shall not be treated as an incentive stock option as defined in Section 422A of the Internal Revenue Code of 1986, as amended. By acceptance hereof, Optionee acknowledges receipt of a copy of the Plan and recognizes and agrees that determinations, interpretations or other actions respecting the Plan may be made by a majority of the Board of Directors or by the Compensation Advisory Committee.

9. Securities Laws. Optionee acknowledges that he has been informed of, or is otherwise familiar with, the nature and the limitations imposed by the Securities Act of 1933, as amended (the "Act"), the Exchange Act, and the rules and regulations thereunder (in particular, Rule 144, promulgated under the Act and Section 16 of the Exchange Act, and Rule 16b-3 promulgated thereunder), concerning the Shares issuable upon exercise of this Option and agrees to be bound by the restrictions embodied in the Act, the Exchange Act and all the rules and regulations promulgated thereunder.

10. Reservation of Shares. The Company will at all times reserve and keep available out of its authorized Shares, the required number of Shares issuable upon the exercise of this Option.

11. Optionee not a Stockholder. Optionee shall not be entitled by reason of this Option to any rights whatsoever as a stockholder of the Company.

12. The Company's Right to Terminate Employment. Nothing contained in this Agreement shall confer upon Optionee the right to employment by the Company or any of its affiliates.

13. Withholding. Optionee hereby agrees that he will make such arrangements as the Company deems necessary to discharge any federal, state or local taxes imposed upon the Company in respect of this Option.

14. Entire Agreement. This Agreement contains the entire agreement of the parties relative to the subject matter hereof, superseding and terminating all prior agreements or understandings, whether oral or written, between the parties hereto relative to the subject hereof, and this Agreement may not be extended, amended, modified or supplemented without written consent of the parties hereto.

15. Governing Law. This Agreement and all amendments or changes relating hereto shall be deemed to have been entered into pursuant to, and shall be governed by, the laws of the State of Delaware.

16. Notices. Notices given pursuant hereto shall be registered or certified mail and shall be deemed delivered four (4) days after deposit in the United States mail, postage prepaid, addressed as follows:

If to the Company:

XCL Ltd.
110 Rue Jean Lafitte
Lafayette, Louisiana 70508

If to Optionee, to the address below Optionee's signature.

IN WITNESS WHEREOF, this Agreement is executed as of the []st day of [], 199[[]].

Attest

XCL LTD.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

The undersigned Optionee hereby accepts the foregoing Nonqualified Stock Option Agreement dated as of the []st day of [], 199[[]] (the "Date of Grant"), and the undertaking on his part contained therein, and agrees to all of the terms and conditions thereof.

OPTIONEE

Address:

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PETROLEUM CONTRACT
FOR
ZHANG DONG BLOCK
SHALLOW WATER AREA, BOHAI BAY
THE PEOPLE'S REPUBLIC OF CHINA

BEIJING, CHINA
AUGUST, 1998

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PETROLEUM CONTRACT BY AND
BETWEEN XCL CATHAY LTD.

AND CHINA NATIONAL PETROLEUM CORPORATION

ON ZHANG DONG BLOCK IN THE BOHAI BAY SHALLOW WATER SEA AREA

OF THE PEOPLE'S REPUBLIC OF CHINA

BEIJING, CHINA

AUGUST 1998

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PREAMBLE

This Contract is entered into in Beijing on this 20th _____ day of August of 1998 by and between China National Petroleum Development Corporation (hereafter abbreviated as "CNPC"), a company organized and existing under the laws of the People's Republic of China, having its headquarters domiciled in Beijing, the People's Republic of China, as one

part; and XCL Cathay Ltd., an international business company organized under the laws of the British Virgin Islands with corporate headquarters domiciled in Roadtown, Tortola, B.V.I., (hereafter referred to as the "Foreign Contractor"), and being a subsidiary of XCL Ltd., a company organized and existing under the laws of the State of Delaware, United States of America, having its corporate headquarters domiciled in Delaware, as the other part.

WITNESSETH

WHEREAS, all Petroleum resources under the territory, internal water, territorial sea, and continental shelf of the People's Republic of China and under all sea areas within the limits of national jurisdiction over the maritime resources of the People's Republic of China are owned by the People's Republic of China;

WHEREAS, the State Council of the People's Republic of China has authorized CNPC to be responsible for the negotiation, signature and implementation of the contracts for the exploitation of China's onshore Petroleum resources in cooperation with foreign enterprises and to have the exclusive right to explore for, develop, produce and market the Petroleum of the Contract Area; and

WHEREAS, the Foreign Contractor desires and agrees to provide funds, and apply its appropriate and advanced technology and managerial experience to cooperate with CNPC for the exploitation of Petroleum resources within the Contract Area and agrees to be subject to the laws, decrees, and other rules and regulations of the People's Republic of China in the implementation of the Contract.

NOW, THEREFORE IT IS MUTUALLY AGREED as hereafter set forth:

Article 1

Definitions

The following words and terms used in the Contract shall have, unless otherwise specified in the Contract, the following meaning:

1.1 "Petroleum" means Crude Oil and Natural Gas deposited in the subsurface and being extracted or already extracted, including any valuable non-hydrocarbon substances produced in association with Crude Oil and/or Natural Gas separated or extracted therefrom.

1.2 "Crude Oil" means solid and liquid hydrocarbons in their natural states and also includes any liquid hydrocarbons extracted from Natural Gas except for methane (CH₄).

1.3 "Natural Gas" means Non-associated Natural Gas and Associated Natural Gas in their natural state.

1.4 "Non-associated Natural Gas" means all gaseous hydrocarbons produced from gas reservoirs, and includes wet gas, dry gas and residue gas remaining after the extraction of liquid hydrocarbons from wet gas.

1.5 "Associated Natural Gas" means all gaseous hydrocarbons produced in association with Crude Oil from oil reservoirs, and includes residue gas remaining after the extraction of liquid hydrocarbons therefrom.

1.6 "Oil Field" means an accumulation of Petroleum within the Contract Area composed of one or several oil-bearing zones, within one trap or within traps of the same, independent geological structure, which may or may not be complicated by faulting, and which has been determined to be of commercial value in accordance with the procedures stipulated in Article 11 hereof.

1.7 "Gas Field" means an accumulation of Petroleum within the Contract Area composed of one or several gas-

bearing zones, within one trap or traps of the same, independent geological structure, which may or may not be complicated by faulting, and which has been determined to be of commercial value in accordance with the procedures stipulated in Article 18 hereof.

1.8 "Petroleum Operations" means the Appraisal Operations, the Development Operations, the Production Operations, and other activities related to these Operations carried out under the Contract.

1.9 "Appraisal Operations" means operations carried out for the purpose of confirming Petroleum-bearing traps by means of geological, geophysical, geochemical and other methods; all the work undertaken to determine the commerciality of traps in which Petroleum has been discovered including Appraisal Well drilling and feasibility studies, Trial Production, formulation of the Overall Development Program; and activities related to all such operations.

1.10 "Development Operations" means operations carried out for the realization of Petroleum production from the date of approval of the Overall Development Program for any Oil Field and/or Gas Field by the Department or Unit, including design, construction, installation, drilling, and the related research work as well as production activities carried out before the Date of Commencement of Commercial Production.

1.11 "Production Operations" means operations and all activities related thereto carried out for Petroleum production of an Oil Field and/or Gas Field from the Date of Commencement of Commercial Production, such as extraction, injection, stimulation, treatment, storage, transportation, lifting, etc.

1.12 "Progressive Appraisal and Development Program" means an operational procedure during which Appraisal Operations and Development Operations are conducted during the appraisal period and development and production period and during which Trial Production, if feasible, is conducted simultaneously with Appraisal Operations and/or Development Operations.

1.13 "Basic Block" means a section of the surface of the earth bounded by the segments of longitude and latitude of equal distance of ten (10) minutes. demarcated on the map as Annex I hereto.

1.14 "Contract Area" means a surface area demarcated with geographic coordinates for the cooperative exploitation of Petroleum resources, and in the Contract, means the surface area stipulated in Article 3.1 hereof.

1.15 "Appraisal Area" means a surface area within the Contract Area which has not been relinquished before the expiration of the appraisal period and in which Development Operations have not begun.

1.16 "Development Area" means a portion of the Contract Area covering an Oil Field and/or Gas Field and any potential contiguous extension areas to such Field(s) within the Contract Area which has been designated for development. The Development Area(s) shall be proposed by the Operator, demarcated by the Joint Management Committee ("JMC") and delineated as such in the Overall Development Program approved by the Department or Unit.

1.17 "Production Area" means a surface area within any Development Area for the purpose of the performance of the Production Operations within the said Development Area after completion of the Development Operations.

1.18 "Date of Commencement of Commercial Production" means, in respect of each Oil Field, the date on which a cumulative total of sixty thousand (60,000) metric tons of Crude Oil shall have been extracted and delivered out of the Field; in respect of each Gas Field, the date on which a cumulative total of sixty million (60,000,000) cubic meters

of Natural Gas (under standard atmospheric conditions) shall have been extracted and delivered out of the Field. If any field produces both oil and gas, and if the gas is sold, then the net amount received by the Parties for the gas sold shall be converted, on an equivalent dollar basis, into a volume of oil.

1.19 "Calendar Year" means a period of twelve (12) consecutive Gregorian months under the Gregorian Calendar, beginning on the first day of January and ending on the thirty-first day of December of the same year.

1.20 "Contract Year" means a period of twelve (12) consecutive Gregorian months under the Gregorian Calendar, within the term of the Contract, beginning on the effective date of the Contract or any anniversary thereof.

1.21 "Production Year" means, in respect of each Oil Field and/or Gas Field, a period of twelve (12) consecutive Gregorian months under the Gregorian Calendar beginning on the Date of Commencement of Commercial Production of such Field or any anniversary thereof.

1.22 "Calendar Quarter" means a period of three (3) consecutive Gregorian months under the Gregorian Calendar beginning on the first day of January, the first day of April, the first day of July, or the first day of October.

1.23 "Exploratory Well" means any Wildcat and/or Appraisal Well drilled within the exploration period, including dryhole(s) and discovery well(s).

1.24 "Wildcat" means a well drilled on any geological trap for the purpose of searching for Petroleum accumulations, including wells drilled for the purpose of obtaining geological and geophysical parameters.

1.25 "Appraisal Well" means any well drilled for the purpose of evaluating the commerciality of a geological trap in which Petroleum has been or may be discovered.

1.26 "Development Well" means a well drilled after the date of approval of the Overall Development Program for the purpose of producing Petroleum, increasing production or accelerating extraction of Petroleum, including production wells, injection wells and dry holes. Any Appraisal Well drilled during the production period shall be deemed a Development Well.

1.27 "Work Program" means all types of plans formulated for the performance of the Petroleum Operations, including plans for appraisal, development and production.

1.28 "Overall Development Program" means a plan prepared by the Operator for the development of an Oil Field and/or Gas Field which has been reviewed and adopted by JMC, confirmed by CNPC and approved by the Department or Unit and such plan shall include, but shall not be limited to, recoverable reserves, the Development Well pattern, master design, production profile, economic analysis and time schedule of the Development Operations.

1.29 "Deemed Interest" means interest on the development costs calculated in accordance with the rate of interest stipulated in Article 12.2.3.2. hereof when the development costs incurred in each Oil Field and/or Gas Field within the Contract Area are recovered by the Parties.

1.30 "Oil Field and/or Gas Field Straddling a Boundary" means an Oil Field and/or Gas Field extending from the Contract Area to one or more other contract areas and/or areas in respect of which no Petroleum contracts have been signed.

1.31 "Annual Gross Production of Natural Gas" means the total amount of Natural Gas produced from each Oil Field and/or Gas Field within the Contract Area considered separately in each Calendar Year, less the amount of Natural Gas used for Petroleum Operations and the amount of losses, and which is saved and measured by a measuring device at the

Delivery Point as defined in Article 1.43 herein.

1.32 "Annual Gross Production of Crude Oil" means the total amount of Crude Oil produced from each Oil Field within the Contract Area considered separately in each Calendar Year, less the amount of Crude Oil used for Petroleum Operations and the amount of losses, which is saved and measured by a measuring device at the Delivery Point as defined in Article 1.43 herein.

1.33 "Basement" means igneous rocks, metamorphic rocks or rocks of such nature which, or formations below which, could not contain Petroleum deposits in accordance with the knowledge generally accepted in the international oil industry; and shall also include such impenetrable rock substances as salt domes, mud domes and any other rocks which make further drilling impracticable or economically unjustifiable by the modern drilling technology normally utilized in the international oil industry.

1.34 "Contractor" means the Foreign Contractor specified in the Preamble hereto, including assignee(s) in accordance with Article 23 hereof.

1.35 "Parties" means CNPC and Contractor.

1.36 "Operator" means an entity responsible for the performance of the Petroleum Operations under the Contract.

1.37 "Subcontractor" means an entity which provides the Operator with goods or services for the purpose of implementing the Contract.

1.38 "Third Party" means an individual or entity except CNPC, the Contractor and any of their Affiliates.

1.39 "Chinese Personnel" means any citizen of the People's Republic of China, including CNPC's personnel and Chinese citizens employed by the Contractor and/or the Subcontractor(s), involved in Petroleum Operations under the Contract.

1.40 "Expatriate Employee" means any person employed by the Contractor, Subcontractor(s), or CNPC who is not a citizen of the People's Republic of China. Overseas Chinese who reside abroad and have the nationality of the People's Republic of China and other overseas Chinese abroad, when they are employed by the Contractor, Subcontractor(s) or CNPC shall also be deemed to be Expatriate Employees within the scope of the Contract.

1.41 "Affiliate" means in respect of the Contractor:

(a) any entity in which any company comprising the Contractor directly or indirectly holds fifty percent (50%) or more of the voting rights carried by its share capital; or

(b) any entity which directly or indirectly holds fifty percent (50%) or more of the aforesaid voting rights of any company comprising the Contractor; or

(c) any other entity whose aforesaid voting rights are held by an entity mentioned in (b) above in an amount of fifty percent (50%) or more;

"Affiliate" means in respect of CNPC, any subsidiary, branch or regional corporation of CNPC or CNPC and any entity in which CNPC directly or indirectly holds fifty percent (50%) or more of the voting rights carried by its share capital.

1.42 "Department or Unit" means the department or unit which is authorized by the State Council of the People's Republic of China to be responsible for administration of the petroleum industry of the People's Republic of China..

1.43 "Delivery Point" means a point for the delivery of Petroleum located within or outside the Contract Area and specified in the Overall Development Program.

1.44 "Date of Commencement of the Implementation of the Contract" means the first day of the month following the month in which the Contractor has received the notification from CNPC of the approval by the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China.

1.45 "Dagang" means Dagang Oilfield (Group) Co., Ltd.

1.46 "Trial Production" means, as to any Appraisal Well, the oil and/or gas production which is produced during the period from completion of that well to the Date of Commencement of Commercial Production in the Oil Field or Gas Field in which that well is located.

1.47 "Pre-Contract Appraisal Costs" is defined in Article 12.1.1 hereinafter.

1.48 "Remaining Pre-Contract Appraisal Costs" is defined in Article 13.2.2.2(a)(2) hereinafter.

1.49 "Pre-Contract Development Costs" is defined in Article 12.1.2 hereinafter.

Article 2

Objective of the Contract

2.1 The objective of the Contract is to appraise, develop and produce Petroleum that exists and may exist in the Contract Area.

2.2 The Contractor shall apply a Progressive Appraisal and Development Program approach in its efforts to comply with the objectives of the Contract.

2.3 The Contractor shall apply its appropriate and advanced technology and assign its competent experts to perform the Petroleum Operations.

2.4 During the performance of the Petroleum Operations, the Contractor shall transfer its technology to the Chinese Personnel and train them.

2.5 The Contractor shall pay all appraisal costs required during Appraisal Operations with the exception of all previous costs incurred by Dagang. In the event that any Oil Field and/or Gas Field is developed within the Contract Area, the development costs of such Oil Field and/or Gas Field or Fields shall be paid by the Parties in proportion to their participating interests: fifty-one percent (51%) by CNPC and forty-nine percent (49%) by the Contractor. Contractor shall not be responsible for the prior appraisal costs expended by Dagang, which are agreed to be \$19,312,000 U.S dollars, but Dagang's prior appraisal costs shall be eligible for in accordance with the provisions of Articles 12, 13 and 18, below. In the event that CNPC elects to participate at a level less than fifty-one percent (51%) of the participating interest, or not to participate in the development of the Oil Field and/or Gas Field, the Contractor shall pay the remaining development costs necessary for the development of the Oil Field and/or Gas Field in accordance with Article 12.1.2 hereof.

2.6 If any Oil Field and/or Gas Field is developed within the Contract Area, the Petroleum produced therefrom shall, from the Date of Commencement of Commercial Production of such Field, be allocated in accordance with Articles 12, 13 and/or 18 hereof.

2.7 Nothing contained in the Contract shall be deemed to confer any right on the Contractor other than those rights expressly granted hereunder.

Article 3

Contract Area

3.1 The Contract Area as of the date of signature of the Contract comprises, in part, three (3) blocks, covering a total of fifty and two tenths (50.2) square kilometers, as marked out by the geographic location and the coordinates of the connecting points of the boundary lines in Annex I attached hereto.

The said total area of the Contract Area shall be reduced in accordance with Articles 4, 5, 11 and 18 hereof.

3.2 For the proper execution of operations under the Contract, the Operator shall be permitted to use those portions of the seabed, mudflats and land surface inside or outside the Contract Area under the control of CNPC as may be necessary for Petroleum Operations, for as long as Appraisal Operations, Development Operations or Productions Operations continue. All reasonable costs incurred by CNPC for this purpose shall be reimbursed by the Operator from the Joint Account.

3.3 The Operator shall be permitted to use for the purpose of Petroleum Operations any water source located within the Contract Area, subject to Government rules any payment of reasonable charges at the rates not more than rates charged to other users of similar water sources in the area.

3.4 If the Operator is unable to secure in its own name any rights to use of the surface area necessary for Petroleum Operations or for the delivery of Crude oil to the delivery point defined in any overall development plan, CNPC will assist the Operator by securing such rights in CNPC's name for the benefit of the joint venture. All reasonable costs incurred by CNPC for this purpose shall be reimbursed by Operator from the Joint Account.

3.5 Except for the rights as expressly provided by the Contract, no right is granted in favor of the Contractor to the surface area, lake bed, stream bed and subsoil or any bodies of water or any natural resources or aquatic resources other than Petroleum existing therein, and any thing under the surface within the Contract Area.

Article 4

Contract Term

4.1 The term of the Contract shall include an appraisal period, a development period and a production period.

4.2 The appraisal period, beginning on the Date of Commencement of the Implementation of the Contract, shall be divided into three (3) phases and shall consist of five (5) consecutive Contract Years, unless the Contract is sooner terminated, or the appraisal period is extended in accordance with Article 25 hereof and/or Article 4.3 herein. The three (3) phases shall be as follows:

The first phase of one (1) Contract Year (the first Contract Year);

The second phase of two (2) Contract Years (the second Contract Year through the third Contract Year); and

The third phase of two (2) Contract Years (the fourth Contract Year through the fifth Contract Year).

4.3 Where time is insufficient to complete the appraisal work on a Petroleum discovery prior to the expiration of the appraisal period or where the time of the appraisal work on a Petroleum discovery in accordance with the appraisal Work Program approved by JMC as stated in Articles 11 and 18 hereof extends beyond the appraisal period, the appraisal period as described in Article 4.2 herein shall be extended. The period of extension shall be

whatever period CNPC regards as a reasonable period of time required to complete the above mentioned appraisal work in order to enable JMC to make a decision on the commerciality of the said Petroleum discovery in accordance with Article 11 or 18 hereof, and until the Department or Unit approves or finally rejects the Overall Development Program.

4.4 The development of any Oil Field and/or Gas Field within the Contract Area shall begin on the date of approval by the Department or Unit of the Overall Development Program of the said Oil Field and/or Gas Field, and end on the date of the entire completion of the Development Operations set forth in the Overall Development Program, excluding the time for carrying out additional development projects in the production period in accordance with Article 11.9 hereof. The Contractor and CNPC will commence preparation of the Overall Development Program when appraisal of any potential Oil Field and/or Gas Field indicates by reinterpretation of seismic and mapping and integrated reservoir study that such field is commercial. The Overall Development Program will be submitted for approval by the Department or Unit as soon as approved by the JMC.

4.5 The production period of any Oil Field and/or Gas Field within the Contract Area shall be a period of twenty (20) consecutive Production Years beginning on the Date of Commencement of Commercial Production unless otherwise provided in Article 4.6 herein and Article 18.2 or 25 hereof. Under such circumstances as where the overall development of an Oil Field and/or Gas Field is to be conducted on a large scale, and the time span required therefor is long, or where separate production of each of the multiple oil or gas producing zones of an Oil Field and/or Gas Field is required, or under other special circumstances, the production period thereof shall, when it is necessary, be appropriately extended with the approval of the Department or Unit.

4.6 Suspension Or Abandonment Of Production Of An Oil Field and/or Gas Field.

4.6.1 In the event that the Parties agree to suspend temporarily production from an Oil Field and/or Gas Field which has entered into commercial production, the Production Area covered by that Oil Field and/or Gas Field may be retained within the Contract Area. In no event shall the period of such retention extend beyond the date of the expiration of the production period of that Oil Field and/or Gas Field except as otherwise provided in Article 25.4 hereof. The duration of the relevant period of production suspension and the arrangement for the maintenance operations during the aforesaid period of suspension shall be proposed by the Operator, and shall be decided by JMC through discussion. With respect to the aforesaid Oil Field and/or Gas Field which has been suspended and retained within the Contract Area, in the event that production is restored during the period of such retention, the production period of that Oil Field and/or Gas Field shall be extended correspondingly. In the event that the Parties fail to reach an agreement on the restoration of production by the expiration of the production suspension period decided by JMC through discussion, the party who wishes to restore production shall have the right to restore production solely. The other party may later elect to participate in production but shall have no rights or obligations in respect of such Field for the solely restored production period.

4.6.2 Abandonment Of Production From An Oil Field and/or Gas Field Within The Production Period.

4.6.2.1 During the production period, either party to the Contract may propose the abandonment of production from any Oil and/or Gas Field within the Contract Area, provided, however, that prior written notice shall be given to the other party to the Contract. The other party shall make a response in writing within ninety (90) days from the date on which the said notice is received. If the other party also agrees to abandon production from the said Oil Field and/or Gas Field, then abandonment costs shall be paid by the

Parties in proportion to their participating interests in the development of such Oil Field and/or Gas Field. From the date on which the other party makes the response in writing, the production period of such Oil Field and/or Gas Field shall be terminated and such Oil Field and/or Gas Field shall be excluded from the Contract Area.

4.6.2.2 If the Contractor notifies CNPC in writing of its decision on abandoning production from an Oil Field and/or Gas Field, and CNPC decides not to abandon production from such Oil Field and/or Gas Field, then from the date on which the Contractor receives CNPC's written response of its aforesaid decision, all of the Contractor's rights and obligations, including but not limited to the responsibilities for payment of abandonment in respect of such Field, shall be terminated automatically, provided that the Contractor shall not transfer to CNPC any of the Contractor's liabilities and obligations in respect of the said Field. The said Field shall be excluded from the Contract Area.

4.7 The term of the Contract shall not go beyond thirty (30) consecutive Contract Years from the Date of Commencement of the Implementation of the Contract, unless otherwise stipulated hereunder.

Article 5

Relinquishment

5.1 In any of the following cases, the Contractor shall relinquish the remaining Contract Area except any Development Area and/or Production Area:

(a) at the expiration of the last phase of the appraisal period and development period; or

(b) at the expiration of the extended period, in the event that the appraisal period and development period is extended in accordance with Article 4.3. or Article 25 hereof.

5.2 At the expiration of the production period of the last producing Oil Field and/or Gas Field within the Contract Area, the contractor shall relinquish all rights to the entire Contract Area.

Article 6

Minimum Appraisal Work Commitment

and Expected Minimum Appraisal Expenditures

6.1 The Contractor shall begin to perform the on site Appraisal Operations within three (3) months after the Date of Commencement of the Implementation of the Contract and spud the first Appraisal Well within ten (10) months after the Date of Commencement of Implementation of the Contract, unless otherwise agreed by the Parties.

6.2 The Contractor shall fulfill the minimum appraisal work commitment and expected minimum appraisal expenditures for each phase of the appraisal period in accordance with the following provisions:

6.2.1 During the first phase of the appraisal period, the Contractor shall:

(a) reprocess and reinterpret a minimum of approximately three hundred (300) kilometers of existing 2-D seismic data and seventy (70) square kilometers of existing 3-D seismic data, provided necessary support data is available. Contractor will have access to additional seismic data outside the Contract Area as needed to make geological and geophysical evaluations of the Contract Area;

(b) drill one (1) Appraisal Well with the footage of three thousand (3,000) meters;

(c) spend a minimum of one million (\$1,000,000) U.S. dollars upgrading the artificial island and to recondition the causeway and causeway drilling pad in preparation of Petroleum Operations; and

(d) spend a minimum of four million (\$4,000,000) U.S. dollars (including the expenditures described in (c), above) for such Appraisal Operations.

6.2.2 During the second phase of the appraisal period, the Contractor shall:

(a) drill two (2) Appraisal Wells, one with the footage of three thousand (3,000) meters, and one with the footage of three thousand five hundred (3,500) meters;

(b) if the decision is made to drill from the artificial island, the Contractor will spend a minimum of an additional one million (\$1,000,000) U.S. dollars upgrading the drilling rig and other facilities on the artificial island;

(c) If Contractor concludes and the JMC agrees that it is feasible from an engineering, geological and economic viewpoint to reevaluate the nine (9) existing wellbores on the Contract Area, Contractor will commit to re-evaluate a minimum of three (3) of the existing wells.

(d) spend a minimum of six million (\$6,000,000) U.S. dollars as its expected minimum appraisal expenditures for such Appraisal Operations.

(e) Formulate the Overall Development Program if appraisal of any potential Oil Field and/or Gas Field indicates that such a field is commercial.

6.2.3 During the third phase of the appraisal period, the Contractor shall:

(a) drill two (2) Appraisal Wells with the footage of three thousand (3,000) meters each; and

(b) spend a minimum of six million (\$6,000,000) U.S. dollars as its expected minimum appraisal expenditures for such Appraisal Operations.

6.2.4 With respect to the minimum appraisal work commitment for each phase of the appraisal period committed by the Contractor in accordance with Articles 6.2.1, 6.2.2. and 6.2.3 herein when calculating whether the minimum appraisal work commitment has been fulfilled, the number of Appraisal Wells and the kilometers of seismic lines reprocessed and reinterpreted shall be the basis of such calculation. However, the Appraisal Wells abandoned for technical reasons without reaching their predetermined geological objective shall not count as Appraisal Wells actually fulfilled by the Contractor thereunder, without the consent of CNPC.

6.3 At the expiration of the first phase or the second phase of the appraisal period, the Contractor has the following options:

(a) to enter the next phase and continue appraisal; or

(b) to terminate the Contract.

6.4 At the expiration of any phase of the appraisal period, if the actual appraisal work fulfilled by the Contractor is less than the minimum appraisal work commitment set forth for the said appraisal phase and if the Contractor elects to enter the next phase and continue appraisal under Article 6.3 (a) herein, the Contractor shall give reasons to CNPC for the underfulfillment, and with the consent of CNPC, the unfulfilled balance of the said phase shall be added to the minimum appraisal work commitment for

the next appraisal phase.

In the event of a commercial appraisal at any time within the appraisal period, JMC shall, at the request of any party to the Contract, discuss the possibility of increasing the appraisal work. Any Appraisal Wells involved in such increase shall be deducted from the minimum appraisal work commitment.

6.5 Where the Contractor has fulfilled ahead of time the minimum appraisal work commitment for any phase of the appraisal period, the duration of such appraisal phase stipulated in Article 4.2 hereof shall not be shortened thereby, and if the appraisal work actually fulfilled by the Contractor exceeds the minimum appraisal work commitment for the said appraisal phase, the excess part shall be deducted from and credited against the minimum appraisal work commitment for the next appraisal phase.

6.6 If any addition or deduction is made under Article 6.4 or Article 6.5 herein in regard to the minimum appraisal work commitment for any phase of appraisal period, the increased or reduced appraisal work shall become the new minimum appraisal work commitment for the Contractor to fulfill in the said phase.

6.7 At the expiration of any phase during the appraisal period, if the appraisal work actually fulfilled by the Contractor is less than the minimum appraisal work commitment for such phase or less than the new minimum appraisal work commitment as mentioned in Article 6.6 herein, and if, regardless of whether the expected minimum appraisal expenditures are fulfilled or not fulfilled, the Contractor elects to terminate the Contract under Article 6.3 (b) herein or if the said phase is the last phase of the appraisal period, the Contractor shall, within thirty (30) days from the date of the decision of election to terminate the Contract or thirty (30) days from the date of the expiration of the exploration period, pay CNPC any unfulfilled balance of the minimum appraisal work commitment (or of the new one) in U.S. dollars after it has been converted into a cash equivalent using the method provided in Annex II-Accounting Procedure attached hereto. However, if the minimum appraisal work commitment for the appraisal period is fulfilled while its expected corresponding minimum appraisal expenditures are not fulfilled, the unfulfilled part shall be deemed as a saving and shall not be paid to CNPC.

Article 7

Management Organization and Its Functions

7.1 For the purpose of the proper performance of the Petroleum Operations, the Parties shall establish a Joint Management Committee (JMC) within forty-five (45) days from the effective date of the Contract.

7.1.1 CNPC and the Contractor shall each appoint an equal number of representatives (three to five), to form JMC, and each party to the Contract shall designate one of its representatives as its chief representative. All the aforesaid representatives shall have the right to present their views on the proposals at the meetings held by the JMC. When a decision is to be made on any proposal, the chief representative from each party to the Contract shall be the spokesman on behalf of the party to the Contract.

The chairman of the JMC shall be the chief representative designated by CNPC, and the vice chairman shall be the chief representative designated by the Contractor. The chairman of JMC shall preside over the meetings of JMC. In his absence, one representative present at the meeting from CNPC shall be designated to act as the chairman of the meeting. In the absence of the vice chairman, one representative present at the meeting from the Contractor shall be designated to act as vice chairman at the meeting. The Parties may, according to need, designate a reasonable number of advisors who may attend, but shall

not be entitled to vote at JMC meetings.

7.1.2 A regular meeting of JMC shall be held at least once a Calendar Quarter, and other meetings, if necessary, may be held at any time at the request of any party to the Contract, upon giving reasonable notice to the other party of the date, time and location of the meeting and the items to be discussed.

7.2 The Parties shall empower JMC to:

7.2.1 Review and adopt the Work Program and budget proposed by the Operator;

7.2.2 determine the commerciality of each trap on which a Petroleum discovery has been made in accordance with the Operator's appraisal report and report its decision to CNPC for confirmation;

7.2.3 review and adopt the Overall Development Program and budget for each Oil Field and/or Gas Field;

7.2.4 approve or confirm the following items of procurement and expenditures:

(a) approve procurement of any item within the budget with a unit price exceeding Five Hundred Thousand U.S. dollars (U.S.\$ 500,000) or any single purchase order of total monetary value exceeding Two Million U.S. dollars (U.S. \$2,000,000);

(b) approve a lease of equipment, or an engineering subcontract or a service contract within the budget worth more than One Million U.S. dollars (U.S. \$1,000,000); and

(c) confirm excess expenditures pursuant to Article 10.2.1 hereof and the expenditures pursuant to Article 10.2.2 hereof;

7.2.5 determine and announce the Date of Commencement of Commercial Production of each Oil Field and/or Gas Field within the Contract Area;

7.2.6 determine the type and scope of information and data provided to any Third Party and Affiliate in relation to the Petroleum Operations in accordance with Article 22.5 hereof and Annex IV - Data Control Agreement;

7.2.7 demarcate boundaries of the Development Area and the Production Area of each Oil Field and/or Gas Field;

7.2.8 review and approve plans for transfer of the Production Operations in accordance with Article 8.7 hereof;

7.2.9 review and approve the insurance program proposed by the Operator and emergency procedures on safety and environmental protection;

7.2.10 review and approve personnel training programs;

7.2.11 discuss, review, decide and approve other matters that have been proposed by either party to the Contract or submitted by the expert groups or the Operator; and

7.2.12 review and examine matters required to be submitted to relevant authorities of the Chinese Government and/or CNPC for approval.

7.2.13 Approve Trial Production for any Appraisal Well when feasible.

7.3 Decisions of JMC shall be made unanimously through consultation. All decisions made unanimously shall be deemed as formal decisions and shall be equally binding upon the Parties. When matters arise on which agreement cannot be reached, the Parties may convene another meeting in an attempt to find a new solution thereto based on the principle of mutual benefit.

7.3.1 In the appraisal period, the Parties shall endeavor to reach agreement through consultation on appraisal programs and annual appraisal Work Programs. If the Parties fail to reach agreement through consultation, the Contractor's proposal shall prevail, provided that such proposal is not in conflict with the relevant provisions in Articles 4, 5, and 6 hereof.

7.3.2 If it is considered by the chairman and/or the vice chairman or their nominees that a matter requires urgent handling or may be decided without convening a meeting, JMC may make decisions through conference telephone calls, telefax transmissions or the circulation of documents to produce decisions.

7.4 JMC shall establish the following subordinate bodies:

7.4.1 Secretariat

The secretariat shall be a permanent organization consisting of two (2) secretaries. One secretary shall be appointed by each of the Parties. The secretaries shall not be members of JMC, but may attend meetings of JMC as observers. The duties of the secretariat are as follows:

(a) to keep minutes of meetings;

(b) to prepare summaries of and resolutions for JMC meetings;

(c) to draft and transmit notices of meetings: and

(d) to receive and transmit proposals, reports or plans, etc. submitted by the Operator and/or any party to the Contract, which require discussion, review and/or approval by JMC.

7.4.2 Expert Groups

Advisory expert groups shall be established in accordance with the requirements of the Petroleum Operations in various periods. Each expert group shall consist of an equal number of CNPC and the Contractor's personnel, and, with the agreement of JMC, any other personnel. JMC shall discuss and decide upon their establishment or dissolution, size, and the appointment of their leaders in accordance with requirements of their work. The expert groups shall have the following functions;

(a) to discuss and study matters assigned to them by JMC and submitted by the Operator to JMC for its review and approval and any other matter assigned to them by JMC and to make constructive suggestions to JMC;

(b) to have access to and observe and investigate the Petroleum Operations conducted by the Operator at its office and operating sites as work requires and to submit relevant reports to JMC; and

(c) to attend meetings of JMC as observers at the request of JMC.

7.5 When the Contractor acts as the Operator, CNPC shall have the right to assign professional representatives to the Operator's administrative and technical departments which are related to the Petroleum Operations, who may work on a long-term basis together with the Operator's staff.

The professional representatives shall have access to the centers of research, design, and data processing related only to the execution of the Contract and to the operating sites to observe all of the activities and study all the information with respect to the Petroleum Operations. Such access to the aforesaid centers outside the People's Republic of China shall be decided by JMC through discussion and shall be arranged by the Operator. The Operator shall use all reasonable endeavors to assist the professional representatives to have access to Third Parties' sites. The Operator's staff shall regularly discuss their work with the

professional representatives of CNPC. The work of professional representatives of CNPC shall be arranged by the manager(s) of the departments of the Operator in which professional representatives work.

Professional representatives of CNPC, except for the professional representatives in charge of procurement who shall undertake their functions in accordance with Article 7.6 herein, shall not interfere in the decision making on relevant matters by departmental manager(s) of the Operator. However, such professional representatives shall have the right to make proposals and comments to departmental manager(s) of the Operator or to report directly to CNPC representatives in JMC.

When CNPC acts as the Operator, the Contractor may also assign professional representatives including professional representatives in charge of procurement.

7.5.1. On the principle of mutual cooperation and coordination, the Operator shall provide the professional representatives with necessary facilities and assistance to perform office work and to observe the operating sites, etc.

7.5.2. The number of professional representatives shall be decided by JMC through consultations.

7.6 When one of the companies comprising the Contractor acts as the Operator, in respect of the items listed in the procurement plan, the procedures and provisions herebelow shall be followed:

7.6.1. The procurement department of the Operator shall inform the professional representatives appointed by CNPC in charge of procurement of all the items of procurement.

7.6.2. The Operator shall be subject to Articles 15.1 and 15.3 hereof and reach agreement through consultation with the professional representatives of CNPC in charge of procurement when preparing the procurement plan in accordance with the Work Program and budget. The professional representatives of CNPC in charge of procurement shall work out an inventory listing the equipment and materials which can be made and provided in China and a list of manufacturers, engineering and construction companies and enterprises in China which can provide services and undertake subcontracting work.

7.6.3. Unless otherwise agreed upon by the Parties, the Operator shall, in general, make procurement by means of calling for bids and shall notify at the same time manufacturers and enterprises concerned both inside and outside China, and the work of calling for bids shall be done within the territory of China.

7.6.4. When any procurement is to be made by means of calling for bids, the manufacturers and enterprises in China applying for bidding, which are included in a list delivered in advance to the Operator by the professional representative of CNPC in charge of procurement, shall be invited. The professional representatives of CNPC in charge of procurement shall have the right to take part in the work of calling for bids, including examination of the list of bidders to be invited, preparing and issuing bidding documents, opening bids, evaluation of bids, negotiation, and award of contracts through consultation, as well as negotiation for subcontracts and services contracts.

7.6.5. With respect to the items of procurement by means of not calling for bids, the Operator's procurement department and the professional representatives of CNPC in charge of procurement shall, in accordance with the provisions specified in Article 7.6.2 herein define which items are to be procured in the People's Republic of China and which items are to be procured abroad.

7.6.6 With respect to the use of personnel, equipment and services to be procured in the People's Republic of China, it is expressly understood that quality and costs

shall be competitive with personnel, equipment and services that can be procured outside of the People's Republic of China subject to Article 15 hereof.

7.7 All costs and expenses with respect to the staff members of the Parties in the subordinate bodies of JMC established in accordance with Article 7.4 herein, and those with respect to the professional representatives referred to in Article 7.5 herein and wages and salaries, costs and expenses incurred by the representatives of JMC referred to in Article 7.1.1 herein while attending JMC meetings shall be paid by the Operator and charged respectively to the appraisal costs, development costs and production costs in accordance with Annex II-Accounting Procedure hereto.

7.8 The specific responsibilities and working procedures within JMC shall be discussed and determined by JMC in accordance with the relevant provisions herein.

7.9 For the purpose of assisting the Operator in the proper implementation of Development Operations, an Integrated Project Team (the "IPT") shall be established to act as a working group under the direction of the Operator. Within the IPT in working roles, and charged with oversight of development planning and execution will be a group of six (6) persons designated by the Parties hereto. The six-person group (the "Management Group") will consist of three (3) CNPC designees and three (3) designees of the Contractor, including one Operator designee who shall be General Manager of the IPT and one CNPC designee who shall be Deputy Manager. The Management Group will operate on the principles of cooperation and mutual consultation. The IPT shall be established within thirty (30) days from the date of approval of the Overall Development Program.

The specific organization, staffing and working system of the IPT and the responsibilities and competence of various positions, including those of CNPC's personnel assigned to the IPT, shall be determined by the parties through consultation based on the principal of efficiency of operations. The IPT shall comprise those personnel designated by the parties and the number of CNPC's personnel shall be no less than one third (1/3) of the total number of personnel within the IPT. The working location(s) of the members of the IPT shall be decided according to the needs of the work.

Article 8

Operator

8.1 The Parties agree that XCL Cathay Ltd. ("XCL") shall act as the Operator for the Petroleum Operations within the Contract Area, unless otherwise stipulated in Article 8.7 herein.

8.2 For the implementation of the Contract, the companies comprising the Contractor shall register with the State Administration for Industry and Commerce of the People's Republic of China in accordance with the relevant provisions of the said State Administration for Industry and Commerce and shall obtain the necessary approval from CNPC.

The person in charge of the Operator shall have the full right to represent the Contractor in respect of the performance of the Petroleum Operations. The names, positions and resumes of the staff and an organization chart of the Operator shall be submitted in advance to CNPC and the appointment of the Operator's senior staff shall be subject to the consent of CNPC.

The parent corporation of each company comprising the Contractor which is not itself a parent corporation shall, at the request of CNPC, provide CNPC with a written performance guarantee with terms acceptable to CNPC.

8.3 The Operator shall have the following obligations:

8.3.1 To apply the appropriate and advanced technology

and business managerial experience of the Contractor, including each company comprising the Contractor or its and their Affiliates, to perform the Petroleum Operations reasonably, economically and efficiently in accordance with sound international practice.

8.3.2 To prepare Work Programs and budgets related to the Petroleum Operations and to carry out the approved Work Programs and budgets.

8.3.3 To be responsible for procurement of installations, equipment, and supplies and entering into subcontracts and service contracts related to the Petroleum Operations, in accordance with the approved Work Programs and budgets and the applicable provisions of Articles 7.2.4, 7.6 and 10.2 hereof.

8.3.4 To prepare in advance, in accordance with Article 16 hereof, a personnel training program and budget before the commencement of the Appraisal Operations, Development Operations and Production Operations, respectively, and, in accordance with the said program and budget, to be responsible for preparing an annual personnel training program and budget and carrying out the annual program and budget after approval by JMC.

8.3.5 To establish an insurance program, and to enter into and implement the insurance contracts in accordance with Article 21 hereof.

8.3.6 To issue cash-call notices to all the parties to the Contract to raise the required funds based on the approved budgets and in accordance with Article 12 hereof and Annex II-Accounting Procedure hereto.

8.3.7 To maintain complete and accurate accounting records of all the costs and expenditures for the Petroleum Operations in accordance with the provisions of Annex II-Accounting Procedure hereto and to keep securely the accounting books in good order.

8.3.8 To make necessary preparation for regular meetings of JMC, and to submit in advance to JMC necessary information related to the matters to be reviewed and approved by JMC.

8.3.9 To inform directly or indirectly all the Subcontractors which render services for the Petroleum Operations in China and all the Expatriate Employees of the Operator and of Subcontractors who are engaged in the Petroleum Operations in China that they shall be subject to the laws, decrees, and other rules and regulations of the People's Republic of China.

8.3.10 To report its work to JMC as provided in Article 7.2 hereof.

8.4 In the course of the performance of the Petroleum Operations, any direct loss arising out of the gross negligence or willful misconduct of the Operator or its employees shall be solely borne by the Operator. The Operator shall make its best efforts in accordance with the international Petroleum industry practice to include provisions similar to this Article 8.4 herein in related subcontracts and service contracts.

8.5 In the course of the performance of the Petroleum Operations, the Operator shall handle the information, samples or reports in accordance with the following provisions:

8.5.1 The Operator shall provide CNPC with various information and data and the Operator shall have the right to use and handle such information and data. The information and data shall be reported to CNPC at the same time when the Operator reports them to its parent corporation.

8.5.2 The Operator shall furnish CNPC in a timely manner with reports on safety, environmental protection and

accidents related to the Petroleum Operations and with financial reports prepared in accordance with the provisions of Annex II-Accounting Procedure hereto.

8.5.3 The Operator shall provide the non-operator(s) with copies of the relevant information and reports reasonably required by non-operator(s) and referred to in Articles 8.5.1. and 8.5.2. herein.

8.5.4 The Operator shall, at the request of any party to the Contract, furnish that party to the Contract with the following:

8.5.4.1 Procurement plans for purchasing equipment and materials, inquiries, offers, orders and service contracts, etc.;

8.5.4.2 Manuals, technical specifications, design criteria, design documents (including design drawings), construction records and information, consumption statistics, equipment inventory, spare parts inventory, etc.;

8.5.4.3 Technical investigation and cost analysis reports; and

8.5.4.4 Other information relating to the Petroleum Operations already acquired by the Operator in the performance of the Contract.

8.6 In the course of performing the Petroleum Operations, the Operator shall abide by the laws, decrees, and other rules and regulations with respect to environmental protection and safety of the People's Republic of China and shall endeavor in accordance with international Petroleum industry practice to:

8.6.1 Minimize the damage and destruction to environment, community and ecology;

8.6.2 Control blowouts promptly and prevent or avoid waste or loss of Petroleum discovered in, or produced from, the Contract Area;

8.6.3 Prevent Petroleum from flowing into low pressure formations or damaging adjacent Petroleum-bearing formations;

8.6.4 Prevent water from flowing into Petroleum-bearing formations through dry holes or other wells, except for the purpose of secondary recovery;

8.6.5 Prevent land, forests, crops, buildings and other installations from being damaged and destroyed; and

8.6.6 Minimize the danger to personnel safety and health.

8.7 Transfer And Take Over Of The Production Operations.

Before the full recovery of all appraisal and development costs incurred in accordance with the Work Program of any Oil Field and/or Gas Field within the Contract Area, CNPC may, after agreement reached through consultations with JMC, take over the Production Operations of that Oil Field and/or Gas Field, if conditions permit. After the full recovery of all appraisal and development costs incurred in accordance with the Work Program of any Oil Field and/or Gas Field within the Contract Area, CNPC shall, at any time, have the right by giving written notice to the Contractor, to take over the Production Operations of that Oil Field and/or Gas Field. The transfer and take over shall be effected in accordance with the procedures described hereunder.

8.7.1 The Contractor shall submit a transfer plan of the Production Operations to CNPC and JMC respectively

within sixty (60) days following the date of receiving the written notice from CNPC. Such transfer plan shall include, but not be limited to, a list of various posts to be taken over by CNPC, a schedule of transfer by stages, inventories of the relevant facilities and equipment and an inventory of all documents, manuals, data and information necessary for the Production Operations. Where the transfer of some of the Production Operations involves any Third Party, the Contractor shall consult with CNPC in advance and propose a solution thereto in the transfer plan. However, this situation shall not be taken by the Contractor as an excuse to delay and hinder the transfer of the Production Operations.

JMC shall, within thirty (30) days after receiving the said plan, review and approve it.

8.7.2 CNPC shall, within sixty (60) days from the date of receiving the transfer plan of the Production Operations approved by JMC, submit to the Contractor and JMC respectively the lists and resumes of CNPC personnel who will take over the posts. The personnel named in the lists shall be persons who have been trained by the Contractor in accordance with provisions set forth in Article 16 hereof or personnel who are considered by CNPC to be competent. Within one hundred and eighty (180) days from the date of receiving CNPC's lists of the personnel who will take over the operations, the Contractor shall arrange for such personnel to undergo step by step practical training for the posts to be taken over by them and shall assist CNPC to manage the qualification test.

8.7.3 Within three hundred and thirty (330) days from the date of receiving the written notice from CNPC, the Contractor shall submit to JMC a report on the completion of preparation for the transfer of the Production Operations. Such report shall include the results of the qualification test for CNPC's personnel who will take over the Production Operations and shall be confirmed by JMC within thirty (30) days after the receipt of the said report. The transfer of the Production Operations shall begin on the date when JMC makes such confirmation.

8.7.3.1 When the completion of preparations for the transfer of the Production Operations is confirmed by JMC, the Contractor shall, in accordance with the transfer schedule by stages, transfer to CNPC's take-over personnel control of all facilities and equipment relating to the Production Operations in the Oil Field and/or Gas Field, and all documents, manuals, data and information regarding the use and operation of such facilities and equipment, so that CNPC's personnel are able to manage the Production Operations.

8.7.3.2 If JMC believes that preparations for the transfer of the Production Operations have not been completed and sets another deadline for the completion of preparations for the transfer of the Production Operations, the preparations for the transfer shall be completed prior to the deadline and the transfer shall begin thereafter.

8.7.4 The transfer in respect of the accounting and financial aspects shall be handled in accordance with Annex II-Accounting Procedure hereto.

8.7.5 During the preparation for the transfer of the Production Operations and in the course of the actual transfer, the Contractor shall perform the functions provided for in Articles 8.3, 8.4, 8.5 and 8.6 herein in respect of an Oil Field and/or Gas Field undergoing the transfer of the Production Operations, until the date when CNPC has completely assumed control of and taken over the Production Operations of the Oil Field and/or Gas Field. Thereafter, the functions of the Operator provided for in Articles 8.3, 8.4, 8.5 and 8.6 herein shall be an analogy applicable to CNPC.

8.7.6 After CNPC has taken over the Production Operations and become the Operator of an Oil Field and/or Gas Field, the Contractor shall still have the obligation

pursuant to Article 2 hereof, to provide CNPC with the relevant technical and personnel training assistance, and the costs incurred thereby shall be charged to the operating costs in accordance with the provisions of Annex II-Accounting Procedure hereto.

8.7.7 When CNPC takes over the Production Operations in any Oil Field and/or Gas Field, the Chinese Personnel employed by the Contractor for the Production Operations of the said Oil Field and/or Gas Field shall be transferred to CNPC's employment. If CNPC needs to retain the services of any of the Expatriate Employees employed by the Contractor or the Contractor still needs to keep some of the Chinese Personnel in its employment, an agreement shall be reached through consultation between the Parties prior to the transfer.

8.7.8 The expenses incurred in the transfer and take over of the Production Operations shall be charged to the operating costs.

8.8 With a view to efficiently conducting the Petroleum Operations and Work Programs approved by JMC, the Operator shall have the right to lease and/or use lands with compensation therefor and to obtain rights of way subject to Chinese laws and customs. Any costs incurred by the Operator for this purpose shall be charged to appraisal costs, development costs and operating costs having regard to the date on which these costs are actually incurred.

Article 9

Assistance Provided by CNPC

9.1 To enable the Contractor to carry out expeditiously and efficiently the Petroleum Operations, CNPC shall have the obligation to assist the Contractor at its request to:

9.1.1 Obtain the approvals or permits needed to open accounts with the Bank of China;

9.1.2 Go through the formalities of exchanging foreign currencies;

9.1.3 Obtain office space, office supplies, transportation and communication facilities and make arrangements for accommodation as required;

9.1.4. Go through the formalities of the Customs;

9.1.5 Obtain entry and exit visas for the Expatriate Employees who will come to China for implementation of the Contract and for their dependents who will visit them or reside in China for a long period and provide assistance for their transportation and moving as well as medical services and travel in China;

9.1.6 Obtain necessary permission to send abroad, if necessary, documents, data and samples for analysis or processing during the Petroleum Operations; and

9.1.7 Contact departments engaged in fishing, aquatic products, meteorology, ocean shipping, civil aviation, railway, transportation, communication and services for supply bases, etc., for relevant matters and otherwise assist the Contractor in obtaining on a timely basis approvals necessary for the conduct of the Petroleum Operations under the Contract.

9.2 In accordance with Article 15 hereof, CNPC shall assist the Contractor with the recruitment of the Chinese Personnel.

9.3 CNPC shall, at the request of the Contractor, sell to the Contractor data and samples concerning the Contract Area other than those produced as a result of Petroleum Operations hereunder in accordance with any relevant rules and regulations and CNPC shall also assist the Contractor to

arrange the purchase of any marine, hydrological, metrological and other data available from the relevant departments in China.

9.4 CNPC shall, at the request of the Contractor, also assist the Contractor with the matters other than those under Article 9.1, 9.2 and 9.3 herein if possible.

9.5 All expenses incurred in the assistance provided by CNPC in accordance with this Article 9 shall be paid by the Contractor and shall be handled in accordance with the provisions of Annex II-Accounting Procedures hereto.

Article 10

Work Program and Budget

10.1 Before the fifteenth (15th) of September of each Calendar Year after the Contract becomes effective, the Operator shall complete and submit to JMC for its review an annual Work Program and budget for the next Calendar Year. JMC shall complete the review of the annual Work Program and budget and submit them to CNPC for review and approval before the fifteenth (15th) of October of the Calendar Year in which they are submitted to JMC. Within fifteen (15) days following the receipt of the annual Work Program and budget, CNPC shall notify JMC in writing of its approval or any modifications thereto with its detailed reasons. If CNPC requests any modifications on the aforesaid annual Work Program and budget, the Parties shall promptly hold meetings to make modifications and any modifications agreed upon by the Parties shall be effected immediately. In case CNPC fails to notify JMC of its approval within fifteen (15) days, the annual Work Program and budget proposed by the Operator shall be deemed to have been approved by CNPC. The Operator shall make its best efforts to perform the Petroleum Operations in accordance with the approved or modified annual Work Program and budget.

10.1.2 The Operator shall submit a preliminary appraisal Work Program and budget to the JMC prior to commencement of the drilling of an Appraisal Well.

10.1.3 If the JMC approves the preliminary appraisal Work Program and budget thereof, they will submit the preliminary appraisal Work Program and budget thereof to CNPC for review and approval. Within fifteen (15) days following the receipt of the preliminary appraisal Work Program and budget thereof, CNPC shall notify JMC in writing of its approval or any modifications thereto with its detailed reasons. If CNPC requests any modifications on the aforesaid preliminary appraisal Work Program and budget thereof, the Parties shall promptly hold meetings to discuss modifications and any modifications agreed upon by the Parties shall be effected immediately. In case CNPC fails to notify JMC of its approval or disapproval within fifteen (15) days following the receipt of the preliminary appraisal Work Program, the preliminary appraisal Work Program and budget thereof proposed by the Operator shall be deemed to have been approved by CNPC. The Operator shall make its best efforts to perform the Appraisal Operations in accordance with the approved or modified preliminary appraisal Work Program and budget thereof.

10.1.4 CNPC and JMC acknowledge that the preliminary appraisal Work Program may need modifications as the Operator drills Appraisal Wells. The Operator will immediately notify CNPC if modifications to the plan outlined in the preliminary Work Program appear to be necessary along with detailed reasons. In case CNPC fails to notify Operator of its approval or disapproval of the modifications within one hundred twenty (120) hours, the modifications shall be deemed to have been approved by CNPC. The modifications to be made shall, in no case, reduce the minimum appraisal work commitment stipulated in Article 6.2 hereof.

10.2 The Operator may, in accordance with the following provisions, incur excess expenditures or

expenditures outside the budget in carrying out the Work Program and budget, provided that the objectives in the approved Work Program and budget are not changed:

10.2.1 In carrying out an approved budget for a single item, such as the drilling of a well, the Operator may, if necessary, incur excess expenditures of no more than ten percent (10%) of the budgeted amount. The Operator shall report quarterly the aggregate amount of all such excess expenditures to JMC for confirmation.

10.2.2 For the efficient performance of the Petroleum Operations, the Operator may, without approval, undertake certain individual projects which are not included in the Work Program and budget, for a maximum expenditure of One Hundred Thousand U.S. dollars (U.S. \$100,000), but the Operator shall, within ten (10) days after such expenditures are incurred, report to JMC for confirmation. In case of emergency, the Operator may incur emergency expenditures for the amount actually needed but shall report such expenditures to JMC as soon as they are made. However, the said emergency expenditures shall not be subject to Articles 10.2.3 and 10.2.4 herein.

10.2.3 In the event that the aggregate of excess expenditures under Article 10.2.1 herein and expenditures under Article 10.2.2 herein incurred in a Calendar Year cause the total expenditures of that Calendar Year to exceed the approved annual budget, such excess shall not exceed five percent (5%) of the approved annual budget for that Calendar Year. If the aforesaid excess is expected to be in excess of five percent (5%) of the annual budget, the Operator shall present its reasons therefor to JMC and obtain its approval for incurring such expenditures.

10.2.4 When JMC confirms the excess expenditures mentioned in Article 10.2.1 herein, and the expenditures mentioned in Article 10.2.2 herein;

(a) If expenditures or excess expenditures are determined to be reasonable, the Operator may incur such expenditures or excess expenditures again during the same Calendar Year, subject to Article 10.2 herein; or

(b) If expenditures or excess expenditures are determined to be unreasonable, the Operator shall not incur such expenditures or excess expenditures again during the same Calendar Year and such unreasonable expenditures or excess expenditures shall be dealt with in accordance with Article 5.4 of Annex II-Accounting Procedure hereto.

Article 11

Determination of Commerciality

11.1 The preliminary appraisal Work Program in accordance with Article 10.1.2 will consist of the minimum Work Program as stipulated in Article 6.2.

11.2 After the approval by the JMC of the preliminary appraisal Work Program referred to in Article 10.1.3 hereof, the Operator shall carry out the operations as soon as possible without unreasonable delay in accordance with the timetable set forth in the approved preliminary appraisal Work Program referred to in Article 11.1 herein.

11.3 Within one hundred and eighty (180) days after the completion of the last Appraisal Well, the Operator shall submit to JMC a detailed report on the appraisal of the commerciality of the discovered Petroleum-bearing trap. Under special circumstances, the above-mentioned periods may be reasonably extended upon agreement of the Parties.

The appraisal report shall include an evaluation of geology, development, engineering and economics and the Overall Development Program to be approved. The Overall Development Program shall include the Maximum Efficient Rate (MER) determined in accordance with international Petroleum industry practice.

11.4 Within thirty (30) days following the submission of the appraisal report on any Crude Oil bearing trap, JMC shall convene a meeting to review such report. When JMC decides unanimously after its review that the said Crude Oil bearing trap is an Oil Field with commercial value and is to be developed, or the Contractor considers, in accordance with Article 11.6.2 herein, that a Crude Oil bearing trap is an Oil Field with commercial value and decides it is to be developed, JMC shall submit to CNPC for confirmation the appraisal report and the Overall Development Program of the said Oil Field to be developed and CNPC shall submit the Overall Development Program of the Oil Field to the Department or Unit as soon as possible for its review and approval. The Operator shall perform the Development Operations in accordance with the Overall Development Program of each Oil Field approved by the Department or Unit. If such Development Operations do not commence within ninety (90) days after the date of approval of the Overall Development Program of an Oil Field by the Department or Unit, or if an intentional delay caused unilaterally by the Contractor acting as the Operator results in a suspension or a halt of ninety (90) continuous days in the Development Operations of an Oil Field, the Contractor shall be deemed to have automatically waived all its rights in the said Oil Field.

11.5 If, after the appraisal, JMC determines that a Crude Oil bearing trap is non-commercial, such Crude Oil bearing trap may, at the Contractor's option, be retained within the Contract Area during the term of the appraisal period; before the expiration of the appraisal period, if, because of certain positive factors, JMC considers unanimously that it is necessary to reappraise the commerciality of the Crude Oil bearing trap, the Operator shall submit a further appraisal report on such Crude Oil bearing trap to JMC for its review and adoption; if the JMC's determination of non-commerciality of such Crude Oil bearing trap has not altered by the expiration of the appraisal period, the relevant area of such Crude Oil bearing trap shall be excluded from the Contract Area.

11.6 If JMC can not reach an agreement on the commerciality of a Crude Oil bearing trap, the Parties shall make their best efforts to seek another solution thereto. However, if JMC can not reach an agreement on the commerciality of any Crude Oil bearing trap within ninety (90) days following the submission of the appraisal report prepared by the Operator in accordance with Article 11.3 herein or any further appraisal report prepared by the Operator in accordance with Article 11.5 herein, then such trap shall be dealt with in accordance with the following procedure:

11.6.1 If the Contractor considers a Crude Oil bearing trap without commercial value, then the Contractor shall be deemed to have waived its rights to participate in the development of that Crude Oil bearing trap. The relevant area covered by that Crude Oil bearing trap shall, however, be retained within the Contract Area until the expiration of the appraisal period. In case that CNPC decides, within the appraisal period, to develop solely and to pay the development costs of such Oil Field, then, at any time within the development period, the Contractor shall be allowed to elect to participate in the development. If the Contractor decides, within the development period of such Oil Field, to participate in the development of such Oil Field by giving a written notice to CNPC, then, the Contractor shall pay CNPC an amount of money, in addition to the forty-nine percent (49%) of the development costs spent by CNPC on the said Oil Field with Deemed Interest thereon up to the date of the Contractor's submission of the written notice to CNPC. Such amount shall be equal to three times (300%) the foregoing development costs paid by CNPC with Deemed Interest thereon and such amount of money shall not be recovered by the Contractor after commercial production of the Oil Field commences. Thereafter, the development costs to be incurred in such Oil Field shall be provided by the Parties in proportion to their respective participating interests. In the event that the Contractor still decides

not to participate in the development of the said Oil Field by the expiration of the development period of such Oil Field, then the said Oil Field shall be excluded from the Contract Area upon the Date of Commencement of Commercial Production of the said Oil Field.

11.6.2 If CNPC considers a Crude Oil bearing trap to have no commercial value while the Contractor considers that it is a Crude Oil bearing trap having commercial value, the Contractor may solely provide the entire development costs and undertake development of the said Oil Field, and the said Oil Field shall be deemed as an Oil Field in which CNPC has no participating interests. The entire risk related to the development costs spent for the said Oil Field shall be borne solely by the Contractor.

11.6.3 Unless otherwise decided by CNPC, the Development Operations and Production Operations of an Oil Field solely financed by CNPC shall still be, upon agreement between the Parties through consultation, performed by the Operator subject to agreement on terms and conditions entered into by CNPC and the Operator.

11.7 In the event of an Oil Field and/or Gas Field Straddling a Boundary, CNPC shall arrange for the Contractor and the neighboring parties involved to work out a unitized Overall Development Program for such Oil Field and/or Gas Field and to negotiate the relevant provisions thereof.

11.8 If a Petroleum-bearing trap without commercial value within the Contract Area can be more economically developed as a commercial Oil Field by linking it up with facilities located outside the Contract Area, the development of such Oil Field shall be dealt with in the same manner as provided in Article 11.7 herein.

11.9 The procedures specified in this Article 11 shall be applied, by analogy, to determination of additional development projects in any Oil Field and/or Gas Field within the Contract Area during the production period, such projects being designed to increase the level of production and/or total quantity of Petroleum recoverable from the said Field.

11.10 It is anticipated that Trial Production will be conducted in connection with Appraisal Operations. If Trial Production is to be conducted in any Oil Field and/or Gas Field within the Contract Area, the Parties shall agree to the procedure of such Trial Production.

Article 12

Financing and Cost Recovery

12.1 Funds required for the Petroleum Operations shall be raised by the Operator in accordance with Work Programs and budgets determined pursuant to the relevant provisions of the Contract, the provisions described in Annex II-Accounting Procedure hereto, and the provisions described herebelow.

12.1.1 All of the appraisal costs required for Appraisal Operations shall be provided by the Contractor, with the exception of the previous costs incurred by Dagang which are calculated to be nineteen million three hundred twelve thousand (\$19,312,000) U.S. dollars (hereinafter referred to as Dagang's "Pre-Contract Appraisal Costs"). However, the appraisal costs required for the fulfillment of the minimum appraisal work commitment shall be deemed the equity capital of the Contractor.

12.1.2 With the exception of the previous development costs incurred by Dagang, which are calculated to be eleven million six hundred eighty one thousand (\$11,681,000) U.S. dollars (hereinafter referred to as Dagang's "Pre-Contract Development Costs"), which are to be borne solely by Dagang, the development costs required for Development Operations in each Oil Field and/or Gas Field within the Contract Area shall be provided by CNPC and the

Contractor in proportion to their respective participating interests: fifty-one percent (51%) by CNPC and forty-nine percent (49%) by the Contractor, unless CNPC applies provisions in the second paragraph of this Article 12.1.2 herein.

In the event that CNPC, at its option, decides not to participate in the development of an Oil Field and/or Gas Field, or decides to participate in the development to an extent less than fifty-one percent (51%) of the participating interest, CNPC shall notify the Contractor in writing of its decision to not participate or to participate at a specific percentage which is less than fifty-one (51%) participating interest before the appraisal report is to be reviewed by JMC pursuant to Article 11.4 or Article 18.2.2 hereof. In such case, if CNPC does not participate in the development of such Field, the development costs therein shall be borne solely by the Contractor, or in the event CNPC participates in the development of such Field to an extent of less than fifty-one percent (51%) of the participating interests, such development costs shall be borne by the Parties in proportion to their actual respective participating interests.

12.1.3 The operating costs incurred for the performance of the Production Operations of each Oil Field and/or Gas Field before the Date of Commencement of Commercial Production shall be considered as development costs. The operating costs so incurred after the Date of Commencement of Commercial Production shall be paid respectively by CNPC and the Contractor in proportion to their participating interests of the development costs of the said Field.

12.1.4 For the purpose of implementation of the Contract, CNPC shall agree that the Contractor may, when financing, use the entitlement of its share of production under the Contract as a security for loans, provided that the Contractor shall apply to CNPC in advance and the application therefor shall be examined by CNPC, and provided further that the right and interests of CNPC under the Contract shall not be impaired thereby.

12.2 All the costs incurred in the performance of Petroleum Operations shall be recovered in accordance with Annex II-Accounting Procedure hereto and the provisions described as follows:

12.2.1 The operating costs for any given Calendar Year actually incurred by CNPC and the Contractor in respect of each Oil Field pursuant to Article 12.1.3 herein shall be recovered in kind by the Parties out of the Crude Oil produced from the said Oil Field during that Calendar Year in accordance with Annex II-Accounting Procedure hereto, after the operating costs have been converted into a quantity of Crude Oil on the basis of the Crude Oil price determined in accordance with Article 14 hereof. Unrecovered operating costs shall be carried forward to the succeeding Calendar Year.

12.2.2 The appraisal costs incurred by the Parties shall be recovered as follows:

After the Date of Commencement of Commercial Production of an Oil Field within the Contract Area, the appraisal costs incurred by the Parties in respect of the Contract Area shall be recovered in kind out of the Crude Oil produced from any Oil Field within the Contract Area in accordance with Article 13.2.2 hereof, after the appraisal costs have been converted into a quantity of Crude Oil based on the Crude Oil price determined in accordance with Article 14 hereof. The appraisal costs shall be recovered without interest.

If no Oil Field and/or Gas Field is developed within the Contract Area, the appraisal costs incurred by the Parties shall be deemed as their loss. Under no circumstances shall CNPC or Contractor be required to reimburse the Parties for such loss.

12.2.3 The development costs in respect of each Oil Field incurred by CNPC and the Contractor and Deemed Interest thereon for each Oil Field shall be recovered as follows:

12.2.3.1 After the Date of Commencement of Commercial Production of any Oil Field within the Contract Area, the development costs in respect of such Field incurred by CNPC and the Contractor and Deemed Interest thereon calculated in accordance with Article 12.2.3.2 herein shall be recovered in kind out of the Crude Oil produced from such Field in accordance with Article 13.2.2.2 hereof, after the development costs have been converted into a quantity of Crude Oil based on the Crude Oil price determined in accordance with Article 14 hereof.

12.2.3.2 Deemed Interest on the development costs incurred by CNPC and the Contractor for each Oil Field and/or Gas Field within the Contract Area shall be calculated with the fixed annual compound rate of nine percent (9%) from the first day of the month following the month in which such development costs expended by each party to the Contract are actually received in the bank account of the Joint Account opened by the Operator. Dagang's Pre-Contract Development Costs will earn Deemed Interest at the fixed annual compound rate of nine percent (9%), commencing from the date that the Overall Development Program for the Oil Field and/or Gas Field has received all necessary approvals. The detailed method of such calculation shall be as provided in Annex II-Accounting Procedure hereto.

12.2.4 The amount of Crude Oil up to a quantity of sixty thousand (60,000) metric tons extracted and delivered from an Oil Field before the Date of Commencement of Commercial Production shall be allocated in accordance with Article 13 hereof.

12.3 The provisions in Article 12.2 herein shall apply, by analogy, to Gas Fields.

Article 13

Crude Oil Production and Allocation

13.1 The Operator shall, in accordance with the production profile, adjusted as the case may be, set forth in the Overall Development Program for each Oil Field as approved by the Department or Unit, work out a Crude Oil production plan for each Oil Field in each Calendar Year and carry out Crude Oil production pursuant to such plan.

13.2 The Annual Gross Production of Crude Oil of each Oil Field within the Contract Area in each Calendar Year within the production period shall be allocated in accordance with the following sequence and proportions.

13.2.1 The percentages of the Annual Gross Production of Crude Oil specified in paragraphs (a) and (b) hereunder shall be used for payments of the Value-Added Tax and royalty, respectively, and shall be paid in kind to the relevant authorities of the Chinese Government through CNPC.

(a) Value Added Tax shall be paid in accordance with relevant regulations of the People's Republic of China; and

(b) Royalty shall be paid in accordance with relevant regulations of the People's Republic of China.

13.2.2 Sixty percent (60%) of the Annual Gross Production of Crude Oil shall be deemed as the "cost recovery oil" and shall be used for payments for cost recovery in the following sequence:

13.2.2.1 Payment in kind for the operating costs actually incurred but not yet recovered by the Parties pursuant to Article 12.2.1 hereof after the price of the said "cost recovery oil" has been determined in accordance with Article 14 hereof.

13.2.2.2 The remainder of the "cost recovery oil" shall, after payment for operating costs in accordance with Article 13.2.2.1 herein, be deemed as "investment recovery oil". Such "investment recovery oil" shall be used for the recovery of the appraisal costs in respect of the Contract Area which were incurred and not yet recovered by the Parties, and shall be used for the recovery of the development costs in respect of the Oil Field itself which were incurred and not yet recovered by CNPC and the Contractor in accordance with Articles 12.2.2 and 12.2.3 hereof, and Deemed Interest thereon. The method of recovery and the recovery sequence are as follows:

(a) Beginning in the Calendar Year during which the production of any Oil Field within the Contract Area commences, the "investment recovery oil" referred to in Article 13.2.2.2 herein, based on the price which has been determined in accordance with Article 14 hereof shall be paid in kind first to the Parties for the recovery of the appraisal costs thereon which were incurred in respect of, and have not yet been recovered from, the Contract Area. Such "investment recovery oil" for any Calendar Year shall be shared by the Parties for the recovery of the unrecovered appraisal costs on the following basis:

(1) "Investment recovery oil" shall be allocated 49% to recover Contractor's appraisal costs and 51% to recover Dagang's Pre-Contract Appraisal Costs.

(2) If, at the end of the appraisal period, the Contractor's appraisal costs do not exceed eighteen million, five hundred fifty-five thousand (\$18,555,000) U.S. dollars, then the portion of Dagang's Pre-Contract Appraisal Costs that will not be recovered proportionate with Contractor's appraisal costs (hereinafter referred to as Dagang's "Remaining Pre-Contract Appraisal Costs") shall be carried forward to be recovered as at the same time as development costs are recovered on the first Oil field to attain Commencement of Commercial Production, as provided in Article 13.2.2.2 (b)(1), below. Remaining Pre-Contract Appraisal costs shall accrue Deemed Interest beginning on the first day of the Contract Year following the end of the appraisal period described in Article 4.2.

(3) If Contractor's appraisal costs exceed eighteen million, five hundred fifty-five thousand (\$18,555,000) U.S. dollars, then, after Dagang has fully recovered all of its Pre-Contract Appraisal Costs, Contractor's remaining appraisal costs shall be recovered from 100% of "investment recovery oil", as an incentive to Contractor's appraisal efforts.

The unrecovered appraisal costs shall be carried forward to succeeding Calendar Years until fully recovered.

(b)(1) In the case of the first Oil Field to attain Commencement of Commercial Production, beginning in the Calendar Year during which the appraisal costs incurred by the Parties in respect of the Contract Area have been fully recovered, the remainder of the "investment recovery oil" of such Oil Field shall be used for the simultaneous recovery of (1) the development costs incurred and not yet recovered respectively by CNPC and the Contractor and Deemed Interest thereon in respect of such Field, (2) Dagang's Pre-Contract Development Costs and Deemed Interest thereon calculated in accordance with Article 12.2.3.2, above, and (3) Dagang's Remaining Pre-Contract Appraisal Costs without Deemed Interest on the following basis:

I. Until Dagang has fully recovered its Pre-Contract Development Costs together with Deemed Interest thereon together with its Remaining Pre-Contract Appraisal Costs together with Deemed Interest thereon, such "investment recovery oil" shall be shared on the following basis after the price of such remainder of the "investment recovery oil" has been determined in accordance with Article 14 hereof:

(1) the Contractor's share of such "investment recovery oil" shall be based on the ratio of

(A) Contractor's share of the budgeted costs to develop the Oil Field, as set forth in the approved Overall Development Program

to

(B) (1) CNPC's share of the budgeted costs to develop the Oil Field, as set forth in the approved Overall Development Program, plus (2) Dagang's Pre-Contract Development Costs, plus (3) Dagang's Remaining Pre-Contract Appraisal Costs;

(2) the balance of "investment recovery oil" shall be allocated to CNPC and Dagang. The unrecovered development costs and Deemed Interest thereon, unrecovered Pre-Contract Development Costs and Deemed Interest thereon, and unrecovered Pre-Contract Appraisal Costs and Deemed Interest thereon shall be carried forward to succeeding Calendar Years until fully recovered.

II. After Dagang has fully recovered its Pre-Contract Development Costs together with Deemed Interest thereon together with its Remaining Pre-Contract Appraisal Costs together with Deemed Interest thereon, such "investment recovery oil" for any Calendar Year shall be used for the simultaneous recovery of the development costs incurred and not yet recovered respectively by CNPC and the Contractor and Deemed Interest thereon in respect of such Field in proportion to their respective participating interests therein after the price of such remainder of the "investment recovery oil" has been determined in accordance with Article 14 hereof. The unrecovered development costs and Deemed Interest thereon shall be carried forward to succeeding Calendar Years until fully recovered.

(b)(2) In the case of each Oil Field other than the first Oil Field to attain commencement of Commercial Production, beginning in the Calendar Year during which the appraisal exploration costs incurred by the Parties in respect of the Contract Area have been fully recovered, the remainder of the "investment recovery oil" of such an Oil Field shall be used for the simultaneous recovery of the development costs incurred and not yet recovered respectively by CNPC and the Contractor and Deemed Interest thereon in respect of such Field in proportion to their respective participating interests therein after the price of such remainder of the "investment recovery oil" has been determined in accordance with Article 14 hereof. The unrecovered development costs and Deemed Interest thereon shall be carried forward to succeeding Calendar Years until fully recovered.

(c) During the production period of an Oil Field, costs for an additional development project incurred pursuant to Article 11.9 hereof and Deemed Interest thereon shall be recovered together with the unrecovered development costs and Deemed Interest thereon. If the development costs and Deemed Interest thereon have been fully recovered, then costs for the said additional development project and Deemed Interest thereon shall be recovered from the "investment recovery oil" of such Field referred to in Article 13.2.2.2 herein in accordance with the provisions specified in Article 13.2 herein. The unrecovered costs for the additional development project and Deemed Interest thereon shall be carried forward to succeeding Calendar Years until fully recovered.

(d) After the recovery of an Oil Field's development costs and Deemed Interest thereon and/or costs for the additional development project and Deemed Interest thereon from the said Field by the Parties, the remainder of the "investment recovery oil" shall automatically be regarded as part of the "remainder oil" referred to in Article 13.2.3 herein. By the date of expiration of the production period of an Oil Field pursuant to Article 4.5 hereof, if any development costs and Deemed Interest thereon and/or costs for the additional development project incurred in respect of such Field and Deemed Interest thereon have not yet been fully recovered, then such unrecovered costs and Deemed

Interest thereon shall be regarded as a loss, and the Parties shall bear the loss in proportion to their respective participating interests. Any unrecovered Pre-Contract Appraisal Costs and Deemed Interest thereon or Pre-Contract Development Costs and Deemed Interest thereon shall be regarded as a loss and be borne by Dagang.

13.2.3 The remainder of the Annual Gross Production of Crude Oil after the allocation referred to in Articles 13.2.1 and 13.2.2 shall be deemed as "remainder oil". Such "remainder oil" shall be divided into "share oil" of the Chinese side and "allocable remainder oil". The "allocable remainder oil" of each Oil Field in each Calendar Year shall be equal to the "remainder oil" of that Calendar Year multiplied by the factor (x) for each Oil Field within the Contract Area in that Calendar Year. The factor (X) of each Oil Field in each Calendar Year shall be determined in accordance with the following successive incremental tiers on the basis of the Annual Gross Production of Crude Oil from such Oil Field during that Calendar Year.

Annual Gross Production of Crude Oil from Each Oil Field (Thousands of Metric Tons)	Factors in Percentage Applicable to Each Production Tier of Each Oil Field within the Contract Area
Equal to or less than 300	X 1 = 96%
Over 300 to 600	X 2 = 92%
Over 600 to 1200	X 3 = 90%
Over 1200 to 1,800	X 4 = 86%
Over 1,800 to 2,400	X 5 = 82%
Over 2,400 to 3,500	X 6 = 78%
Over 3,500	X 7 = 73%

An example of application in calculating the factor (X):

Assuming that there are two producing commercial Oil Fields A and B within the Contract Area and the Annual Gross Production of Crude Oil from Oil Field A in a Calendar Year is one (1) million metric tons, and that from Oil Field B is one point five (1.5) million metric tons, the factor (X) of Oil Field A in that Calendar Year shall be:

$$X = \frac{300X + 300X + 400X}{1,000} \times 100\% = 92.4\%$$

and the factor (X) of Oil Field B in that Calendar Year shall be:

$$X = \frac{300X + 300X + 600X + 300X}{1,500} \times 100\% = 90.8\%$$

13.2.4 The "allocable remainder oil" of each Oil Field in each Calendar Year referred to in Article 13.2.3 herein shall be shared by the Parties in proportion to their respective participating interests in the development costs, fifty-one percent (51%) for CNPC and forty-nine percent (49%) for the Contractor. In the event that CNPC does not participate in the development of an Oil Field within the Contract Area, the Contractor shall obtain one hundred percent (100%) of the "allocable remainder oil" of that Field. In the event that CNPC participates to an extent less than fifty-one percent (51%) in the development of an Oil Field within the Contract Area, the "allocable remainder oil" of such Field in that Calendar Year shall be shared by the Parties in proportion to their actual respective participating interests in such Oil Field.

13.3 Pursuant to the method of allocation specified in this Article, the Contractor may obtain an aggregate amount of Crude Oil consisting of the following three categories:

13.3.1 The total amount of Crude Oil as converted from the actual operating costs paid by the Contractor in all Oil Fields in proportion to its participating interests in the development costs stipulated in 12.1.3 hereof when recovering such costs;

13.3.2 The total amount of the "investment recovery oil" from all Oil Fields due to the Contractor provided for in Article 13.2.2.2 herein; and

13.3.3 The total amount of the "allocable remainder oil" of all Oil Fields due to the Contractor in accordance with Article 13.2.4 herein.

13.4 In the event that the Contractor wishes to purchase a portion of or all of the total amount of the Crude Oil obtained by CNPC from the "investment recovery oil" in addition to the Crude Oil obtained by the Contractor in accordance with Article 13.3 herein, the Parties shall negotiate the terms and conditions of purchasing such Crude Oil and reach an agreement as a supplementary document hereto.

13.5 CNPC and each company comprising the Contractor shall, throughout the entire Contract term, have the right and obligation, in each Calendar Quarter to lift and take, and separately dispose of their respective full shares of all Crude Oil produced, and determined pursuant to Articles 13.3 and 13.4 herein.

In the event that the Crude Oil production of any Oil Field is reduced because CNPC or any company comprising the Contractor does not lift and take its full share of Crude Oil or lifts nothing, then such reduction in Crude Oil production shall not affect the full shares of Crude Oil due to or the shares of Crude Oil available to be lifted and disposed of by the other party as provided in Article 13.6 (c) herein.

13.6 A Crude Oil lifting procedure shall be agreed upon by the Parties no later than six (6) months prior to the Date of Commencement of Commercial Production within the Contract Area, and shall include, but not be limited to:

(a) Operator's notification of Crude Oil production to CNPC and the Contractor;

(b) Notification by CNPC and each company comprising the Contractor of its expected offtake to the Operator;

(c) Operator's notification to CNPC and each company comprising the Contractor of the final Crude Oil lifting schedule which shall be binding on CNPC and each company comprising the Contractor;

(d) Limitation and calculation of overlift and underlift of CNPC and each company comprising the Contractor; and provisions to ensure timely and ratable lifting of Crude Oil;

(e) Determination of allowable operational tolerance of liftings; and

(f) other terminal procedures as may be required to reflect the particular circumstances.

13.7 For the purpose of implementing the procedures as described in Article 13.6 herein, CNPC and each company comprising the Contractor shall jointly set up a Crude Oil lifting coordination group consisting of representatives each appointed by CNPC and each company comprising the Contractor, with the representative of CNPC as the chairman. Such group shall be responsible for the preparation of Crude Oil lifting plans of Calendar Year, of Calendar Quarter and of calendar month and shall also be responsible for the reasonable and unified arrangements and adjustments of the

aforesaid Crude Oil lifting plans through close contact with any operator in charge of the storage and loading facilities.

Article 14

Quality, Quantity,

Price and Destination of Crude Oil

14.1 In accordance with Article 13.3 hereof, the Contractor may obtain the aggregate amount of three (3) categories of the Crude Oil referred to in Articles 13.3.1, 13.3.2 and 13.3.3 hereof. In addition the Contractor may purchase a portion or all of the total amount of the Crude Oil allocated to CNPC from the "investment recovery oil" in all Oil Fields within the Contract Area in accordance with Article 13.4 hereof.

14.2 Quality of the Crude Oil.

14.2.1 The quality analysis of the Crude Oil produced from each Oil Field within the Contract Area shall be undertaken at the Delivery Point. Such analysis shall be carried out on a sample taken by the State Administration of Import and Export Commodity Inspection (hereafter referred to as the "Administration") or any representative agency delegated by the Administration pursuant to standards issued by the State Bureau of Standardization of the People's Republic of China or by the Department or Unit.

14.2.2 The Crude Oil quality analysis referred to in Article 14.2.1 above shall include the following:

- (a) density at 20 degrees Centigrade, in grams per cubic centimeter;
- (b) sulfur content, in weight percentage;
- (c) water content, in weight percentage; and
- (d) basic sediment content, in weight percentage.

14.3 Quantity of the Crude Oil.

14.3.1 The quantity measurement of the Crude Oil produced from each Oil Field within the Contract Area, when being lifted, shall be made at a Delivery Point and with measuring devices both to be agreed upon by the Parties. A relevant measuring organization of the Chinese Government or a representative agency delegated thereby shall, at appropriate regular intervals, calibrate all the measuring devices, conduct special testing and issue certificates or confirmation with respect thereto before the measuring devices are put into use. The quality and quantity of the Crude Oil delivered shall be authenticated in accordance with the commodity quality certificate and weight certificate issued by the Administration and such quality and quantity shall be the basis for the accounting settlement.

14.3.2 If any party to the Contract believes that the Crude Oil measuring devices, sampling or analysis are inaccurate, or has any objection to the results specified in the above mentioned certificates, on-site investigations, technical exchanges and discussions may be conducted by the Parties to resolve the issue in a manner satisfactory to the Parties.

14.4 Determination of the Crude Oil Price.

14.4.1 The price of various grades of the Crude Oil shall be expressed as FOB price at the Delivery Point. Determination of the Crude Oil price shall be made with reference to the prevailing price in arm's length transactions of the long term contract sales of similar quality crude oil on the main world oil markets and the adjustments in such price shall be made in accordance with such determinants as the quality of the Crude Oil, the terms

of delivery, transportation, payment and other terms.

The aforesaid price in arm's length transactions in this Article refers to a price at which a seller sells its crude oil to a buyer who is independent of the seller, but not including the prices used by them for government to government transactions which do not reflect international oil market price, crude oil exchange, barter or spot transactions.

14.4.2 Where the Crude Oil produced from each Oil Field within the Contract Area differs in grades, the prices of such Crude Oil with different quality shall be individually determined.

14.4.3 The price of the Crude Oil produced from all the Oil Fields within the Contract Area shall be denominated in U.S. dollars per metric ton. However, if an international currency other than the U.S. dollar prevails on the main world oil markets as the pricing unit of crude oil, the Parties may also use that international currency therefor upon mutual agreement.

14.4.4 Procedure for the Determination of the Crude Oil price.

14.4.4.1 The Crude Oil price shall be determined each Calendar Quarter. In case the crude oil price prevailing on most world oil markets fluctuates, CNPC and the Contractor each shall have the right to propose, at any time, that a new Crude Oil price be negotiated and determined.

14.4.4.2 The Contractor shall, no later than forty-five (45) days prior to commencement of any Calendar Quarter, notify CNPC of its proposed price for the Crude Oil to be lifted in such Calendar Quarter (for the purpose of this Article thereafter referred to as the said Calendar Quarter).

14.4.4.3 CNPC shall notify the Contractor of its decided price within ten (10) days after the receipt of the aforesaid proposed price notified by the Contractor. In the absence of a different price notified by CNPC to the Contractor within ten (10) days after the receipt of the aforesaid notification, the proposed price notified by the Contractor as referred to in Article 14.4.4.2 herein shall be applied to the Crude Oil to be lifted in the said Calendar Quarter.

14.4.4.4 The Contractor shall, within five (5) days following its receipt of notice of a price decided by CNPC, state to CNPC whether the price is acceptable. If it is acceptable, the said decided price shall be regarded as the price agreed upon by the Parties for the said Calendar Quarter. If not acceptable, the Parties shall, within ten (10) days, carry out further negotiation in an amicable manner to determine the price for the said Calendar Quarter.

14.4.4.5 In the event that the Parties still cannot reach an agreement on the Crude Oil price for the said Calendar Quarter through further negotiations by the Parties, the Contractor may lift the Crude Oil in accordance with the quota specified for the said Calendar Quarter in Article 13.2 hereof, and the Crude Oil price for the preceding Calendar Quarter shall apply provisionally to the Crude Oil of such quota and/or the payment shall be made accordingly. Then, the Parties shall negotiate further on the Crude Oil price for the said Calendar Quarter taking into account relevant independent and non-proprietary market data on Third Party long-term-contract-sales of crude oil in substantial quantities on the main world oil markets, adjusted for quality, transportation and other applicable differentials. The Parties shall each take into account the information supplied and discussed and attempt to agree on a Crude Oil price based upon such information by the end of the said Calendar Quarter.

(A) In the event that the Parties still cannot reach an agreement on the Crude Oil price by the end of the said Calendar Quarter, then the Crude Oil price shall be the

weighted average FOB price of the Crude Oil of the same or similar quality sold by CNPC and/or the Contractor to a Third Party or Third Parties and produced in the said Calendar Quarter from the Oil Fields described hereafter, adjusted for such differences as the quality, delivery, transportation, payment and other terms, but excluding the government to government transactions which do not reflect international oil market price, crude oil exchange, barter or spot transactions.

The application of the above-mentioned price of Crude Oil sold to a Third Party or Third Parties shall be in the following sequence:

(i) Firstly, the price, calculated and determined in accordance with the above-mentioned stipulations, of the Crude Oil produced from the relevant Oil Field or Oil Fields in the Contract Area and sold to a Third Party or Third Parties shall be applied;

(ii) In the event no sales as referred to in paragraph (i) above were made in the said Calendar Quarter, the price, calculated and determined in accordance with the above-mentioned stipulations, of the Crude Oil produced from other Oil Fields in the Contract Area and sold to a Third Party or Third Parties shall be applied; and

(iii) In the event no sales mentioned in paragraphs (i) and (ii) above were made in the said Calendar Quarter, the price, calculated and determined in accordance with the above-mentioned stipulations, of the Crude Oil produced from the oil fields of other contract areas for Chinese-foreign cooperative exploitation of petroleum resources and sold to a Third Party or Third Parties shall be applied;

(B) In the event there are no such Third Party sales of the Crude Oil during the said Calendar Quarter, then the Crude Oil price for the said Calendar Quarter shall be equal to the same Crude Oil price of the preceding Calendar Quarter adjusted by the differences in the individual arithmetic average of the daily weighted average of the official government selling price of a basket of three or more internationally traded Crude Oils in the said Calendar Quarter compared with that of such basket of Crude Oils for the preceding Calendar Quarter. The adjusted price shall be the Crude Oil price for the said Calendar Quarter. The Crude Oils selected for the basket shall each be similar in quality to that from the Contract Area and chosen from different countries and shall reflect the conditions of the main world oil markets and shall be mutually agreed upon by the Parties at a reasonable time prior to the Date of Commencement of the Commercial Production of Crude Oil.

(C) If the Parties are unable to agree on a Crude Oil Price for a Calendar Quarter in which Crude Oil is first produced and delivered from or the production of Crude Oil is restored in a Field in the Contract Area, then the Crude Oil for the Calendar Quarter shall be priced and/or paid in accordance with the arithmetic average price of the prices finally proposed by the Parties in the Calendar Quarter. Based on the Crude Oil price agreed upon by the Parties for the succeeding Calendar Quarter, the Crude Oil price for the Calendar Quarter shall be determined by adjusting retroactively by the differences between the arithmetic average prices of the basket of the Crude Oils for the Calendar Quarter and the succeeding Calendar Quarter in accordance with the calculation method referred to in paragraph 14.4.4.5 (B) herein.

14.4.4.6 If, due to the delayed announcement of crude oil prices by the main world oil-producing countries or the main world oil markets, or if, as agreed by CNPC and the Contractor, an unstable main world oil market exists, then the period for the determination of the price referred to in Article 14.4.4.2 herein may be extended to the end of the said Calendar Quarter in question.

14.4.4.7 If the Crude Oil prices are adjusted retroactively by the main world oil-producing countries, then the Crude Oil price may be retroactively adjusted by

the Parties after consultation, provided that the period for such retroactive adjustment shall not exceed the current Calendar Quarter.

14.4.5 The Crude Oil for each Calendar Quarter due to CNPC pursuant to Article 13 hereof shall be converted into an amount of money in the currency utilized pursuant to Article 14.4.3 herein based on the Crude Oil price for that Calendar Quarter finally determined in accordance with the aforesaid provisions specified in Article 14.4 herein and such amount of money shall be entered into the Joint Account as of the date on which such Crude Oil is lifted.

14.4.6 The Crude Oil for each Calendar Quarter due to the Contractor pursuant to Article 13 hereof shall be converted into a amount of money in the currency utilized pursuant to Article 14.4.3 herein based on the Crude Oil price for the Calendar Quarter finally determined in accordance with the aforesaid provisions specified in Article 14.4 herein and such amount of money shall be entered into the Joint Account as of the date on which the Crude Oil is lifted.

14.4.7 Notwithstanding any provision in this Article 14.4 to the contrary, if Contractor agrees to sell its share of production into the Chinese domestic market by a sale to CNPC or its designated subsidiary, the realized price received by the Contractor shall be deemed a Third Party price for the purposes of this Article 14.4.

14.5 Terms of payment for the purchased Crude Oil pursuant to Article 13.4.

14.5.1 Before the Crude Oil price is determined, the time limit for payment shall be agreed upon by the Parties through consultation in accordance with the practice then prevailing on the main world oil markets.

14.5.2 In case the Contractor is in default of such payment, the Contractor shall pay interest on arrears of the payment, starting from the first day of such default. The interest rate shall be the seven day term London Interbank Offered Rate (LIBOR) for U.S. dollars quoted by Midland Bank in London at eleven (11:00) a.m. on the first working day following the due date of payment plus five percent (5%).

14.6 Destination of the Crude Oil.

14.6.1 The destination of the Crude Oil lifted by the Contractor shall be at the discretion of the Contractor, except as stipulated in Article 14.6.2 herein.

14.6.2 In accordance with the decisions of the Chinese Government, CNPC shall notify the Contractor of any prohibited destinations which infringe on the political interests of the People's Republic of China. The Contractor shall not deliver the Crude Oil to the prohibited destinations as notified.

Article 15

Preference to the Employment of the

Chinese Personnel, Goods and Services

15.1 The Contractor shall give preference to CNPC and/or local goods, equipment and service when procuring necessary goods, and leasing equipment as well as entering into subcontracts or other service contracts for the performance of the Petroleum Operations provided that they are competitive in terms of price, quality, term of delivery, technology and service.

15.2 The Contractor shall give preference to the employment of CNPC Personnel in the performance of the Petroleum Operations. For this purpose, the Contractor shall submit in advance to CNPC and JMC, respectively, all plans for the employment of CNPC Personnel listing all the

posts and the number of persons involved. CNPC shall, in accordance with the plan, provide or assist in recruiting Chinese employee candidates for such employment. For the performance of Petroleum Operations, the Contractor shall have the obligation to employ competent CNPC Personnel and to employ those who have become qualified after being trained in accordance with the training program. The Contractor shall, in the employment, give preference to the CNPC Personnel who have participated in the training program provided by the Contractor.

15.3 The engineering design corporations under CNPC shall have the right to participate in the master designs and engineering designs made by the Contractor for the purpose of the implementation of the Contract. Engineering design companies within the territory of the People's Republic of China shall be given preference in entering into the subcontracts for the aforesaid master designs and engineering designs, provided that their technical level, price and delivery time are competitive.

15.4 After the Contractor signs equipment leasing contracts, service contracts or subcontracts with CNPC or its Affiliates in accordance with Article 15.1 herein, the Contractor shall endeavor to provide technical assistance to CNPC or its Affiliates, at the request of CNPC, so as to enable them to meet the needs of operations to be undertaken. The expenses so incurred shall be borne by CNPC or its Affiliates.

Article 16

Training of Chinese Personnel and Transfer of Technology

16.1 In the implementation of the Contract, the Contractor or its Affiliates, including each company comprising the Contractor, shall apply in the Petroleum Operations their appropriate and advanced technology and managerial experience, including their proprietary technology, e. g. patent, know-how or other confidential technology, etc. At the same time, the Contractor shall have the obligation to transfer technology and experience, the necessary data and/or information for mastering those technologies and experience, to CNPC and its Affiliates. Provided however, such technology to be transferred shall be proprietary to the Contractor and if the transfer of any of such technology is restricted in any way during the term of the Contract, the Contractor shall, to the extent reasonably possible, endeavor to obtain permission for the transfer of such restricted technology. In the Petroleum Operations, the Contractor shall train, in planned, systematic and various ways, the Chinese Personnel relating to the implementation of the Contract, for the purpose of improving their knowledge and skill, so that such Chinese Personnel shall gradually reach the level of knowledge and skill as that possessed by the Contractor's employees.

16.2 Within ninety (90) days following the Date of Commencement of the Implementation of the Contract, the Contractor shall, after consultation with CNPC, complete and submit a training and technology transfer program for the Chinese Personnel in the appraisal period and the corresponding budget to JMC for review and approval, and upon approval by JMC, put it into practice. The Contractor shall, after the consultation with CNPC, complete and submit training and technology transfer programs and corresponding budgets for the Chinese Personnel in the development period and production period, respectively, to JMC for its review and approval before the commencement of Development Operations and Production Operations, and upon approval by JMC, put them into practice in time so as to have ample time in advance for such training and technology transfer.

16.3 The purpose, requirement, fields of specialization, scope of personnel, specific job categories, type, method, etc. shall be determined through consultations by the Parties.

16.4 The expenses and costs incurred for performing

the training and technology transfer program stipulated in this Article shall be charged to the appraisal costs if such costs are incurred before the date of approval of the Overall Development Program of the first Oil Field and/or Gas Field, and shall be charged to the development costs if such costs are incurred after the date of approval of the Overall Development Program of the first Oil Field and/or Gas Field, and before the Date of Commencement of Commercial Production of the first Oil Field and/or Gas Field, or shall be charged to the operating costs if such costs are incurred after the Date of Commencement of Commercial Production of the first Oil Field and/or Gas Field.

16.4.1 The annual Work Program and Budget shall include provisions for meeting the training and technology transfer requirements of this Article 16. The training program for CNPC Personnel shall be formulated to meet the needs of the Petroleum Operations and shall be based on principles of mutual benefit and efficiency of operation. To the extent practicable, the training program shall principally consist of CNPC Personnel working directly with personnel of the Operator on matters that relate to the Petroleum Operations or in other ways agreed by the Parties. The Parties shall establish the content and associated costs for training and technology transfer through discussions within the JMC and this amount shall be included in the annual Work Program and Budget. The Parties agree that the budget for the annual training program for all Petroleum Operations shall be fifty thousand (\$50,000) U.S. dollars during Phase 1 of the Appraisal Period and eighty thousand (\$80,000) U.S. dollars per year during Phases 2 and 3. During Development Operations, the budget for the annual training program shall be increased to one hundred fifty thousand (\$150,000) U.S. Dollars per year. These amounts shall include the cost of training provided by the Operator. Such costs and expenditures incurred during the production period shall be determined by the Parties at the first meeting of the JMC in the production period.

16.5 In the course of the implementation of the Contract, the Parties shall have scientific and technical cooperation and exchange in connection with the Petroleum Operations. The relevant provisions concerning the plan, participating personnel and the type related to the scientific and technical cooperation and exchange shall be determined by the Parties. The expenses required by scientific and technical cooperation and exchange shall be included in the budget specified in Article 16.2 herein and charged to the Joint Account. In the scientific and technical cooperations, all inventions, experiments or research results shall be shared by and belong to the Parties who, subject to the provisions of Article 22 hereof, shall not disclose them to any Third Party.

16.5.1 In the course of the implementation of the Contract, those scientific research projects which are required by the Petroleum Operations but not carried out by the Parties, with the approval of JMC, may be commissioned to, and carried out by, a Third Party, and the Parties shall enter into subcontracts or service contracts with relevant scientific departments within the territory of China, provided that they are competitive. The aforesaid required expenses shall be included in the budget specified in Article 16.2 herein and charged to the Joint Account. All inventions and experimental or research results developed from the aforesaid research projects carried out by a Third Party delegated by the Operator shall also be shared by and belong to the Parties who, subject to the provisions of Article 22 hereof, shall not disclose any of them to any Third Party. The Operator shall endeavor to incorporate the provisions herein in the subcontracts or service contracts signed with the Third Party.

16.6 The advanced technology and managerial experience, including proprietary technology, e. g. patent, know-how or other confidential technology that the Contractor shall transfer to CNPC, shall remain the exclusive property of the owner and also be subject to the confidentiality restrictions of Article 22 hereof.

Article 17

Ownership of Assets and Data

17.1 All assets purchased, installed and constructed under the Work Program and budget for an Oil Field and/or Gas Field within the Contract Area shall be owned by CNPC from the date on which all the development costs actually incurred by the Contractor in the development period of such Oil Field and/or Gas Field have been fully recovered or from the date on which the production period expires, even though the aforesaid costs have not been fully recovered. The Operator shall be responsible for the acceptance inspection or testing of the said assets and CNPC may, as it deems necessary, send its experts to participate in such acceptance inspection or testing. In the production period, the Operator may use these aforesaid CNPC-owned assets free of charge for performing the Petroleum Operations. Such assets shall not be used in any operations other than the Petroleum Operations or any operations by Third Parties without the consent of the Parties.

17.2 Equipment and facilities which are owned by a Third Party and are either leased by the Operator or temporarily brought into the territory of the People's Republic of China for the performance of the Petroleum Operations shall not be deemed as assets owned by CNPC. Such equipment and facilities may be exported from the People's Republic of China, but, export formalities shall be handled by CNPC.

17.3 The ownership of all of the data, records, samples, vouchers, and other original data obtained in the course of performing the Petroleum Operations shall vest in CNPC.

Article 18

Associated Natural Gas

and Non-associated Natural Gas

18.1 Associated Natural Gas.

18.1.1 The Associated Natural Gas produced from any Oil Field within the Contract Area shall be primarily used for purposes related to the operations of production and production enhancement of Oil Fields such as gas injection, gas lifting and power generation.

18.1.2 Based on the principle of full utilization of the Associated Natural Gas and with no impediment to normal production of the Crude Oil, the Overall Development Program of each Oil Field shall include a plan of utilization of the Associated Natural Gas. If there is any excess Associated Natural Gas in any Oil Field after utilization pursuant to Article 18.1.1 herein (hereafter referred to as "excess Associated Natural Gas"), the Operator or the Contractor shall carry out a feasibility study regarding the utilization of such excess Associated Natural Gas of such Oil Field. Such feasibility study, if carried out before the Development Operations of an Oil Field, shall be included as part of the feasibility study on the development of the Oil Field. With respect to any Oil Field already under commercial production, if a further feasibility study on the utilization of its excess Associated Natural Gas is required, such study shall be carried out by the Operator and a report thereon shall be submitted to JMC for review and discussion. If the Parties decide to utilize the excess Associated Natural Gas of any Oil Field, the construction of facilities for such utilization and the production of the excess Associated Natural Gas shall be carried out at the same time as the Oil Field construction and production.

18.1.2.1 If the Parties agree that the excess Associated Natural Gas of an Oil Field has no commercial value, then such gas shall be disposed of by the Operator, provided that there is no impediment to normal production of

the Crude Oil.

18.1.2.2 If any party to the Contract considers unilaterally that the excess Associated Natural Gas of an Oil Field has commercial value, such gas may be utilized by that party to the Contract at its own expense without affecting the amount of "cost recovery oil" and "allocable remainder oil" due to the other party to the Contract which does not invest in such utilization.

18.1.2.3 If the Parties agree that excess Associated Natural Gas of an Oil Field has commercial value, they shall make further investment in its utilization in proportion to their respective participating interests in the development of the Oil Field. If the Parties disagree on the commercial utilization of such excess Associated Natural Gas of that Oil Field, they shall, guided by the principle of mutual benefit, carry out further negotiations to find a new solution to utilization of the said excess Associated Natural Gas and reach an agreement in writing. If the Parties fail to reach an agreement through such negotiations, CNPC shall reserve the right to dispose of such excess Associated Natural Gas unilaterally.

18.1.3 Expenses incurred in the utilization of the Associated Natural Gas of any Oil Field as stipulated in Article 18.1.1 herein, and those incurred in carrying out a feasibility study on the utilization of the excess Associated Natural Gas after commencement of commercial production of the Oil Field referred to in Article 18.1.2 herein shall be charged to the development costs of the Oil Field.

18.2 Non-associated Natural Gas.

18.2.1 When any Non-associated Natural Gas Field (hereafter referred to as the "Gas Field") is discovered within the Contract Area, the Parties shall carry out friendly negotiations regarding the development and production of the Gas Field with a view to reaching an agreement of principle, which shall form a supplementary document to the Contract, and shall include the following principles:

18.2.1.1 The price of the Natural Gas produced from the Contract Area shall be determined based on general pricing principles prevailing internationally taking into consideration such factors as the market, the grade, quality and quantity of the Natural Gas, etc.;

18.2.1.2 The Contract term for the Gas Field within the Contract Area shall be separately determined according to the conditions for development, production of such Field and marketing of the Natural Gas; and

18.2.1.3 The allocation of the Natural Gas shall be in conformity with the general principles of allocation for the Crude Oil stipulated in Article 13 hereof. However, the percentages of the allocation shall be adjusted by the Parties through negotiations in light of actual conditions in the Gas Field so that the Contractor shall be able to obtain a reasonable economic benefit.

Following the signature of the agreement of principle herein, the Operator shall work out an evaluation Work Program for the discovered Gas Field in accordance with the terms and conditions in the said agreement of principle and submit it to JMC for its review and approval. Upon approval by JMC, the Operator shall carry out an evaluation Work Program. The expenses incurred by the Operator in carrying out the said evaluation Work Program shall be charged to the appraisal costs of the Contract Area.

18.2.2 After completion of evaluation of a Gas Field, the Operator shall submit a report thereon to JMC for review and discussion.

18.2.2.1 If JMC decides unanimously that a gas reservoir is noncommercial, the corresponding area covered by the gas reservoir may be retained in the Contract Area

during the appraisal period. But if, at the expiration of the appraisal period, JMC still considers the said gas reservoir to be noncommercial, the area covered by the gas reservoir shall be excluded from the Contract Area. For a Gas Field which has potential commercial value but which has not been developed due to a lack of market or a shortage of consuming facilities, the period for which the Gas Field is retained in the Contract Area may be extended at the request of any party to the Contract. Such extended period, however, shall not exceed three (3) consecutive Contract Years after the date of expiration of the appraisal period hereunder. In case the time needed for the market to develop or for the consuming facilities to be constructed for the Gas Field exceeds such extended period, a further extended period shall be subject to the approval of the relevant authorities of the Chinese Government.

Prior to the expiration of the appraisal period, if JMC considers that a gas reservoir which has been determined to be noncommercial needs to be reappraised because of some favorable factors, the Operator shall work out a new evaluation report on that gas reservoir and submit it to JMC for review and approval.

18.2.2.2 If the Contractor considers any gas reservoir to be non-commercial, the Contractor shall be deemed to have waived its rights of participating in the development of that gas reservoir.

18.2.2.3 Where the Parties consider a gas reservoir to be commercial, the Parties shall negotiate to reach an agreement on the development of the said gas reservoir, based on the terms and conditions provided in the agreement of principle referred to in Article 18.2.1 herein. The agreement concerning the development shall be a supplementary document and an integral part hereof. If the Parties fail to reach such agreement through negotiations within three (3) years after the date of commencement of such negotiations, CNPC shall have the right unilaterally to put up the gas reservoir for bidding. In such case, the Contractor shall still be entitled to participate in the bidding.

18.3 If CNPC utilizes unilaterally the excess Associated Natural Gas of an Oil Field or develops solely a Gas Field and requires to apply thereto the Contractor's appropriate and advanced technology and managerial experience, the Parties shall negotiate terms and conditions related thereto and the Operator shall carry out the operations after an agreement has been reached on such terms and conditions.

Article 19

Accounting, Auditing and Personnel Costs

19.1 Accounting.

Annex II - Accounting Procedure hereto contains the guidelines for the Operator to keep accounting books and records and make financial settlements. The Operator shall keep and settle the accounts for all the financial activities in respect of the Contract Area and maintain all the accounting books and records in accordance with Annex II - - Accounting Procedure hereto in order to accurately reflect the appraisal costs, development costs with Deemed Interest thereon and operating costs incurred in the performance of Petroleum Operations in respect of the Contract Area, as well as quantity and monetary value of the production and allocation of Crude Oil and Natural Gas. The Operator shall submit detailed statements and relevant written reports to JMC and the departments concerned.

19.2 Auditing.

19.2.1. Any Non-Operator party to the Contract shall have the right to audit all the Operator's Joint Account accounting books and records after the end of each Calendar

Year and to give the Operator a written notice of the auditing results. The audit of any Calendar Year shall be completed within twenty-four (24) months after the end of such Calendar Year. If written notice of the auditing results and exceptions are not given by the non-Operator party within such period or if the annual Joint Account accounting books and records of the Operator are not audited by any non-Operator party within such period, the Operator's Joint Account accounting books and records shall be deemed correct. A special auditing of the Operator's Joint Account accounting books and records may be made due to some special requirements during a Calendar Year.

19.2.2 If the auditing referred to in Article 19.2.1 herein is conducted, the Operator shall be given thirty (30) days notice prior to the date of commencement of such auditing. There shall be no impediment to normal Petroleum Operations during any audit.

19.2.3 The auditors shall be entitled to access to all relevant Joint Account records, files and other information and may inspect such sites and facilities as are necessary.

19.2.4 Upon receipt of a notice of the non-Operator party's exceptions to the auditing results, the Operator shall resolve these matters in due time (no later than sixty (60) days thereafter).

19.3 Personnel Costs.

19.3.1 The personnel costs means that remuneration and other related charges paid on the basis of the working time spent by personnel who are engaged in administration, management, accounting, finance, tax, employee relations, procurement, legal affairs, computer services, engineering, geology, geophysics, drilling and the Production Operations as well as all other work for the implementation of the Contract.

19.3.1.1 The salaries or wages of personnel in various subordinate bodies of JMC and of all employees engaged in the performance of the Petroleum Operations shall be included in the personnel costs as provided in Article 19.3.1 herein.

19.3.1.2 Personnel costs which are classified as the overhead of the superior management organization pursuant to Article 5.2.18 of Annex II - Accounting Procedure hereto shall not be included in the personnel costs mentioned herein.

19.3.2 After the Date of Commencement of the Implementation of the Contract, the Operator shall work out a staffing plan for its organization and planned personnel costs with respect thereto (including an itemized plan of personnel costs, such as basic salary or wage, overseas allowance and area allowance, etc.) before the beginning of each Calendar Year and submit such plan with the annual Work Program and budget to JMC for review and examination. CNPC shall have the right to audit the personnel costs charged to the Joint Account.

19.3.3 The level of the salaries and wages paid to the representatives appointed by CNPC to JMC established in accordance with Article 7.1 hereof, the Chinese Personnel working in various subordinate bodies of JMC established in accordance with Article 7.4 hereof, the professional representatives assigned by CNPC to all administrative and technical departments of the Operator (the Contractor) in accordance with Article 7.5 hereof and CNPC's personnel employed by the Contractor shall be determined by the Parties in the negotiations of the Contract.

The salaries and wages of the Chinese Personnel other than CNPC's personnel employed by the Operator shall be determined through consultation and specified in the employment contracts. The settlement of accounts for the salaries and wages of the Chinese Personnel mentioned in Article 19.3.3 herein shall be made between CNPC and the Operator, and the Operator shall not be liable for any

individual income tax thereon.

Before the Date of Commencement of Commercial Production of the first Oil Field and/or Gas Field, the level of the salaries and wages and other related charges paid to the Expatriate Employees shall be made by the Contractor through consultation with CNPC. After the Date of Commencement of Commercial Production of the first Oil Field and/or Gas Field, the level of the salaries and wages and other related charges paid to the Expatriate Employees shall be discussed and agreed by the Parties.

Article 20

Taxation

20.1 The Contractor shall pay taxes to the Government of the People's Republic of China subject to the tax laws and regulations of the People's Republic of China.

20.2 The Contractor shall advise the Subcontractors who render services for the Contract that they and their employees shall pay taxes to the Government of the People's Republic of China subject to the tax laws and regulations of the People's Republic of China.

Article 21

Insurance

21.1 The Operator shall work out an insurance program for the Appraisal Operations and submit it to JMC for review and approval within one hundred and twenty (120) days after the Date of Commencement of the Implementation of the Contract. The Operator shall, on behalf of the Parties, obtain the insurance contracts in accordance with such program as approved by JMC before commencement of Petroleum Operations within the Contract Area.

Similar provisions shall apply in respect of Development Operations and Production Operations.

21.2 All of the insurance items as approved in the insurance program shall be insured in accordance with the laws and regulations of the People's Republic of China and on terms and conditions competitive with world markets.

21.3 The insurance program worked out by Operator shall include, but not be limited to, the following insurance covering;

(a) damages and expenses to all drilling installation and equipment, including damages and expenses to the properties used on worksites and supply bases for the Petroleum Operations, while the equipment and properties owned by a Third Party rendering services to the Operator shall be handled in accordance with Article 21.5 herein;

(b) damages and expenses to any of the equipment or installations for production, storage and transportation, and buildings in the course of construction and installation;

(c) damages and expenses to the Crude Oil and/or Natural Gas production installations, facilities, equipment and pipelines;

(d) liability to Third Parties;

(e) liability for pollution and expenses for cleaning up in the course of drilling and the Production Operations;

(f) expenses for killing blowouts;

(g) liability incurred by the Operator in hiring drilling rigs, vessels and aircraft serving the Petroleum

Operations; and

(h) losses and expenses incurred during the transportation and storage in transit of goods shipped from different parts of the world to the worksites.

21.4 In the insurance contracts, the deductibles borne by the Operator alone shall be determined by the Parties through consultation, and losses within the deductible limits shall be borne by the Parties.

21.5 When signing subcontracts or lease contracts, the Operator shall endeavor to compel Subcontractors and lessors to insure their risks under the relevant subcontracts in accordance with the laws and regulations of the People's Republic of China.

21.6 In the course of the Petroleum Operations, the Parties shall cover separately accidental death and personal injury insurance with respect to personnel assigned by them respectively. The premiums in respect thereof shall be dealt with in the following way: the premiums for accidental death and personal injury insurance with respect to personnel whose costs are charged to the Joint Account pursuant to the provisions of the Contract shall be charged to the Joint Account, and those with respect to other personnel shall be borne respectively by the Parties by which they are assigned.

21.7 Insurance companies owned by or affiliated with any party to the Contract, or the Parties themselves, may approach insurer(s) for reinsurance if they are interested in covering any part of the insurance program hereof.

21.8 All motor vehicles serving the Petroleum Operations in communication, transportation and special project shall be insured in accordance with the laws and regulations of the People's Republic of China.

21.9 The premiums of insurance in the appraisal period and the development period shall be charged to the appraisal costs and development costs respectively and those in the production period shall be charged to the operating costs.

21.10 Any claim under the insurance of the agreed insurance program charged to the Joint Account shall be handled by the Operator and any recovery made from insurers shall be credited to the Joint Account.

Article 22

Confidentiality

22.1 CNPC shall, in conformity with applicable laws and regulations of the Government of the People's Republic of China on confidentiality and by taking into account the international practice, determine the confidentiality periods for which the Contract and all documents, information, data and reports related to the Petroleum Operations within the Contract Area shall be kept confidential.

22.2 Without the written consent of the other party, no party to the Contract shall disclose, in the confidentiality periods, the Contract, documents, information, data and reports referred to in Article 22.1 herein or any other information regarded by JMC as confidential, to any Third Party except the Third Parties in Article 22.5 herein and to any Affiliates not directly connected with the implementation of the Contract, and no party to the Contract shall otherwise transfer, present, sell or publish them in any way within the confidentiality periods. However, if the Department or Unit decides to invite any Third Party to conduct cooperative exploration for and development of Petroleum in the sedimentary basin in which the Contract Area is located and/or other adjacent areas, CNPC may furnish the following original data and information or the interpretation thereon with respect to

the Contract Area to the relevant Third Parties:

(a) original data and information held by CNPC for over two (2) years; and

(b) interpretation of original data and information, which has been held by CNPC for over five (5) years

CNPC shall require relevant Third Parties to undertake to keep confidential the aforesaid data, information, and interpretation thereon furnished to them by CNPC.

22.3 During the term of the Contract and after termination of the Contract, CNPC shall not disclose to any Third Party any patent, know-how or proprietary technology transferred to CNPC by the Contractor without the written consent of the Contractor except for any technology, the patent of which has expired and any proprietary and confidential technology which have entered the public domain.

22.4 After the termination of the Contract or after any assignment of rights and/or obligations of the Contract under Article 23 hereof, the Contractor and any assignee shall, within the confidentiality periods, continue to be obliged to keep confidential documents, information, data and reports mentioned in Article 22.2 herein except for official documents and information published with the consent of the Parties.

22.5 For the implementation of the Contract, the Operator may, after review by JMC and CNPC, furnish the necessary documents, information, data and reports to Third Parties and Affiliates related to the Petroleum Operations. The Third Parties and Affiliates include:

22.5.1 Banks or other credit institutions from which finance is sought by any party to the Contract for the implementation of the Contract;

22.5.2 Third Parties and Affiliates which provide services for the Petroleum Operations, including Subcontractors and other service contractors; and

22.5.3 An assignee or assignees to whom the rights and obligations under the Contract are intended to be assigned.

22.6 Necessary information, documents, data and reports may be furnished by the Contractor in accordance with the laws of its home country to the government and stock exchange provided that the Contractor reports to JMC in advance.

22.7 CNPC and each company comprising the Contractor, when furnishing the documents, information, data and reports to Third Parties and Affiliates as mentioned in Article 22.5 herein, shall require them to assume the confidentiality obligations as set forth herein, or shall bear full responsibility for any violation thereof.

Article 23

Assignment

23.1 The Contractor may assign part or all of its rights and/or obligations under the Contract to its Affiliate with the prior consent of CNPC and in accordance with the following provisions:

(a) the Contractor shall submit to CNPC copies of a written agreement on the corresponding part of its rights and/or obligations to be assigned;

(b) the Contractor shall guarantee in writing to CNPC the performance of the assigned obligations;

(c) no such assignment shall interfere with the performance of the Petroleum Operations or affect the organizational structure.

23.2 The Contractor may assign part or all of its rights and/or obligations under the Contract to any Third Party, provided that such assignment shall be agreed to by CNPC in advance and approved by Ministry of Foreign Trade and Economic Cooperation in China ("MOFTEC"). However, CNPC shall have the right of first refusal with respect to such assignment provided that the conditions offered by CNPC are comparable.

23.3 CNPC may authorize its subsidiaries, branches, regional corporations or its Affiliates to implement the Contract, but CNPC shall remain responsible for the performance of the Contract.

23.4 CNPC may assign part of its rights and/or obligations hereunder to a Chinese Government controlled Third Party, provided that prior written consent of the Government of the People's Republic of China shall be obtained. CNPC shall guarantee the performance of the assigned obligations and such assignment shall not interfere with the performance of Petroleum Operations.

Article 24

Environmental Protection and Safety

24.1 In the performance of the Petroleum Operations, the Operator shall be strictly subject to the laws, decrees and regulations on environmental protection and safety promulgated by the Chinese Government and make its best efforts to prevent pollution and damage to the atmosphere, oceans, rivers, lakes, ground water, harbors, land and ecology and secure the safety and health of the operating personnel. The Operator shall use all reasonable endeavors to eliminate promptly any pollution occurring in the performance of the Petroleum Operations and minimize its consequences. Economic loss caused by any pollution shall be charged to the Joint Account, unless otherwise provided in Article 8.4 hereof.

24.2 When competent authorities under the Chinese Government assign any person to inspect environmental protection and safety within the scope of the Petroleum Operations according to the laws, decrees, rules and regulations, the Operator shall provide all necessary facilities and assistance to enable the inspectors to carry out such inspection smoothly.

24.3 In the performance of the Petroleum Operations in any fixed fishing net casting area and/or aquatic breeding area, the Operator shall make prior contact with the appropriate authorities of the Chinese Government.

24.4 Before the commencement of Appraisal Operations, the Operator shall provide CNPC with documentation on the possible impact by the Appraisal Operations on the environment and the adopted measures to prevent pollutions. Before the Development Operations the Operator shall provide CNPC with an environment impact statement as an integral part of the Overall Development Program of the Oil Field and/or Gas Field.

24.5 During the term of the Contract, the Operator shall, after the completion of various Petroleum Operations, level or restore or reclaim the land of the operating sites in accordance with the local rules and regulations.

Article 25

Force Majeure

25.1 Except as to any payment under the Contract, no party to the Contract shall be considered in default of the performance of any of its obligations hereunder, if any failure to perform or any delay in performing its

obligations is in conformity with all the events described as follows:

The performance of any obligations hereunder is prevented, hindered or delayed because of any event or combination of events which could not be foreseen and/or which is beyond the control of such party;

The normally occurring weather conditions, such as wind, wave and current, of the Contract Area shall not be considered as an event of force majeure.

Any such event or combination of events is the direct cause of preventing, hindering or delaying of such party's performance of its obligations hereunder; and

When any such event or combination of events has occurred, such party has taken all reasonable actions to overcome any cause that prevents, hinders or delays performance of its obligations and shall in so far as is practicable continue to perform its obligations hereunder.

25.2 Notice of any event of force majeure and the conclusion thereof shall forthwith be given to the other party by the party claiming force majeure.

25.3 In the event of force majeure, the Parties shall immediately consult in order to find an equitable solution thereto and shall use all reasonable endeavors to minimize the consequences of such force majeure.

25.4 If the Petroleum Operations in the Contract Area are partially or entirely suspended as a result of the force majeure referred to in Article 25.1 herein, the period of the Petroleum Operations may be extended by a period not exceeding the corresponding period of such suspension. Within fifteen (15) days following the end of each Calendar Year, the Operator shall report to JMC in writing on the suspension of the Petroleum Operations caused by force majeure, if any, during the preceding Calendar Year.

25.5 Should, however, the Force Majeure condition continue for a period of twenty-four (24) consecutive months, then Contractor shall have the option to terminate this Contract without any further liability.

Article 26

Consultation and Arbitration

26.1 The Parties shall make their best efforts to settle amicably through consultation any dispute arising in connection with the performance or interpretation of any provision hereof.

26.2 Any dispute mentioned in Article 26.1 herein that has not been settled through such consultation within ninety (90) days after the dispute arises may be referred to arbitration at the request of and by either party to the Contract. The arbitration shall be conducted in accordance with the following provisions:

26.2.1 If agreed upon by the Parties, such dispute shall be referred to arbitration conducted by the China International Economic and Trade Arbitration Commission ("CIETAC") in accordance with the provisional arbitration proceeding rules thereof.

26.2.2 If the Parties fail to reach an agreement on the arbitration arrangement mentioned in Article 26.2.1 herein, the Parties shall establish an ad hoc arbitration tribunal to conduct arbitration in accordance with the following provisions:

26.2.2.1 The ad hoc arbitration tribunal shall consist of three (3) arbitrators. The Parties shall each appoint an arbitrator and the two arbitrators so appointed shall designate a third arbitrator. If one of the Parties does

not appoint its arbitrator within sixty (60) days after the first appointment, or if the two arbitrators once appointed fail to appoint the third within sixty (60) days after the appointment of the second arbitrator, the relevant appointment shall be made by the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden.

26.2.2.2 The third arbitrator shall be a citizen of a country which has formal diplomatic relations with both the People's Republic of China and any home country of the companies comprising the Contractor, and shall not have any economic interests of relationship with the Parties.

26.2.2.3 The place of arbitration shall be determined by the Parties through consultations or, failing the agreement of the Parties by a majority of arbitrators of the ad hoc arbitration tribunal.

26.2.2.4 The ad hoc arbitration tribunal shall conduct the arbitration in accordance with the arbitration rules of United Nations Commission on International Trade Law ("UNCITRAL") of 1976. However, if the above-mentioned arbitration rules are in conflict with the provisions of this Article 26 including the provisions concerning appointment of arbitrators, the provisions of this Article 26 shall prevail.

26.3 Both the Chinese and English languages shall be official languages used in the arbitration proceedings. All hearing materials, statements of claim or defence, award and the reasons supporting them shall be written in both Chinese and English.

26.4 Any award of arbitration shall be final and binding upon the Parties.

26.5 The right to arbitrate disputes under the Contract shall survive the termination of the Contract.

Article 27

Effectiveness and Termination of the Contract

27.1 After the Contract is signed, it shall be approved by the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China. The Contract shall be effective on the date of such approval. However, the Contractor's obligations shall begin on the Date of Commencement of the Implementation of the Contract, as defined in Article 1, herein above. CNPC shall notify the Contractor of the said approval in writing as soon as possible.

27.2 All annexes to the Contract shall be regarded as integral parts of the Contract. If there is any inconsistency between the provisions of the annexes and the main body of the Contract, the main body of the Contract shall prevail. All references to the "Contract" hereof refer to the main body of the Contract.

27.3 If in the course of implementation of the Contract the Parties decide through consultation to make amendment to or supplement to any part of the Contract, a written agreement signed by the authorized representatives of the Parties shall be required. Such written agreement shall be subject to the approval of the Ministry of Foreign Trade and Economic Cooperation should there be any significant modifications hereof. Such agreement shall be regarded as an integral part of the Contract.

27.4 The Contract shall terminate under any of the following circumstances:

27.4.1 exercise of the Contractor's election to terminate the Contract under Article 6.3 (b) hereof;

27.4.2. failure to identify any commercial oil or gas reservoir within the Contract Area by the expiration of the appraisal period or the extended appraisal period granted

under Articles 4.3 or 18.2.2.1 hereof;

27.4.3 if there is only one (1) commercial Oil Field or Gas Field in production in the Contract Area, on termination of the production period of such Field;

27.4.4. if there are two (2) or more commercial Oil Fields or Gas Fields in production in the Contract Area, on termination of the production period of the Field with the latest termination date; or

27.4.5 at the end of the last day of the thirtieth (30th) Contract Year from the Date of Commencement of the Implementation of the Contract, unless the production period is extended by approval of the Department or Unit under Article 4.5. hereof or unless otherwise stipulated in Articles 4.6.1, 18.2.1.2 or 25.4 hereof.

27.5 Before the expiration of the first phase of the appraisal period as specified in Article 4.2 hereof, the Contractor shall not propose terminating the Contract unless the Contractor has fulfilled the minimum appraisal work commitment for the first phase of the appraisal period ahead of time.

27.6 If either party to the Contract commits a material breach of the Contract, the other party to the Contract shall have the right to demand that such breach be remedied within a reasonable specified period of time. If such breach is not remedied within such period of time, the complaining party shall have the right to terminate the Contract by giving ninety (90) days' written notice to the defaulting party. However, such material breach of the Contract and unremedied material breach shall have been judged by the final award of arbitration in accordance with Article 26 hereof.

27.7 Notwithstanding the provisions in Article 6.8 hereof, CNPC has the right to unilaterally terminate the Contract, except as otherwise provided in Article 25 hereof, in the event the Contractor failed to:

(1) spud the first Appraisal Well within ten (10) months after the Date of Commencement of Implementation of the Contract provided in Article 6.2 hereof; or

(2) fulfill the minimum appraisal work commitment as specified in Article 6.2.1 herein at the expiration of the first phase of the appraisal period specified in Article 4.2 hereof.

The Contractor shall within thirty (30) days from the date CNPC decides to terminate the Contract as specified above, pay CNPC any unfulfilled balance of the minimum appraisal work commitment in the said period in U.S. dollars after it has been converted into a cash equivalent using the method provided in Annex II - Accounting Procedure.

Article 28

The Applicable Law

28.1 The validity, interpretation and implementation of the Contract shall be governed by the laws of the People's Republic of China. Failing the relevant provisions of the laws of the People's Republic of China for the interpretation or implementation of the Contract, the principles of the applicable laws widely used in the petroleum resources countries acceptable to the Parties shall be applicable.

28.2 If a material change occurs to the Contractor's economic benefit after the effective date of the Contract due to the promulgation of new laws, decrees, rules and regulations or any amendment to the applicable laws, decrees, rules and regulations made by the People's Republic of China, the Parties shall consult promptly and make necessary revisions and adjustments to the relevant

provisions of the Contract in order to maintain the Contractor's normal economic benefits hereunder.

Article 29

Language of Contract and Working Language

29.1 The text of the Contract, annexes and supplementary documents attached hereto shall be written in both Chinese and English languages, and both versions shall have equal force and effect.

29.2 The Parties agree that both Chinese and English shall be used as working languages. After the effective date of the Contract, technical documents and information concerning the Petroleum Operations hereunder shall, in general, be written in English except for technical documents and information available previously and from Third Parties.

Unless otherwise agreed by CNPC, documents and information in respect of administration shall be written in both Chinese and English. Forms for production and other reports and records shall be printed with headings in both Chinese and English and may be filled out in either Chinese or English.

Article 30

Miscellaneous

30.1 All notices and documents required hereunder shall be deemed to have been properly given and delivered to either party to the Contract only when received.

30.2 Notices and documents shall be delivered by hand or sent by mail, registered airmail or telefax to address hereunder specified:

Address of CNPC:	Address of the Contractor:
Liu Pu Kang	110 Rue Jean Lafitte
Beijing 100724	Lafayette, LA 70508
U.S.A.	
People's Republic of China	Telefax: 318-237-0168
Tel. No. 86-10-620906007	
Tel. No. 86-10-620906008	
Telefax No.: 86-10-62096006	

For the attention of:	For the attention of:
Zeng Xingqiu	Danny M. Dobbs

30.3 Each party to the Contract may change its address or representative by a written notice to each other party to the Contract.

30.4 The Contractor's participating interest hereunder as of the effective date of the Contract is one hundred percent (100%) held by XCL Cathay LTD.

30.5 The Contractor shall pay CNPC a signature fee of Three Hundred Thousand U.S. dollars (U.S.\$300,000) within thirty (30) days from the effective date of the Contract; and Two Hundred Thousand U.S. dollars (U.S.\$200,000) payable within thirty (30) days of the date of approval of the Overall Development Program of the first Oil Field and/or Gas Field by the Department or Unit. Such signature fee shall, in no case, be charged to the Joint Account, nor be deemed recoverable costs.

30.6 Companies comprising the Contractor agree to undertake the obligation of the Contractor under the Contract jointly and severally.

In witness whereof, THIS CONTRACT is signed in Beijing
by the authorized representatives of the Parties hereto on
the first above-mentioned date.

CHINA NATIONAL
PETROLEUM CORPORATION

XCL CATHAY LTD.

By: _____

By: _____

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<SEQUENCE>8
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CONSENT OF INDEPENDENT ACCOUNTANTS

October 20, 1998

We consent to the inclusion in this registration statement
on Form S-1 of our reports, both of which include an explanatory
paragraph regarding the Company's ability to continue as a going
concern, dated April 10, 1998, on our audits of the consolidated
financial statements and financial statement schedule of XCL Ltd.
and financial statements of XCL-China Ltd. We also consent to
the references to our firm under the captions "Experts."

/s/ PRICEWATERHOUSECOOPERS LLP

Miami, Florida

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CONSENT OF H.J. GRUY AND ASSOCIATES, INC.

The Board of Directors
XCL, Ltd.
110 Rue Jean Lafitte
Lafayette LA 70508

Gentlemen:

We hereby consent to the use of the name H.J. Gruy and Associates,
Inc. and references to H.J. Gruy and Associates, Inc. and to the
references to our report dated October 12, 1998 (Proved Reserves,
Zhao Dong Block, China) prepared for XCL Ltd. in the filing of
Amendment No. 2 to the Registration Statement on Form S-1 of
XCL Ltd.

Yours very truly,

/s/ James H. Hartsock

By: James H. Hartsock, PhD, PE
Title: Executive Vice President

Houston, Texas
October 12, 1998

H.J. Gruy and Associates, Inc. 1200 Smith Street, Suite 3040,
Houston, Texas 77002 o (713) 739-1000

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