THE GRAND COURT OF THE CAYMAN ISLANDS

CAUSE NO 240 OF 2002

IN THE MATTER OF SECTIONS 15, 86 AND 87 OF THE COMPANIES LAW (2001 SECOND REVISION) AND ORDER 102.r.4 OF THE GRAND COURT RULES

AND IN THE MATTER OF MERCANTILE INTERNATIONAL PETROLEUM INC.

TO: The Grand Court

PETITION

THE HUMBLE PETITION of the above-named Mercantile International Petroleum Inc., whose registered office is situated at the offices of Maricorp Services Ltd., P.O. Box 2075, 4th Floor, West Wind Building, 70 Harbour Drive, George Town, Grand Cayman, shows:-

1. **THAT** the object of this Petition is to seek the sanction of the court to a Plan of Arrangement (hereinafter called "the Plan") under Section 86 and 87 of the above-mentioned Law between the above-named Mercantile International Petroleum Inc. (hereinafter called "the Company") and its shareholders, debentureholders and warrantholders. A draft of the Plan is annexed to this Petition by way of a Schedule hereto.

2. **THAT** the Company was incorporated on 23rd November, 1994 under the International Business Companies Act (CAP.291) of the British Virgin Islands as a company limited

by shares. The Company was registered by way of continuation as an exempted company in the Cayman Islands pursuant to Section 221 of the Companies Law on 11th March, 1996 and amalgamated with Severn Mines Limited pursuant to a Scheme of Arrangement and Amalgamation sanctioned by the Court on 23rd April, 1996.

3. **THAT** the objects of the Company are unrestricted but include carrying on the business of an investment company and the other objects set forth in the Memorandum of Association thereof. The Company is involved in oil and gas acquisition, exploration and development and presently holds certain oil and gas interests through wholly owned subsidiaries primarily in Peru and Colombia.

4. **THAT** shortly after incorporation the Company commenced and since continued to carry on business.

5. **THAT** the authorised share capital of the Company consists of CN$250,000,000 divided into 250,000,000 shares of a nominal par value of CN$1.00 each. As of the date hereof there are 42,521,442 ordinary shares issued and outstanding all of which have been duly authorised and validly issued and are outstanding as fully paid and non assessable shares.

6. **THAT** on 12th May, 1997, the Company issued US$40,000,000 in special warrants, exchangeable for debentures with common share purchase warrants attached. Each special warrant was issued for $1,000 and entitled the holder, on exercise, to a separable unit comprised of $1,000 principal amount of senior unsecured debentures and 300 warrants. The debentures are due 5 years from the date of offering and carry a coupon of

11.5% per annum. Interest is payable semi-annually and the principal is due on 11th May, 2002. The Company has defaulted on interest payments and is presently unable to repay the principal.

7. **THAT** the Plan is an arrangement whereby (i) the issued and outstanding common shares in the Company will be consolidated on a ten for one basis, (ii) the debentures will be exchanged for common shares in the Company and new warrants, (iii) the existing warrants will be reissued and extended, (iv) options held by the Company's Non Executive Chairman, Jeffrey Waterous, will be cancelled and (v) new warrants will be issued to shareholders of the Company. More specifically under the Plan the following:-

(a) the Company's authorised share capital will be reduced by consolidating the issued and outstanding common shares on a ten for one basis,

(b) the Company will issue 33.631 million common shares to the debentureholders in full satisfaction of all principal and accrued interest owing on the debentures,

(c) the existing warrants will be exchanged for 1.2 million new series A warrants of the Company, exercisable within 5 years of first exercise date at an exercise price of $1.20 per share (the "A Warrants"). The A Warrants may be exercised only after the earlier of (i) the second anniversary of closing and (ii) the Company's shares first trading at $2.40 per share or more for at least 20 out of 30 consecutive trading days,

(d) the Company will issue 710,000 A Warrants to its shareholders,

(e) the Company will also issue to the debentureholders 43.604 million new series B warrants of the Company, exercisable within 2 years after the Company's common shares are first listed at an exercise price of $2.40 per share (the "B

Warrants"). The B Warrants may be exercised only if, at any time during the 2 years after listing, the Company's shares trade at $2.40 per share or more for at least 20 out of 30 consecutive trading days,

(f) the Company will issue 773,000 common shares and 1.285 million B Warrants to Mr. Waterous in exchange for his 4% working interest in Block III, Talara, Peru and to settle amounts owing to him under his Retainer Agreement, and

(g) 10% of the fully diluted pro forma shares of the Company will be set aside for the new management of the Company pursuant to a standard management stock option program.

8. **THAT** it is anticipated that this Court will on 29th April, 2002 order that the Company should convene in the prescribed manner meetings of the shareholders and the holders of the debentures and warrants for the purpose of considering and if thought fit approving (with or without modification) the Plan, and that the Court will appoint a chairman of the said meetings and direct that the said chairman shall report the results thereof to the Court.

9. **THAT** prior to the hearing of this Petition, the chairman will report the results of the anticipated meetings to the Court and, subject to the requisite majority in number and value voting in favour of the Plan, this Honourable Court will be requested to sanction the Plan and confirm the reduction in share capital.

Your Petitioner therefore humbly prays as follows:-

(1) That the Plan may be sanctioned by the Court so as to be binding on the Company and its members.

(2) That the reduction in share capital be confirmed.

(3) That such other Order may be made in the premises as the Court shall seem meet.

AND your Petitioner will ever pray etc.

Dated this 25th day of April, 2002

Nelson & Company

NELSON & COMPANY
Attorneys-at-Law for and on behalf of Your Petitioner

Take notice that his Petition will be heard by a Judge of the Grand Court sitting in the Court House, George Town, Grand Cayman, on the 6th June 2002 at 10 o'clock in the_________noon.

FILED by Messrs. Nelson & Company, Attorneys-at-Law of P.O. Box 2075, 4th Floor, West Wind Building, 70 Harbour Drive, George Town, Grand Cayman.

SCHEDULE

IN THE GRAND COURT OF THE CAYMAN ISLANDS

CAUSE NO. OF 2002

IN THE MATTER OF SECTION 86 AND 87 OF THE COMPANIES LAW (2001 SECOND REVISION) AND ORDER 102.r.4 OF THE GRAND COURT RULES

AND IN THE MATTER OF MERCANTILE INTERNATIONAL PETROLEUM INC.

PLAN OF ARRANGEMENT

of

MERCANTILE INTERNATIONAL PETROLEUM INC.

PURSUANT TO
SECTION 86 AND 87 OF THE COMPANIES LAW (2001 SECOND REVISION)
OF THE CAYMAN ISLANDS

JUNE •, 2002

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ARTICLE 1
INTERPRETATION

1.1 Definitions

In this Plan (including the Schedules thereto), unless otherwise stated or unless the context otherwise requires:

(a) **"A Warrants"** means warrants to purchase 1,910,000 Common Shares at a price of $1.20 per share to be issued by the Company to the Warrant Holders and the Shareholders pursuant to the A Warrant Indenture on the Plan Implementation Date, which A Warrants will be substantially on the same terms and conditions as the Existing Warrants save and except that the A Warrants may be exercised only (i) after the date (the "First Exercise Date") which is the earlier of (A) the second anniversary of the Plan Implementation Date and (B) the first date on which the Common Shares trade on the Exchange at $2.40 per share or more for at least 20 out of 30 consecutive trading days and (ii) before the fifth anniversary of the First Exercise Date;

(b) **"A Warrant Indenture"** means the Indenture between the Company and the Warrant Agent to be dated the Plan Implementation Date in respect of the A Warrants;

(c) **"B Warrants"** means warrants to purchase 49,874,000 Common Shares at a price of $2.40 per share to be issued by the Company to the Warrant Holders, Jeffrey M. Waterous and senior management of the Company pursuant to the B Warrant Indenture on and after the Plan Implementation Date, which B Warrants will be substantially on the same terms and conditions as the Existing Warrants save and except that the B Warrants may be exercised only (i) after the first date on which the Common Shares trade on the Exchange at $2.40 per share or more for at least 20 out of 30 consecutive trading days and (ii) before the second anniversary of the date on which the Common Shares are listed on the Exchange;

(d) **"B Warrant Indenture"** means the Indenture between the Company and the Warrant Agent to be dated the Plan Implementation Date in respect of the B Warrants;

(e) **"Business Day"** means any day except Saturdays, Sundays and statutory holidays in the Cayman Islands;

(f) **"Claim"** means any right of any Person against the Company in connection with any indebtedness, liability or obligation of any kind of the Company, whether liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known or unknown, by guarantee, surety or otherwise, and whether or not such right is executory in nature, including the right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future;

(g) **"Common Shares"** means common shares in the capital of the Company;

(h) **"Company"** means Mercantile International Petroleum Inc.;

(i) **"Companies Law"** means the Companies Law (2001 Revision) of the Cayman Islands;

(j) **"Court"** means the Grand Court of the Cayman Islands;

(k) **"Debenture Holder"** means a Person who holds Debentures;

(l) **"Debenture Holder Claim"** means a Claim of a Person as it relates to all amounts owed to such Person in respect of a Debenture up to and including the Plan Implementation Date;

(m) **"Debentures"** means the 11.5% Senior Unsecured Debentures due May 11, 2002, issued by the Company under the Trust Indenture in the original aggregate principal amount of $40,000,000;

(n) **"Exchange"** means the Alternative Investment Market (AIM) regulated by the London Stock Exchange or any other recognized exchange on which the Common Shares may be listed for trading after the Plan Implementation Date;

(o) **"Excluded Claims"** means all Claims not specifically being compromised by this Plan;

(p) **"Existing Stock Option"** means any option or right to purchase Common Shares (or any securities of the Company convertible into Common Shares) issued by the Company prior to the Filing Date to employees, officers, directors or consultants of the Company or its subsidiaries;

(q) **"Existing Warrants"** means the warrants to purchase 12,000,000 Common Shares (pre-consolidation) at a price of $1.55 per share issued by the Company pursuant to the Warrant Indenture and expiring May 11, 2002;

(r) **"Filing Date"** means April 29, 2002;

(s) "**Final Order**" means the order of the Court approving the Plan to be granted pursuant to the provisions of the Companies Law as such order may be amended or modified by any court of competent jurisdiction;

(t) "**Initial Order**" means the Order of the Court dated April 29, 2002 pursuant to which the Court ordered meetings of the Debenture Holders, the Warrant Holders and the Shareholders to consider and if thought fit approve the Plan;

(u) "**Option Holders**" means the persons listed in Schedule "A" hereto who hold Existing Stock Options;

(v) "**Order**" means any order of the Court in these proceedings;

(w) "**Person**" means any individual, partnership, joint venture, trust, corporation, unincorporated organization, government or any agency or instrumentality thereof, or any other judicial entity howsoever designated or constituted;

(x) "**Plan**" means this plan of compromise and arrangement of the Company under the Companies Law as supplemented or amended from time to time;

(y) "**Plan Implementation Date**" means the first Business Day after which all of the conditions set out in Section 3.3 hereof have been met or expressly waived;

(z) "**Shareholder**" means a Person who holds Common Shares;

(aa) "**Trust Indenture**" means the Indenture between the Company and the Trustee dated as of May 12, 1997, as amended to date, providing for the issue of Debentures;

(bb) "**Trustee**" means CIBC Mellon Trust Company, the successor to R-M Trust Company, under the Trust Indenture;

(cc) "**Warrant Agent**" means CIBC Mellon Trust Company, the successor to R-M Trust Company, under the Warrant Indenture;

(dd) "**Warrant Holder**" means a Person who holds Warrants;

(ee) "**Warrant Indenture**" means the Indenture between the Company and the Warrant Agent dated as of May 8, 1997, as amended to date, in respect of the Existing Warrants;

(ff) "**Waterous Agreement**" means the agreement dated as of April 24, 2002 between Jeffrey M. Waterous and the Company pursuant to which the Company has agreed, conditional on the Plan becoming effective, to issue 773,000 Common Shares and 1,285,000 B Warrants to Mr. Waterous (i) in payment and satisfaction of all amounts owing to him for services rendered to the Company prior to the Filing Date including, without limitation, pursuant to certain retainer agreements between the Company and Waterous Securities International Inc. dated April 18, 1996 and February 15, 1995, as amended to date, and (ii) to pay for the purchase by the Company or its wholly-owned Peruvian subsidiary from Mr. Waterous of a 4% working interest in Block III, Talara, Peru.

1.2 Accounting Terms

All accounting terms not otherwise defined herein shall have the meanings ascribed to them in accordance with Canadian generally accepted accounting principles including those prescribed by the Canadian Institute of Chartered Accountants. Accounting policies and standards of financial disclosure shall be in accordance with Canadian generally accepted accounting principles.

1.3 Articles Reference

The terms "this Plan", "hereof", "hereunder", "herein" and similar expressions refer to this Plan and not to any particular article, section, subsection, paragraph or clause of this Plan and include any agreements supplemental hereto. In this Plan, a reference to an article, section, subsection, paragraph or clause shall, unless otherwise stated, refer to an article, section, subsection, paragraph or clause of the Plan.

1.4 Interpretation Not Affected by Headings

The division of this Plan into articles, sections, subsections, paragraphs and clauses and the insertion of a table of contents and headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan.

1.5 Date for Any Action

In the event that any date on which any action is required to be taken hereunder by any of the parties is not a Business Day, such action shall be required to be taken on the next succeeding day that is a Business Day.

1.6 Time

All times expressed herein are local time in the Cayman Islands unless otherwise stipulated herein.

1.7 Number, etc.

In this Plan, where the context requires, a word importing the singular number shall include the plural and vice versa, and a word or words importing gender shall include all genders.

1.8 Currency

Unless otherwise stated herein, all references to currency in this Plan are to lawful money of the United States of America.

1.9 Statutory References

Any reference in this Plan to a statute includes all regulations made thereunder, all amendments to such statute or regulations in force from time to time, and any statute or regulation that supplements or supersedes such statute or regulation.

1.10 Successors and Assigns

This Plan shall be binding upon and shall enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors, and assigns of any Person named or referred to in this Plan.

1.11 Schedules

The following are the schedules to this Plan that are incorporated into this Plan and form part thereof:

Schedule "A" -	Holders of Existing Stock Options
Schedule "B" -	Share Capital Resolutions

ARTICLE 2
PURPOSE AND EFFECT OF THE PLAN

2.1 Purpose of the Plan

The purpose of this Plan is to effect a compromise and arrangement of the Claims of the Debenture Holders, the Warrant Holders and the Option Holders in order to enable the business of the Company to continue in the expectation that all Persons with an interest in the Company will derive a greater benefit from its continued operation than would result from the forced liquidation of the Company's assets.

2.2 Effect of the Plan

The only Claims against the Company being compromised under this Plan will be the Claims of the Debenture Holders, the Warrant Holders and the Option Holders. The Option Holders have agreed, conditional on the Plan becoming effective, to the cancellation of the Existing Stock Options. The Company's share capital will be reduced by consolidating on a ten for one basis the Common Shares which are issued and outstanding on the Filing Date. From and after the Plan Implementation Date, the Debentures, the Trust Indenture, the Existing Warrants, the Warrant Indenture and the Existing Stock Options and all ancillary and related documents arising therefrom will each be deemed cancelled and will thereafter have no further force and effect.

2.3 Treatment of Shareholders

As part of the Plan the Company's share capital will be reduced and subsequently increased on the Plan Implementation Date as described in the resolutions set out in Schedule "B" hereto (which resolutions will be deemed to be approved in the event that the Plan is approved by the required majority of the Debenture Holders, the Warrant Holders and the Option Holders, as described in section 3.1 hereof) and 710,000 A Warrants will be issued on the Plan Implementation Date to the Shareholders based upon 0.167 A Warrants for each Common Share held (post consolidation).

2.4 Treatment of Debenture Holders

The Claims of the Debenture Holders will be treated in the following manner:

33,631,000 Common Shares and 43,604,000 B Warrants will be issued on the Plan Implementation Date to the Debenture Holders based upon .840775 Common Shares and 1.0901 B Warrants for every one dollar of the principal amount of the Debentures owed to Debenture Holders on the Filing Date in payment and satisfaction of all outstanding principal and accrued and unpaid interest on the Debentures.

2.5 Treatment of Warrant Holders

The Claims of the Warrant Holders will be treated in the following manner:

1,200,000 A Warrants will be issued on the Plan Implementation Date to the Warrant Holders based upon a single A Warrant in exchange for each single Existing Warrant.

2.6 Treatment of Option Holders

The claims of the Option Holders will be treated in the following manner:

The Existing Stock Options will be cancelled effective as of the Plan Implementation Date.

2.7 Persons Affected

On and after the Plan Implementation Date, this Plan will become effective and be binding on the Company and the Shareholders, the Debenture Holders, the Warrant Holders and the Option Holders. This Plan does not affect the rights of holders of Excluded Claims.

ARTICLE 3
APPROVALS AND CONDITIONS

3.1 Approvals

Pursuant to section 86 of the Companies Law, the Plan must be approved by a majority in number representing 75% in value of the Debenture Holders, the Warrant Holders and the Shareholders present and voting either in person or by proxy at meetings of the Debenture Holders, the Warrant Holders and the Shareholders pursuant to the timetable in the Initial Order.

3.2 Sanction of the Court

In the event that the Plan is approved by the required majority of the Debenture Holders, the Warrant Holders and the Shareholders, the Company will, unless otherwise ordered by the Court, then seek the Final Order for the sanction and approval of the Plan pursuant to the timetable in the Initial Order. Subject only to the Final Order being granted and the satisfaction of those conditions of the Plan described in section 3.3 hereof, the Plan will be implemented by the Company and will be binding upon the Company and all the Debenture Holders, the Warrant Holders and the Option Holders.

3.3 Other Conditions to Implementation of the Plan

In addition to the receipt of the approvals referred to above, the Plan is conditional upon the fulfilment or satisfaction of the following conditions on or prior to the Plan Implementation Date:

(a) the taking of all necessary corporate actions and proceedings to implement the Plan and the performance by the Company of its obligations thereunder and of all agreements and instruments contemplated thereby;

(b) the execution and delivery of the A Warrant Indenture and the B Warrant Indenture and of all other documents and instruments related thereto contemplated by the Plan;

(c) the Company shall have taken all actions and done all things necessary to ensure that the Common Shares, A Warrants and B Warrants to be issued under this Plan on the Plan Implementation Date shall be duly and properly issued on the Plan Implementation Date;

(d) the transactions contemplated in the Waterous Agreement shall be completed prior to, or concurrently with the implementation of this Plan;

(e) the Company shall have entered into one or more escrow agreements with the Trustee and the Warrant Agent, in form and substance satisfactory to the Company, pursuant to which all Common Shares and A Warrants issued under the Plan will be subject to a 24 month escrow (or any longer escrow period imposed by the Exchange) after listing of the Common Shares on the Exchange on the following terms: 100% of the Common Shares and A Warrants issued under the Plan will be escrowed until 6 months after listing, 75% until 12 months, 50% until 18 months and 25% until 24 months;

(f) the Shareholders shall have approved by ordinary resolution a stock option plan, in form and substance satisfactory to the Company, pursuant to which 10% of the fully diluted pro forma shares of the Company, representing up to 4,500,000 Common Shares and 4,985,000 B Warrants, to be set aside for issuance to officers, directors and senior employees of the Company and its subsidiaries; options will be awarded from time to time after the Plan Implementation Date by the Board of Directors of the Company, will be exercisable within five years after their applicable dates of issuance and will vest as to 1/3 annually over the first three years they are held. Subject to the requirements of the Exchange, options issued concurrently with the implementation of the Plan will have an exercise price of $1.20 per share and may be exercised only after the date which is the earlier of (i) the second anniversary of the Plan Implementation Date and (ii) the first date on which the Common Shares trade on the Exchange at $2.40 per share or more for at least 20 out of 30 consecutive trading days; and

(g) all other steps and documents deemed necessary or desirable by counsel to the Company for the completion of the transactions contemplated by this Plan or any aspect thereof shall have been taken or received.

ARTICLE 4
MISCELLANEOUS

4.1 Paramountcy

From and after the Plan Implementation Date, any conflict between the Plan and the covenants, warranties, representations, terms, conditions, provisions or obligations, expressed or implied, of the Debentures, the Trust Indenture, the Existing Warrants, the Warrant Indenture or the Existing Stock Options and all amendments or supplements thereto as at the Plan Implementation Date will be deemed to be governed by the terms, conditions and provisions of the Plan, which will take precedence and priority.

4.2 Waiver of Defaults

From and after the Plan Implementation Date, each Debenture Holder, Warrant Holder and Option Holder will be deemed to have waived any and all defaults by the Company in every covenant, warranty, representation, term, provision, condition or obligation, expressed or implied, in the Debentures, the Trust Indenture, the Existing Warrants, the Warrant Indenture or the Existing Stock Options and all amendments or supplements thereto, which have occurred prior to or are continuing as at the Plan Implementation Date, and any and all notices of default and demands for payment under any instrument including, without limitation, any guarantee, will be deemed to have been rescinded.

4.3 Modification of Plan

The Company reserves the right to file any modification of, supplement to, or amendment to the Plan up to the time of the vote at the meetings of the Shareholders, the Debenture Holders and the Warrant Holders described herein. After such meetings, the Company may at any time and from time to time vary, amend, modify or supplement the Plan if the Court and the Company determine on notice that such variation, amendment, modification or supplement is of a technical nature that would not be materially prejudicial to the interests of the Shareholders, the Debenture Holders or the Warrant Holders under the Plan or the Final Order and is necessary to give effect to the substance of the Plan or the Final Order.

4.4 Releases

Effective on the Plan Implementation Date, each Debenture Holder, Warrant Holder and Option Holder will be deemed in respect of its Claim to have forever released and discharged the Company and each of its officers, directors, employees, legal counsel and agents from any and all demands, suits, claims, actions, causes of action, debts, sums of money, accounts, covenants, damages, judgments, expenses, executions, liens and other recoveries whether known or unknown, matured or unmatured, forseen or unforseen, that it may have on or prior to the Plan Implementation Date in any way relating to, arising out of or in connection with its Claim, the

Plan, or the proceedings in respect of the Company under the Companies Law commenced pursuant to the Initial Order.

SCHEDULE "A"

HOLDERS OF EXISTING STOCK OPTIONS

Name of Option Holder	Number of Options Held
Jeffrey M. Waterous	Options to purchase 1,828,570 Common Shares of the Company (pre-consolidation), expiring in 2005 and 2007, at an exercise price equal to the greater of $0.25 per share and the price set in any future rights offering by the Company

SCHEDULE "B"

SHARE CAPITAL RESOLUTIONS

RESOLVED as a special resolution that the share capital of the Company be reduced effective as of the Plan Implementation Date by consolidating the 42,521,442 common shares, each with a par value of one Canadian dollar, issued and outstanding on the Filing Date into 4,252,144 common shares, each with a par value of one Canadian dollar and thereby changing each common share issued and outstanding on the Filing Date into one-tenth of a common share; provided, however, that (i) such consolidation shall not extinguish or reduce the liability on any common shares issued and outstanding on the Filing Date in respect of share capital not paid up; (ii) no payment shall be made to any shareholder of any paid up share capital as a consequence of such reduction; and (iii) the holders of common shares issued and outstanding on the Filing Date shall not be entitled to receive any fractional part of a common share following such consolidation. The Company or its transfer agent is hereby authorized to issue, following such consolidation, a replacement share certificate (in such form as the board of directors of the Company may approve) to any holder of common shares issued and outstanding on the Filing Date upon presentation and surrender to the Company or its transfer agent for cancellation of a certificate evidencing such shares.

RESOLVED as an ordinary resolution that the share capital of the Company be increased effective as of the Plan Implementation Date by 38,269,298 common shares, each with a par value of one Canadian dollar, so that, after giving effect to both the consolidation described in the foregoing special resolution, and such increase, the share capital of the Company is two hundred and fifty million Canadian dollars (Cdn. $250,000,000) divided into 250 million common shares each with a par value of one Canadian dollar.