FORM PRER14A

Preliminary revised proxy soliciting materials

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FILER

SEAGULL ENERGY CORP

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Mailing Address
1001 FANNIN, SUITE 1700
HOUSTON TX 77002-6714

Business Address
1001 FANNIN STE 1700
HOUSTON TX 77002-6714
7139514700

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(RULE 14A-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934

Filed by the registrant /X/
Filed by a party other than the registrant / /
Check the appropriate box:
/X/ Preliminary proxy statement
/ / Definitive proxy statement
/ / Definitive additional materials
/ / Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12

SEAGULL ENERGY CORPORATION
- --
(Name of Registrant as Specified in Its Charter)

SEAGULL ENERGY CORPORATION
- --
(Name of Person(s) Filing Proxy Statement)
Payment of Filing Fee (Check the appropriate box):

* /X/ $125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(1), or 14a-6(i)(2).

/ / $500 per each party to the controversy pursuant to Exchange Act Rule 14a-6(i)(3).
/ / Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

- --
(2) Aggregate number of securities to which transaction applies:

- --
(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

- --
(4) Proposed maximum aggregate value of transaction:

- --
/ / Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

- --
(2) Form, Schedule or Registration Statement No.:

- --
(3) Filing Party:

- --
(4) Date Filed:

- --

* Previously paid.

SEAGULL ENERGY CORPORATION

PRELIMINARY COPY DATED APRIL 20, 1994

SEAGULL ENERGY CORPORATION

April , 1994

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders (the "Annual Meeting") of Seagull Energy Corporation (the "Company") to be held at the Four Seasons Hotel, 1300 Lamar Street, Houston, Texas, at 10:00 a.m., local time, on Wednesday, June 1, 1994.

At this Annual Meeting, you will be asked to consider and approve a comprehensive plan (the "ENSTAR Alaska Stock Proposal") being recommended by your Board of Directors to authorize a new class of common stock that is intended to reflect separately the performance of our natural gas transmission and distribution operations in South-Central Alaska (the "ENSTAR Alaska Group"). The key elements of this plan are set forth below in order of their proposed occurrence.

- Creation of ENSTAR Alaska Stock. A new class of the Company's common stock to be called Seagull Energy Corporation -- ENSTAR Alaska Group Common Stock ("ENSTAR Alaska Stock") will be created. The ENSTAR Alaska Stock is intended to reflect the performance of the ENSTAR Alaska Group. The operations of the ENSTAR Alaska Group are conducted through ENSTAR Natural Gas Company ("ENG"), a division of the Company, and Alaska Pipeline Company ("APC"), an Alaska corporation and a direct wholly-owned subsidiary of the Company. ENG and APC are currently operated as a single business unit, and are regulated together by the Alaska Public Utilities Commission. The Board of Directors believes that the creation of the ENSTAR Alaska Stock and its distribution in the public equity markets will enable investors to gain a better understanding of this line of business and its future prospects as well as afford investors the opportunity to invest solely in a stock based on the performance of the ENSTAR Alaska Group.

  Dividends on the ENSTAR Alaska Stock will be paid at the discretion of the Board of Directors of the Company based primarily upon the financial condition, results of operations and business requirements of the ENSTAR Alaska Group and the Company as a whole. The Board of Directors currently intends to pay an initial dividend on the ENSTAR Alaska Stock of $8.25 million per year in the aggregate.

- Amendment of Seagull Common Stock. As part of the ENSTAR Alaska Stock Proposal, the terms of the Company's existing common stock, par value $.10 per share (the "Seagull Common Stock"), will be amended to allow for the issuance of the ENSTAR Alaska Stock. Accordingly, after the ENSTAR Alaska Stock Proposal is implemented, the Seagull Common Stock will reflect separately the performance of the Company's remaining two business segments ("Seagull Energy") that consist of (i) natural gas exploration, development and production, which is the Company's primary business focus, and (ii) pipeline and marketing operations.

- Public Offering of ENSTAR Alaska Stock. The Company currently expects that, shortly after shareholder approval of the ENSTAR Alaska Stock Proposal and subject to prevailing market and other conditions, it will make a public offering for cash of shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group. The Board of Directors reserves the right to sell shares of ENSTAR Alaska Stock representing less than 100% of such equity and also reserves the right not to proceed with the ENSTAR Alaska Stock Offering if it determines that consummation of such offering is not in the best interests of the Company. The net proceeds from this offering are currently estimated to be approximately $140 million. The Company intends to use the proceeds from such offering

  to repay amounts borrowed under the Company's revolving credit agreement, none of which debt is attributable to the ENSTAR Alaska Group. Based upon the assumptions set forth in the pro forma financial information included in the accompanying Proxy Statement, the pro forma debt to capital ratio for the Company as a whole as of December 31, 1993 would improve from 59.8% (after taking into account our recent Canadian acquisition) to 47.0% as a result of the ENSTAR Alaska Stock Proposal and the related offering, and the pro forma debt to capital ratio for Seagull Energy (without ENSTAR Alaska Group) as of December 31, 1993 would improve from 60.8% to 46.4%.

The ENSTAR Alaska Stock Proposal is the result of the Board's review of various alternatives for maximizing shareholder value with respect to the Company's operations in South-Central Alaska. Among the options that have been considered by the Board are (i) selling the ENSTAR Alaska Group, (ii) distributing the ENSTAR Alaska Group to the Company's shareholders in a spin-off and (iii) conducting a public offering of securities issued directly by the ENSTAR Alaska Group representing a portion of the equity ownership of the ENSTAR

Alaska Group. After taking into account a variety of factors, including the expected financial, regulatory and tax consequences of these alternatives, as well as structuring constraints imposed by the Public Utility Holding Company Act of 1935, the Board currently believes that the ENSTAR Alaska Stock Proposal is the best alternative for maximizing shareholder value with respect to the ENSTAR Alaska Group. However, the Board will continue to evaluate each of the other alternatives mentioned above in light of prevailing market and other conditions, even after shareholder approval is obtained for the ENSTAR Alaska Stock Proposal.

The Board of Directors has carefully considered the terms of the ENSTAR Alaska Stock Proposal and believes its adoption is in the best interests of the Company and its shareholders and unanimously recommends its adoption by the shareholders. In arriving at its recommendation, the Board of Directors gave careful consideration to a number of factors including those described in the accompanying Proxy Statement. If a material change is made after shareholder approval in the amendments to the Company's Articles of Incorporation that comprise the ENSTAR Alaska Stock Proposal, the Company would be required to submit any such material changes to the shareholders for further approval.

At the Annual Meeting, you will also be asked to consider and approve proposals (i) to elect four directors; (ii) to ratify the selection of the Company's auditors for the year ending December 31, 1994; and (iii) to transact such other business as may properly come before such meeting or any adjournment(s) or postponement(s) thereof.

Please give these proxy materials your careful attention. It is important that your shares be represented and voted at the Annual Meeting regardless of the size of your holdings. Accordingly, whether or not you plan to attend the Annual Meeting, please complete, sign, date and return the accompanying proxy card in the enclosed postage pre-paid envelope to make certain that your shares will be represented at the Annual Meeting.

Sincerely,

Barry J. Galt
Chairman of the Board, President
and Chief Executive Officer

PRELIMINARY COPY DATED APRIL 20, 1994

SEAGULL ENERGY CORPORATION
HOUSTON, TEXAS

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD WEDNESDAY, JUNE 1, 1994

To the Shareholders:

The 1994 Annual Meeting of Shareholders (the "Annual Meeting") of Seagull Energy Corporation (the "Company") will be held on Wednesday, June 1, 1994 at 10:00 a.m., local time, at the Four Seasons Hotel, 1300 Lamar Street, Houston, Texas, for the following purposes:

1. To elect four directors to serve until the 1997 Annual Meeting of Shareholders;

2. To consider and vote upon a proposal to authorize certain amendments to the Company's Articles of Incorporation that would, among other things, (i) authorize 25,000,000 shares of a new class of common stock of the Company, the Seagull Energy Corporation -- ENSTAR Alaska Group Common Stock, par value $.10 per share (the "ENSTAR Alaska Stock"), with such designations, preferences, limitations and relative rights, including voting rights, thereof as are described in the accompanying Proxy Statement and (ii) amend the terms of the existing capital stock of the Company to allow for the issuance of the ENSTAR Alaska Stock;

3. To ratify the selection of KPMG Peat Marwick as independent auditors of the Company for the fiscal year ending December 31, 1994; and

4. To transact such other business as may properly come before such meeting or any adjournment(s) or postponement(s) thereof.

The close of business on April 4, 1994, has been fixed as the record date for the determination of shareholders entitled to receive notice of and to vote at the Annual Meeting or any adjournment(s) or postponement(s) thereof.

You are cordially invited to attend the Annual Meeting. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, WE ASK THAT YOU SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE. A SELF-ADDRESSED, POSTPAID ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE.

By Order of the Board of Directors,

Sylvia Sanchez
Secretary

April   , 1994

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PRELIMINARY COPY DATED APRIL 20, 1994

SEAGULL ENERGY CORPORATION
1001 FANNIN, SUITE 1700
HOUSTON, TEXAS 77002
(713) 951-4700

PROXY STATEMENT

GENERAL INFORMATION

The enclosed proxy is solicited by and on behalf of the Board of Directors (the "Board of Directors" or the "Board") of Seagull Energy Corporation (the "Company") for use at the 1994 Annual Meeting of Shareholders (the "Annual Meeting") to be held on Wednesday, June 1, 1994, at 10:00 a.m., local time, at the Four Seasons Hotel, 1300 Lamar Street, Houston, Texas, or at any adjournment(s) or postponement(s) thereof. The Company's annual report to shareholders for the year ended December 31, 1993, including financial statements, has been previously mailed to all shareholders entitled to vote at the Annual Meeting. The annual report does not constitute a part of the proxy soliciting material.

REQUIRED VOTE

The presence of a majority of the shares of the Company's existing common stock, par value $.10 per share (the "Seagull Common Stock") represented in person or by proxy at the Annual Meeting will constitute a quorum. Shares represented by proxies that are marked "abstain" will be counted as shares present for purposes of determining the presence of a quorum on all matters. Proxies with "broker non-votes" will nevertheless be treated as shares present for purposes of determining the presence of a quorum on all matters. A "broker non-vote" occurs if a broker or other nominee does not have discretionary authority and has not received instructions with respect to a particular item.

Proposal 1 -- Election of Directors. A plurality of votes cast in person or by proxy by the holders of Seagull Common Stock is required to elect a director. Accordingly, under Texas law and the Company's Articles of Incorporation and Bylaws, abstentions and broker non-votes would have no effect on the election of directors. Shareholders may not cumulate their votes in the election of directors.

Proposal 2 -- ENSTAR Alaska Stock Proposal. The ENSTAR Alaska Stock Proposal will require the affirmative vote of the holders of at least two-thirds of all issued and outstanding shares of Seagull Common Stock. Accordingly, under Texas law, with respect to the ENSTAR Alaska Stock Proposal, abstentions and broker non-votes will have the same effect as negative votes (even though this may not have been the intent of the person voting or giving the proxy).

Proposal 3 -- Ratification of Auditors. Ratification of the selection of auditors requires the affirmative vote of the holders of a majority of the shares of Seagull Common Stock present or represented by proxy and entitled to vote at the Annual Meeting. Under Texas law, an abstention would have the same legal effect as a vote against this proposal (even though this may not have been the intent of the person voting or giving the proxy), but a broker non-vote would not be counted for purposes of determining whether a majority had been achieved.

NO APPRAISAL RIGHTS

None of the holders of Seagull Common Stock has appraisal rights in connection with any proposal to be acted upon at the Annual Meeting, including without limitation the ENSTAR Alaska Stock Proposal. Under applicable Texas law, amendments to a corporation's Articles of Incorporation, such as the amendments contemplated by the ENSTAR Alaska Stock Proposal, do not entitle shareholders to appraisal rights.

RECORD DATE AND OUTSTANDING SHARES

The Board of Directors has fixed the close of business on April 4, 1994 as the record date ("Record Date") for determining holders of outstanding shares of Seagull Common Stock entitled to notice of and to vote at the Annual Meeting or any adjournment(s) or postponement(s) thereof. As of the Record Date, there were outstanding 36,064,649 shares of Seagull Common Stock, each share of which is entitled to one vote. Seagull Common Stock is the only class of outstanding securities of the Company entitled to notice of and to vote at the Annual Meeting. On June 4, 1993, the Company effected, in the form of a 100% stock dividend, a two-for-one stock split (the "Stock Split") of all issued shares of Seagull Common Stock. The per share prices, weighted average number of shares outstanding and per share amounts in this Proxy Statement have been adjusted to reflect the Stock Split. However, share amounts included in the balance sheets and statements of shareholders' equity as of dates prior to June 4, 1993 have not been adjusted to reflect the Stock Split.

SOLICITATION OF PROXIES

The entire cost of soliciting proxies will be borne by the Company. Proxies may be solicited by mail, telecopy, telegraph or telex, or by directors, officers and regular employees of the Company in person or by telephone. The Company has retained Georgeson & Company Inc. to assist in the distribution of proxy solicitation materials at a cost of approximately $14,000 plus out-of-pocket expenses. The Company will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding soliciting material to the beneficial owners of the Seagull Common Stock. No person or firm has been paid to solicit proxies in connection with the ENSTAR Alaska Proposal, and no person or firm will solicit such proxies other than directors, officers and regular employees of the Company.

Questions concerning the proposals to be acted upon at the Annual Meeting should be directed to the Company's Investor Relations Department at (713) 951-4700. Additional copies of this Proxy Statement or the proxy card may be obtained from the Company's Investor Relations Department.

REVOCATION OF PROXIES

The enclosed proxy, even though executed and returned, may be revoked at any time prior to the voting of the proxy (a) by the execution and submission of a revised proxy, (b) by written notice to the Secretary of the Company or (c) by voting in person at the Annual Meeting. In the absence of such revocation, shares represented by the proxies will be voted at the Annual Meeting.

VOTING OF PROXIES

The persons named as proxies on the proxy card accompanying this Proxy Statement were designated by the Board of Directors. Any proxy given pursuant to such solicitation and received in time for the Annual Meeting will be voted as specified in such proxy. Unless otherwise instructed or unless authority to vote is withheld, proxies will be voted FOR the election of the nominees to the Board of Directors, FOR the ENSTAR Alaska Stock Proposal, FOR ratification of the engagement of KPMG Peat Marwick and, in accordance with the judgment of the persons named in the proxy, on such other matters as may properly come before such meeting or any adjournment(s) or postponement(s) thereof.

Dated: April   , 1994.

SUMMARY COMPARISON OF TERMS OF EXISTING SEAGULL COMMON STOCK
WITH TERMS OF AMENDED SEAGULL COMMON STOCK AND ENSTAR ALASKA STOCK

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this Proxy Statement and the Annexes hereto. See "Proxy Statement Summary" and "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Special Considerations" and "-- Description of Seagull Common Stock and ENSTAR Alaska Stock." Capitalized terms used in this summary have the respective meanings ascribed to them elsewhere in this Proxy Statement or in Annex III hereto. See Annex I -- Glossary of Certain Terms.

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		ENSTAR ALASKA STOCK PROPOSAL	
	EXISTING SEAGULL COMMON STOCK	SEAGULL COMMON STOCK	ENSTAR ALASKA STOCK
<S>	<C>	<C>	<C>
Businesses:	All businesses of the Company.	Seagull Energy -- (i) Natural gas exploration, development and production and (ii) pipeline and marketing operations. Although the Company currently expects to sell shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group, if less than such amount is sold, Seagull Energy would also initially have a Retained Interest in the business, assets and liabilities of the ENSTAR Alaska Group.	ENSTAR Alaska Group -- Natural gas transmission and distribution in South-Central Alaska.
Issuance:	--	Shareholders will continue to	The Company currently expects

		own their existing Seagull Common Stock, certain terms of which will be amended to allow for the issuance of the ENSTAR Alaska Stock.	that, shortly after shareholder approval of the ENSTAR Alaska Stock Proposal and subject to prevailing market and other conditions, it will make a public offering for cash of shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group in the ENSTAR Alaska Stock Offering. The net proceeds from the ENSTAR Alaska Stock Offering are currently estimated to be approximately $140 million.
Dividends:	No cash dividends have been paid since the Company became an independent entity in 1981. Dividends are payable out of funds of the Company legally available for dividends.	The ENSTAR Alaska Stock Proposal would not change the Company's dividend policy with respect to the Seagull Common Stock. Accordingly, the Board does not currently intend to pay dividends on the Seagull Common Stock. Determinations as to future dividends on the Seagull Common Stock would be based primarily upon the financial condition, results of operations and business requirements of Seagull Energy and the Company as a whole. Dividends would be payable out of the lesser of (i) funds of the Company legally available therefor and (ii) the Available	Dividends on the ENSTAR Alaska Stock will be paid at the discretion of the Board based primarily upon the financial condition, results of operations and business requirements of the ENSTAR Alaska Group and the Company as a whole. The Board of Directors currently intends to pay an initial dividend on the ENSTAR Alaska Stock of $8.25 million per year in the aggregate. Dividends would be payable out of the lesser of (i) funds of the Company legally available therefor and (ii) the Available ENSTAR Alaska Dividend Amount. The Available ENSTAR Alaska Dividend

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		ENSTAR ALASKA STOCK PROPOSAL	
	EXISTING SEAGULL COMMON STOCK	SEAGULL COMMON STOCK	ENSTAR ALASKA STOCK
<S>	<C>	<C>	<C>
		Seagull Energy Dividend Amount. The Available Seagull Energy Dividend Amount is intended to be an amount similar to the amount that would be legally available for dividends if Seagull Energy were a separate company. Subject to the restrictions on the funds out of which dividends on the Seagull Common Stock and the ENSTAR Alaska Stock may be paid, the Board may, in its sole discretion, declare and pay dividends exclusively on either the Seagull Common Stock or the ENSTAR Alaska Stock in any amount, and may decide not to declare and pay dividends on either or both classes, notwithstanding the amount of funds available for dividends on each class, the amount of prior dividends declared on each class or any other factor.	Amount is intended to be an amount similar to the amount that would be legally available for dividends if the ENSTAR Alaska Group were a separate company. Subject to the restrictions on the funds out of which dividends on the Seagull Common Stock and the ENSTAR Alaska Stock may be paid, the Board may, in its sole discretion, declare and pay dividends exclusively on either the Seagull Common Stock or the ENSTAR Alaska Stock in any amount, and may decide not to declare and pay dividends on either or both classes, notwithstanding the amount of funds available for dividends on each class, the amount of prior dividends declared on each class or any other factor. If Seagull Energy owns a Retained Interest, then to the extent that the Company pays a dividend on outstanding shares of the ENSTAR Alaska Stock, the ENSTAR Alaska Group would be charged with,

			and Seagull Energy would be credited with, an amount that bears the same relation to the aggregate amount of such dividend as the Number of Shares Issuable with Respect to the Retained Interest, if any, bears to the number of shares of ENSTAR Alaska Stock outstanding.
Dividend, Redemption and Exchange Rights on Dispositions:	None.	None.	If the Company sells all or substantially all of the properties and assets of the ENSTAR Alaska Group, the Company must either (i) distribute to holders of ENSTAR Alaska Stock an amount equal to their proportionate interest in the Net Proceeds of such sale, either by special dividend or by redemption of all or part of the outstanding shares of the ENSTAR Alaska Stock; or (ii) exchange each outstanding share of ENSTAR Alaska Stock for a number of shares of Seagull Common Stock equal to 110% of an average daily ratio of the Market Values of one share of ENSTAR Alaska Stock to one share of Seagull Common

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		ENSTAR ALASKA STOCK PROPOSAL	
	EXISTING SEAGULL COMMON STOCK	SEAGULL COMMON STOCK	ENSTAR ALASKA STOCK
<S>	<C>	<C>	<C>
			Stock. The Company could, in the sole discretion of the Board, at any time prior to the first anniversary of a dividend on or a partial redemption of the outstanding shares of ENSTAR Alaska Stock following a sale of all or substantially all of the properties and assets of the ENSTAR Alaska Group, exchange each remaining outstanding share of ENSTAR Alaska Stock for shares of Seagull Common Stock equal to 110% of the ratio of a time-weighted average of the Market Values of one share of ENSTAR Alaska Stock to one share of Seagull Common Stock.
Other Exchange Rights:	None.	None.	The Company could, in the sole discretion of the Board, at any time, exchange the outstanding ENSTAR Alaska Stock for a number of shares of Seagull Common Stock equal to 115% of the ratio of a time-weighted average of the Market Values of one share of ENSTAR Alaska Stock to one share of Seagull Common Stock. The Company could, in the

			sole discretion of the Board, at any time, exchange all outstanding shares of ENSTAR Alaska Stock for shares of any wholly owned subsidiary of the Company that holds all the assets and liabilities of the ENSTAR Alaska Group.
Voting Rights:	The existing Seagull Common Stock has one vote per share. The existing Seagull Common Stock votes as a single class on all matters submitted to shareholders.	The Seagull Common Stock will have one vote per share. The holders of Seagull Common Stock will vote together as a single class with the holders of the ENSTAR Alaska Stock (and any other class or series of capital stock of the Company entitled to vote together with the holders of shares of common stock of the Company) on all matters submitted to shareholders other than a matter with respect to which shares of the Seagull Common Stock would be entitled to a separate class vote. The approval of the holders of at least two-thirds of the	Each share of the ENSTAR Alaska Stock will have a variable number of votes equal to the ratio of a time-weighted average of the Market Values of one share of ENSTAR Alaska Stock to one share of Seagull Common Stock and may have more than, less than or exactly one vote per share. The ENSTAR Alaska Stock will vote together as a single class with the holders of the Seagull Common Stock (and any other class or series of capital stock of the Company entitled to vote together with the holders of shares of common stock of the Company) on all matters submitted to

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	EXISTING SEAGULL COMMON STOCK	ENSTAR ALASKA STOCK PROPOSAL	
		SEAGULL COMMON STOCK	ENSTAR ALASKA STOCK
<S>	<C>	<C>	<C>
		outstanding Seagull Common Stock, voting separately as a class, would be required to approve, subject to certain exceptions, (i) any dividend or distribution to holders of ENSTAR Alaska Stock of any of the properties or assets of Seagull Energy or of any shares of Seagull Common Stock (or Convertible Securities convertible into Seagull Common Stock) or of any security that represents an equity interest in an entity (other than the Company) that owns any of the properties or assets of Seagull Energy, (ii) the use of any properties or assets of Seagull Energy in any business of the Company other than a business of Seagull Energy or (iii) any issuance or sale of shares of Seagull Common Stock (or Convertible Securities convertible into Seagull Common Stock) for the account of the ENSTAR Alaska Group.	shareholders other than a matter with respect to which shares of the ENSTAR Alaska Stock would be entitled to a separate class vote. In the event that there would be a significant increase in the Market Value of the ENSTAR Alaska Stock relative to the Market Value of the Seagull Common Stock or if a significant number of additional shares of the ENSTAR Alaska Stock were issued, the number of votes to which such outstanding ENSTAR Alaska Stock would be entitled would increase, although it is unlikely that during the foreseeable future the holders of Seagull Common Stock would possess less than a majority of the total votes to which the outstanding voting stock of the Company would be entitled. The approval of the holders of at least two-thirds of the outstanding ENSTAR Alaska Stock, voting separately as a class, would be required to approve, subject to certain exceptions, (i) any dividend or distribution to holders of Seagull Common Stock of any of the properties or assets of the ENSTAR Alaska Group or of any shares of ENSTAR Alaska Stock (or Convertible

			Securities convertible into ENSTAR Alaska Stock) or of any security that represents an equity interest in an entity (other than the Company) that owns any of the properties or assets of the ENSTAR Alaska Group, other than a dividend or distribution on the Seagull Common Stock of shares of ENSTAR Alaska Stock (or Convertible Securities convertible into shares of ENSTAR Alaska Stock) to the extent of Seagull Energy's Retained Interest, if any, in the ENSTAR Alaska Group, (ii) the use of any properties or assets of the ENSTAR Alaska Group in any business of the Company other than a business of the ENSTAR Alaska Group or (iii) any issuance or sale of

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		ENSTAR ALASKA STOCK PROPOSAL	
	EXISTING SEAGULL COMMON STOCK	SEAGULL COMMON STOCK	ENSTAR ALASKA STOCK
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			shares of ENSTAR Alaska Stock (or Convertible Securities convertible into ENSTAR Alaska Stock) for the account of Seagull Energy except to the extent of Seagull Energy's Retained Interest, if any, in the ENSTAR Alaska Group.
Mergers and Consolidations:	Holders of existing Seagull Common Stock are entitled to receive the merger or consolidation consideration, if any, attributable to the existing Seagull Common Stock pursuant to the terms of the merger or consolidation, on a pro rata basis.	Holders of Seagull Common Stock would be entitled to share the merger or consolidation consideration, if any, attributable to the common stock of the Company with holders of ENSTAR Alaska Stock based upon the relative Market Capitalizations of the Seagull Common Stock and the ENSTAR Alaska Stock.	Holders of ENSTAR Alaska Stock would be entitled to share the merger or consolidation consideration, if any, attributable to the common stock of the Company with holders of Seagull Common Stock based upon the relative Market Capitalizations of the ENSTAR Alaska Stock and the Seagull Common Stock.
Liquidation:	Holders of existing Seagull Common Stock are entitled to receive the funds, if any, remaining for distribution to common shareholders.	Holders of Seagull Common Stock will share the funds, if any, remaining for distribution to common shareholders of the Company with holders of ENSTAR Alaska Stock based upon the relative Market Capitalizations of the Seagull Common Stock and the ENSTAR Alaska Stock.	Holders of ENSTAR Alaska Stock will share the funds, if any, remaining for distribution to common shareholders of the Company with holders of Seagull Common Stock based upon the relative Market Capitalizations of the ENSTAR Alaska Stock and the Seagull Common Stock.
Stock Exchange Listings:	NYSE under the symbol "SGO."	NYSE under the symbol "SGO."	NYSE under the symbol "SGE."

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PROXY STATEMENT SUMMARY

The following is a summary of certain information contained elsewhere in this Proxy Statement and the Annexes hereto. Reference is made to, and this Proxy Statement Summary is qualified in its entirety by, the more detailed information contained in this Proxy Statement and the Annexes hereto. As used herein, the "Company" means Seagull Energy Corporation and its consolidated subsidiaries, unless the context otherwise requires. Unless otherwise defined herein, capitalized terms used in this Proxy Statement Summary have the respective meanings ascribed to them elsewhere in this Proxy Statement or in Annex III hereto. See Annex I -- Glossary of Certain Terms. Shareholders are urged to read this Proxy Statement and the Annexes hereto in their entirety.

PROPOSAL 1 -- ELECTION OF DIRECTORS

The Board of Directors has nominated each of the existing Class II directors, Messrs. Peter J. Fluor, Barry J. Galt, Dean P. Guerin and Robert W. Shower, for three year terms expiring at the 1997 Annual Meeting of Shareholders.

Directors are elected by a plurality of the votes cast by the holders of Seagull Common Stock present in person or represented by proxy and entitled to vote at the Annual Meeting.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RE-ELECTION OF MESSRS. FLUOR, GALT, GUERIN AND SHOWER TO THE BOARD OF DIRECTORS. SEE "PROPOSAL 1 -- ELECTION OF DIRECTORS."

PROPOSAL 2 -- THE ENSTAR ALASKA STOCK PROPOSAL

GENERAL

The holders of shares of Seagull Common Stock are being asked to consider and approve a proposal (the "ENSTAR Alaska Stock Proposal") which, if approved, would authorize the amendments to the Articles of Incorporation set forth in Annex III hereto. Such amendments would, among other things (i) authorize 25,000,000 shares of a new class of common stock of the Company, the Seagull Energy Corporation -- ENSTAR Alaska Group Common Stock (the "ENSTAR Alaska Stock"), with such designations, preferences, limitations and relative rights, including voting rights, thereof as are set forth in the Articles of Amendment set forth in Annex III hereto and described below and (ii) amend the terms of the existing capital stock of the Company to allow for the issuance of the ENSTAR Alaska Stock.

While the Seagull Common Stock and the ENSTAR Alaska Stock would both constitute common stock of the Company, each class is intended to reflect separately the performance of the relevant business group. The ENSTAR Alaska Stock is intended to reflect the performance of the Company's natural gas transmission and distribution operations in South-Central Alaska (the "ENSTAR Alaska Group"). The Seagull Common Stock would reflect separately the performance of the Company's remaining two business segments ("Seagull Energy") that consist of (i) natural gas exploration, development and production, which is the Company's primary business focus, and (ii) pipeline and marketing operations.

The Company currently expects that, shortly after shareholder approval of the ENSTAR Alaska Stock Proposal and subject to then prevailing market and other conditions, it will make a public offering for cash of shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group (the "ENSTAR Alaska Stock Offering"). The Board of Directors reserves the right to sell shares of ENSTAR Alaska Stock representing less than 100% of such equity and also reserves the right not to proceed with the ENSTAR Alaska Stock Offering if it determines that consummation of such offering is not in the best interests of the Company. The net proceeds from the ENSTAR Alaska Stock Offering are currently estimated to be approximately $140 million. The net proceeds of the ENSTAR Alaska Stock Offering would be used to repay amounts borrowed under the Company's revolving credit agreement (the "Revolver"), none of which debt is attributable to the ENSTAR Alaska Group. Based upon the assumptions set forth in the pro forma financial information included in Annexes IV and V, the pro forma debt to capital ratio for the Company as a whole as of December 31, 1993 would improve from 59.8% (after taking into account the

Seagull Canada Acquisition described below) to 47.0% as a result of the ENSTAR Alaska Stock Proposal and the ENSTAR Alaska Stock Offering, and the pro forma debt to capital ratio for Seagull Energy (without ENSTAR Alaska Group) as of December 31, 1993 would improve from 60.8% to 46.4%. See "Unaudited Pro Forma Condensed Financial Statements" in Annexes IV and V.

Notwithstanding approval by the shareholders of the ENSTAR Alaska Stock Proposal, the Company would not file the Articles of Amendment to the Articles of Incorporation set forth in Annex III hereto with the Texas Secretary of State until immediately prior to consummation of the ENSTAR Alaska Stock Offering. If a material change is made after shareholder approval in the amendments to the Company's Articles of Incorporation that comprise the ENSTAR Alaska Stock Proposal, the Company would be required to submit any such material changes to the shareholders for further approval.

IF THE ENSTAR ALASKA STOCK PROPOSAL IS NOT APPROVED BY THE SHAREHOLDERS OR THE ENSTAR ALASKA STOCK OFFERING IS NOT CONSUMMATED, THE ARTICLES OF AMENDMENT WILL NOT BE FILED AND THE ENSTAR ALASKA STOCK WILL NOT BE ISSUED.

The authorized but unissued shares of Seagull Common Stock and ENSTAR Alaska Stock would be available for issuance from time to time by the Company at the discretion of the Board of Directors for any proper corporate purpose, which could include raising capital, payment of stock dividends, providing compensation or benefits to employees or acquiring companies or businesses. The approval of the shareholders of the Company will not be solicited by the Company for the issuance from the authorized but unissued shares of common stock of the Company of any additional shares of Seagull Common Stock or ENSTAR Alaska Stock (unless such approval is deemed advisable by the Board of Directors or is required by stock exchange regulations). Having separate equity securities will afford the Company increased flexibility to raise capital and make acquisitions with an equity security specifically related to a particular business group.

SPECIAL CONSIDERATIONS

Shareholders of One Company; Financial Effects on One Group Could Affect Other Group. Holders of Seagull Common Stock and ENSTAR Alaska Stock will be common shareholders of the Company and would continue to be subject to all of the risks associated with an investment in the Company and all of its businesses and liabilities. Financial effects arising from either Seagull Energy or the ENSTAR Alaska Group that affect the Company's consolidated results of operations or financial condition could affect the results of operations or financial position of the other business group or the market price of both classes of common stock of the Company. In addition, any net losses of Seagull Energy or the ENSTAR Alaska Group and dividends or distributions on, or repurchases of, either class of common stock of the Company will reduce the assets of the Company legally available for payment of dividends on both classes of common stock of the Company. Accordingly, the combined financial information of Seagull Energy and the ENSTAR Alaska Group should be read in conjunction with the Company's consolidated financial information.

Fiduciary Duties. Although the Company is aware of no precedent concerning the manner in which Texas law would be applied to a board of directors' duties in the context of multiple classes of common stock with divergent interests, the Company believes that a Texas court would hold that a board of directors owes an equal duty to all shareholders regardless of class and does not have separate or additional duties to any group of shareholders.

Potential Conflicts of Interest. The existence of separate classes of common stock could give rise to occasions when the interests of holders of one class and the holders of the other class may diverge or appear to diverge. Examples include determinations by the Board to (i) pay or omit the payment of dividends on either class of common stock of the Company, (ii) allocate the proceeds of issuances of ENSTAR Alaska Stock subsequent to the ENSTAR Alaska Stock Offering either to Seagull Energy in respect of its Retained Interest, if any, or to the equity of the ENSTAR Alaska Group, (iii) exchange Seagull Common Stock for ENSTAR Alaska Stock at a premium, (iv) approve dispositions of assets of the ENSTAR Alaska Group and (v) make operational and financial decisions with respect to one business group that could be considered to be detrimental to the other business group. Although the Board has not yet done so, the Board could, in its sole

discretion from time to time, establish one or more committees of the Board to review matters raising conflict issues and report on such matters to the Board.

Limited Additional Shareholder Rights. Under the ENSTAR Alaska Stock Proposal, holders of Seagull Common Stock and ENSTAR Alaska Stock will have only the rights of common shareholders of the Company, and would not be provided any rights specifically related to their respective business groups, other than in certain limited circumstances. See "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Special Considerations -- Limited Additional Shareholder Rights," "-- Limited Separate Shareholder Voting Rights; Effects on Voting Power" and "-- Description of Seagull Common Stock and ENSTAR Alaska Stock -- Voting Rights" and "-- Exchange and Redemption."

Limited Separate Shareholder Voting Rights; Effects on Voting Power. Under the ENSTAR Alaska Stock Proposal, subject to certain limited exceptions, holders of shares of Seagull Common Stock and holders of shares of ENSTAR Alaska Stock would vote together as a single class (together with the holders of shares of all classes and series of capital stock of the Company entitled to vote together with the holders of shares of common stock of the Company) on all matters as to which common shareholders generally are entitled to vote. Holders of each class of common stock of the Company will have no rights to vote on matters as a separate class (except in certain limited circumstances). Separate meetings for the holders of each class of common stock of the Company will not be held.

Certain matters as to which the holders of the Company's common stock could be entitled to vote together as a single class could involve a divergence or the appearance of a divergence of the interests of holders of Seagull Common Stock and holders of ENSTAR Alaska Stock. If the ENSTAR Alaska Stock Proposal is approved by the shareholders and implemented by the Board of Directors, holders of Seagull Common Stock would continue to be entitled to a substantial majority of the total votes to which the then outstanding voting stock of the Company is entitled. In the event that there would be a significant increase in the Market Value of the ENSTAR Alaska Stock relative to the Market Value of the Seagull Common Stock or if additional shares of the ENSTAR Alaska Stock were issued, the number of votes to which such outstanding ENSTAR Alaska Stock would be entitled would increase, although it is unlikely that during the foreseeable future the holders of Seagull Common Stock would possess less than a majority of the total votes to which the outstanding voting stock of the Company would be entitled. See "Proposal 2 -- The ENSTAR Alaska Stock Proposal Limited Separate Shareholder Voting Rights; Effects on Voting Power" and "-- Description of Seagull Common Stock and ENSTAR Alaska Stock -- Voting Rights."

Limited Approval Rights of Future Issuances of Stock. The approval of the shareholders of the Company would not be solicited by the Company for the issuance from the authorized but unissued shares of common stock of any additional shares of Seagull Common Stock or ENSTAR Alaska Stock (unless such approval is deemed advisable by the Board of Directors or is required by stock exchange regulations).

Management and Accounting Policies Subject to Change. The Board of Directors has adopted certain management and accounting policies and agreements described herein with respect to dividends, the allocation of corporate expenses, assets and liabilities (including contingent liabilities) and inter-group transactions, any and all of which could be modified or rescinded in the sole discretion of the Board of Directors without approval of the shareholders, although the Board of Directors has no present intention to do so. In addition, the ENSTAR Alaska Group is subject to regulation by the Alaska Public Utilities Commission (the "APUC") and has historically been operated as a separate business unit for which separate audited financial statements have been prepared on an annual basis. Accordingly, a majority of the accounting and management policies described in this Proxy Statement have historically been employed by the Company with respect to the ENSTAR Alaska Group, particularly in light of the regulation of the ENSTAR Alaska Group by the APUC.

The Board of Directors may also adopt additional policies depending upon the circumstances. Any determination of the Board of Directors to modify or rescind such policies, or to adopt additional policies, including any such decision that would have disparate impacts upon holders of Seagull Common Stock and holders of ENSTAR Alaska Stock, would be made by the Board of Directors in good faith and in the honest belief that such decision is in the best interests of the Company. Any such determination would also be made

in light of the requirements imposed by the APUC that any transactions between the ENSTAR Alaska Group and its affiliates, including Seagull Energy, must be on terms comparable to arm's length transactions. In addition, generally accepted accounting principles require that any change in accounting policy be preferable (in accordance with such principles) to the policy previously established.

Effect on Cash Flow from the ENSTAR Alaska Group to Seagull Energy. The Company has historically received cash from the ENSTAR Alaska Group in the form of dividends and payments under the Management Agreement and Tax Sharing Agreement described below. These dividends and contractual payments, after taking into account the costs and tax obligations related to the contractual payments, have been used by Seagull Energy (together with other funds available to it) to fund its operations, including its capital expenditure programs. If the ENSTAR Alaska Stock Proposal is adopted, Seagull Energy will no longer receive the benefit of dividends from the ENSTAR Alaska Group, but will continue to receive payments under the current management and administrative services agreement (the "Management Agreement" and a tax sharing agreement (the "Tax Sharing Agreement"). During the three years ended December 31, 1993, the ENSTAR Alaska Group paid regular dividends of $8 million per year and a special dividend of $20 million in 1991. See "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Special Considerations -- Effect on Cash Flow from the ENSTAR Alaska Group to Seagull Energy," "-- Management and Accounting Policies" and "-- Description of Seagull Common Stock and ENSTAR Alaska Stock -- Voting Rights."

Since the Company acquired the ENSTAR Alaska Group in 1985, Seagull Energy has provided certain management and administrative services to the ENSTAR Alaska Group. In consideration for these services, the ENSTAR Alaska Group has agreed to pay Seagull Energy an annual management fee equal to the greater of (i) $1,925,000 and (ii) the sum of (A) the direct cost of providing such services and (B) the allocable portion of Seagull Energy's general and administrative expenses associated with providing such services. The Management Agreement would continue in effect following implementation of the ENSTAR Alaska Stock Proposal. Seagull Energy and the ENSTAR Alaska Group are also parties to a Tax Sharing Agreement pursuant to which the ENSTAR Alaska Group generally pays Seagull Energy an amount equal to the amount of income taxes that would be payable by the ENSTAR Alaska Group on a "stand alone" basis, excluding the effects of historical purchase accounting adjustments. The ENSTAR Alaska Group would continue to be included in the Company's consolidated group for income tax purposes after the implementation of the ENSTAR Alaska Stock Proposal, and the Tax Sharing Agreement would continue in effect.

Potential Effects of Exchange of ENSTAR Alaska Stock. The terms of the ENSTAR Alaska Stock permit the exchange of all outstanding shares of ENSTAR Alaska Stock for Seagull Common Stock upon the terms described under "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Description of Seagull Common Stock and ENSTAR Alaska Stock -- Exchange and Redemption." Since any such exchange would be at a premium to the then current market price of the ENSTAR Alaska Stock being exchanged, the issuance of additional shares of Seagull Common Stock in connection with such an exchange would dilute the interests in the Company of all holders of Seagull Common Stock. The Company cannot predict the impact of the potential for such exchanges or of any issuance of additional shares of Seagull Common Stock in connection with such an exchange on the market price of either class of common stock of the Company.

No Assurance as to Market Price. Since there has been no prior market for ENSTAR Alaska Stock, there can be no assurance as to the price to be received by the Company upon the sale thereof. It is also not possible to predict the impact of the sale of ENSTAR Alaska Stock on the market price of the Seagull Common Stock and, accordingly, there can be no assurance that the market price of the Seagull Common Stock would equal or exceed the market price of such stock prior to the Company's announcement or implementation of the ENSTAR Alaska Stock Proposal. Furthermore, there can be no assurance that investors would assign values to the Seagull Common Stock and ENSTAR Alaska Stock based on the reported financial results and prospects of the relevant business group or the dividend policies established by the Board of Directors with respect to such group. Accordingly, financial effects of either group that affect the Company's consolidated results of operations or financial condition could affect the market price of shares of both classes of common stock of the Company. In addition, the Company cannot predict the impact on the market price of either class of common stock of the Company of certain terms of such securities, such as the ability of the Company to

exchange shares of ENSTAR Alaska Stock for Seagull Common Stock, the discretion of the Board to make various determinations and the minority voting power of the ENSTAR Alaska Stock.

Limitations on Potential Unsolicited Acquisitions of a Group. If Seagull Energy and the ENSTAR Alaska Group were stand-alone corporations, any person interested in acquiring either of such corporations without negotiation with management could seek control of the outstanding stock of such corporation by means of a tender offer or proxy contest. Although adoption of the ENSTAR Alaska Stock Proposal would create a new class of common stock of the Company intended to reflect the performance of the ENSTAR Alaska Group, a person interested in acquiring only one business group without negotiation with the Company's management would still be required to seek control of the voting power represented by all of the outstanding capital stock of the Company entitled to vote on such acquisition, including the class of common stock related to the other business group. See "Limited Separate Shareholder Voting Rights; Effects on Voting Power" above. This result is similar to the consequences under the Company's current capital structure, since a person interested in acquiring an interest in any of the Company's business segments without negotiation with the Company's management would still be required to seek control of the voting power represented by all of the outstanding common stock of the Company.

Public Utility Holding Company Act of 1935. Any company that directly or indirectly owns, controls or holds with power to vote 10% or more of the outstanding voting securities of the Company would generally be deemed to be a "holding company" subject to the requirements of the Public Utility Holding Company Act of 1935, as amended (the "1935 Act"). Following implementation of the ENSTAR Alaska Stock Proposal, the calculation of ownership of the voting securities of the Company would be made on the basis of the percentage of the voting power of the outstanding shares of common stock of the Company. Because the relative voting power between the ENSTAR Alaska Stock and the Seagull Common Stock fluctuates with the Market Values of such shares, as described in "Proposal 2 -- ENSTAR Alaska Stock Proposal -- Description of Seagull Common Stock and ENSTAR Alaska Stock -- Voting Rights," a shareholder could reach the 10% threshold without acquiring any additional shares. The Articles of Amendment to the Articles of Incorporation provide that, even if the respective Market Values of the ENSTAR Alaska Stock and the Seagull Common Stock fluctuate relative to the other class of common stock from time to time, the number of votes to which the ENSTAR Alaska Stock is entitled will not change until the next applicable record date. See "Proposal 2 -- ENSTAR Alaska Stock Proposal -- Special Considerations -- Public Utility Holding Company Act of 1935."

For further discussion of the foregoing and certain other considerations, see "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Special Considerations."

DIVIDEND POLICY

The Company has not paid any cash dividends on shares of Seagull Common Stock since it became an independent entity in 1981. The ENSTAR Alaska Stock Proposal would not change the Company's dividend policy with respect to the Seagull Common Stock. Accordingly, the Board does not currently intend to pay dividends on the Seagull Common Stock.

Dividends on the ENSTAR Alaska Stock would be paid at the discretion of the Board based primarily upon the financial condition, results of operations and business requirements of the ENSTAR Alaska Group and the Company as a whole. If the ENSTAR Alaska Stock Proposal is approved and the ENSTAR Alaska Stock Offering is completed, the Board of Directors currently intends to pay an initial dividend on the ENSTAR Alaska Stock of $8.25 million per year in the aggregate.

While the Board of Directors does not currently intend to change the dividend policies referred to above, it reserves the right to do so at any time and from time to time. Under the ENSTAR Alaska Stock Proposal and Texas law, the Board of Directors would not be required to pay dividends in accordance with the foregoing dividend policies. For information concerning restrictions on the funds from which dividends on the Seagull Common Stock and the ENSTAR Alaska Stock may be paid, see "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Dividend Policy" and "-- Description of Seagull Common Stock and ENSTAR Alaska Stock -- Dividends."

DESCRIPTION OF SEAGULL COMMON STOCK AND ENSTAR ALASKA STOCK

Dividends. Dividends on the Seagull Common Stock and the ENSTAR Alaska Stock would be subject to the same limitations as dividends on the existing Seagull Common Stock, which are limited to the amount of funds of the Company legally available under the Texas Business Corporation Act (the "TBCA") for the payment of dividends by the Company on its capital stock, and subject to the prior payment of dividends on any outstanding shares of any class or series of preferred stock of the Company. Dividends on the Seagull Common Stock, in addition to such limitations, would be further limited to an amount not in excess of the Available Seagull Energy Dividend Amount, which is intended to be similar to the amount that would be legally available for the payment of dividends on Seagull Common Stock under the TBCA if Seagull Energy were a separate company. Dividends on the ENSTAR Alaska Stock, in addition to the limitations set forth above, would be further limited to an amount not in excess of the Available ENSTAR Alaska Group Dividend Amount, which is intended to be similar to the amount that would be legally available for the payment of dividends on ENSTAR Alaska Stock under the TBCA if the ENSTAR Alaska Group were a separate company. There can be no assurance that there would be an Available Seagull Energy Dividend Amount or an Available ENSTAR Alaska Group Dividend Amount. See "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Dividend Policy."

The TBCA limits the amount of distributions on capital stock to the legally available funds of the Company, which are determined on the basis of the entire Company, and not just the respective business groups. Consequently, the amount of legally available funds for payment of dividends on both classes of common stock of the Company will reflect the amount of any net losses of Seagull Energy and of the ENSTAR Alaska Group and any distributions on, or repurchases of, the Seagull Common Stock or the ENSTAR Alaska Stock. For restrictions on the payment of dividends contained in the Company's debt instruments, see "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Dividend Policy."

Exchange and Redemption. The Articles of Incorporation currently do not provide for either mandatory or optional exchange or redemption of the Seagull Common Stock. The ENSTAR Alaska Stock Proposal will permit the exchange or redemption of the ENSTAR Alaska Stock (but not the Seagull Common Stock) upon the terms below.

The Company could, in the sole discretion of the Board, at any time exchange each outstanding share of ENSTAR Alaska Stock for shares of Seagull Common Stock equal to 115% of the ratio of a time-weighted average of the Market Value of one share of ENSTAR Alaska Stock to one share of Seagull Common Stock. This option provides the Company with flexibility to alter its capital structure if warranted by future facts and circumstances.

If the Company were to dispose of all or substantially all of the properties and assets of the ENSTAR Alaska Group, the Company would be required, subject to certain exceptions and conditions, to:

(A) declare and pay a dividend to the holders of the ENSTAR Alaska Stock in an amount equal to their proportionate interest in the Net Proceeds of such Disposition; or

(B) (1) if the Disposition involves all (not merely substantially all) of the assets and properties of the ENSTAR Alaska Group, then, if there are funds of the Company legally available therefor, redeem all outstanding shares of ENSTAR Alaska Stock for an aggregate payment equal to their proportionate interest in the Net Proceeds of such Disposition; or

(2) if the Disposition involves substantially all (but not all) of the assets and properties of the ENSTAR Alaska Group or if the Company does not have sufficient funds legally available to make the full payment contemplated pursuant to clause (B)(1), then, to the extent that there are funds of the Company legally available therefor, redeem the number of whole shares of ENSTAR Alaska Stock that has an aggregate average Market Value, calculated during a specified 10-Business Day period following consummation of such Disposition, closest to the Net Proceeds of such Disposition; or

(C) exchange each outstanding share of ENSTAR Alaska Stock for a number of shares of Seagull Common Stock equal to 110% of an average daily ratio of the Market Value of one share of ENSTAR Alaska Stock to one share of Seagull Common Stock calculated during a specified 10-Business Day period following the consummation of such Disposition.

For the definition of "substantially all of the properties and assets of the ENSTAR Alaska Group," see Section 3(b) of Annex III hereto.

The Company could, in the sole discretion of the Board, within one year after a dividend or partial redemption pursuant to clause (A) or (B)(2) above, exchange each remaining outstanding share of ENSTAR Alaska Stock for a number of shares of Seagull Common Stock equal to 110% of the ratio of a time-weighted average of the Market Value of one share of ENSTAR Alaska Stock to one share of Seagull Common Stock. For information concerning the ratios used to calculate the number of shares of Seagull Common Stock to be received in the exchanges described above, see the definition of "Market Value Ratio" in Section 3(b)(iv) of Annex III hereto.

At any time on or after the date on which all of the assets and liabilities of the ENSTAR Alaska Group (and no other assets or liabilities) are held directly or indirectly by a wholly owned subsidiary of the Company, the outstanding shares of the ENSTAR Alaska Stock could be exchanged, in the sole discretion of the Board, for shares of common stock of such subsidiary.

Voting Rights. The Articles of Incorporation currently provide that holders of Seagull Common Stock have one vote per share on all matters submitted to a shareholder vote. The ENSTAR Alaska Stock Proposal provides that the holders of all classes of common stock of the Company shall vote together as a single class (with the holders of all classes and series of capital stock, if any, of the Company entitled to vote together with the holders of common stock of the Company) on all matters as to which holders of common stock of the Company are entitled to vote other than a matter with respect to which such class would be entitled to vote separately. On all matters to be voted on as a single class by the holders of all classes of common stock of the Company (together with the holders of any such class or series of capital stock entitled to vote therewith) (i) each outstanding share of Seagull Common Stock would have one vote and (ii) each outstanding share of ENSTAR Alaska Stock would have a number of votes equal to the ratio of a time-weighted average of the Market Value of one share of ENSTAR Alaska Stock to one share of Seagull Common Stock (calculated during a specified period prior to the record date or shareholder consent date). If shares of only one class of common stock of the Company were outstanding, each share of that class would have one vote. If either class of common stock of the Company was entitled to vote separately as a class with respect to any matter, each share of that class would be entitled to one vote in the separate vote on such matter.

In addition to such other vote or consent as shall then be required by law, the Articles of Incorporation or the Bylaws, the vote or consent of the holders of at least two-thirds of all the shares of Seagull Common Stock then outstanding, voting as a separate class, is necessary in certain other circumstances. A separate class vote of the holders of ENSTAR Alaska Stock is necessary in similar circumstances. See "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Description of Seagull Common Stock and ENSTAR Alaska Stock -- Voting Rights."

Mergers and Consolidations. Under the TBCA, the holders of the Seagull Common Stock currently would be entitled to share proportionately in the consideration, if any, attributable to the Seagull Common Stock pursuant to the terms of any merger or consolidation to which the Company is a party. Under the ENSTAR Alaska Stock Proposal, the holders of the outstanding shares of each class of common stock would be entitled to receive, or have their shares converted into, a fraction of the consideration, if any, attributable to the common stock of the Company pursuant to the terms of any merger or consolidation to which the Company is a party in proportion to the relative time-weighted average Market Capitalization of each class of common stock.

Liquidation Rights. Currently, in the event of a liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, after preferential payments to the holders of preferred stock of the Company, holders of the Seagull Common Stock will receive the funds remaining for distribution to common

shareholders. Under the ENSTAR Alaska Stock Proposal, the holders of the outstanding shares of each class of common stock would be entitled to receive a fraction of the funds of the Company remaining for distribution to its common shareholders in proportion to the relative time-weighted average Market Capitalization of each class of common stock.

RETAINED INTEREST OF SEAGULL ENERGY IN ENSTAR ALASKA GROUP; OUTSTANDING INTEREST FRACTION

The Company currently expects to sell shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group. Nevertheless, the percentage of the equity of the Company attributable to the ENSTAR Alaska Group to be sold to the public in the ENSTAR Alaska Stock Offering will depend upon then prevailing market and other conditions at the time of the ENSTAR Alaska Stock Offering. To the extent that the number of shares of ENSTAR Alaska Stock to be issued and sold in the ENSTAR Alaska Stock Offering would represent less than 100% of the equity attributable to the ENSTAR Alaska Group, the Company would retain and attribute to Seagull Energy a "Retained Interest" in the ENSTAR Alaska Group. Seagull Energy's Retained Interest in the ENSTAR Alaska Group would not be represented by actual shares of the ENSTAR Alaska Stock and could not be voted by Seagull Energy.

The "Outstanding Interest Fraction" means the percentage interest in the ENSTAR Alaska Group intended to be represented at any time by the outstanding shares of ENSTAR Alaska Stock, and the "Retained Interest Fraction" means the remaining percentage interest in the ENSTAR Alaska Group that is attributed to Seagull Energy. The sum of the Outstanding Interest Fraction and the Retained Interest Fraction would always equal 100%. The "Number of Shares Issuable with Respect to the Retained Interest" means the number of shares of ENSTAR Alaska Stock that could be sold or otherwise issued by the Company for the account of Seagull Energy in respect of its Retained Interest.

The Company intends to use the net proceeds of the ENSTAR Alaska Stock Offering to repay amounts borrowed under the Revolver, none of which debt is attributable to the ENSTAR Alaska Group. In future offerings of ENSTAR Alaska Stock, the Board would, in its sole discretion, determine the allocation of the net proceeds of such sale between Seagull Energy in respect of its Retained Interest, if any, and the ENSTAR Alaska Group. If the Board allocated 100% of the net proceeds of a sale of ENSTAR Alaska Stock to the ENSTAR Alaska Group or to Seagull Energy, the net proceeds would be reflected entirely in the financial statements of the business group to which such proceeds would be allocated. If the net proceeds of an offering of ENSTAR Alaska Stock were allocated to Seagull Energy's Retained Interest in the ENSTAR Alaska Group, the Number of Shares Issuable with Respect to the Retained Interest of Seagull Energy in the ENSTAR Alaska Group would be reduced. Assuming the existence of a Retained Interest following the ENSTAR Alaska Stock Offering, if the net proceeds of a subsequent offering of ENSTAR Alaska Stock were not allocated to Seagull Energy, the relevant Number of Shares Issuable with Respect to the Retained Interest in the ENSTAR Alaska Group would not be reduced, but the Retained Interest Fraction with respect to the ENSTAR Alaska Group would nonetheless be reduced, and the Outstanding Interest Fraction with respect to the ENSTAR Alaska Group would be increased accordingly.

In the event of any dividend or other distribution on outstanding shares of ENSTAR Alaska Stock (including any dividend of, or redemption with, Net Proceeds from a Disposition), while Seagull Energy has a Retained Interest in the ENSTAR Alaska Group, Seagull Energy's financial statements would be credited with, and the ENSTAR Alaska Group's financial statements would be charged with, an amount that bears the same relation to the aggregate amount of such dividend or other distribution as the ratio of the Number of Shares Issuable with Respect to the Retained Interest to the number of shares of ENSTAR Alaska Stock then outstanding.

In the event that the Company repurchases shares of ENSTAR Alaska Stock for consideration that is attributable to the ENSTAR Alaska Group, the Number of Shares Issuable with Respect to the Retained Interest would not change, but the Retained Interest Fraction would increase, and the Outstanding Interest Fraction would decrease accordingly. In the event that the Company repurchases shares of ENSTAR Alaska Stock for consideration that is attributable to Seagull Energy, the Number of Shares Issuable with Respect to

the Retained Interest and the Retained Interest Fraction would increase, and the Outstanding Interest Fraction would decrease accordingly.

The Board of Directors could, in its sole discretion, determine from time to time to transfer cash or other property from the ENSTAR Alaska Group to Seagull Energy as a return of capital, which would decrease Seagull Energy's Retained Interest in the ENSTAR Alaska Group and, accordingly, would decrease the Retained Interest Fraction and increase the Outstanding Interest Fraction. The Board of Directors could, in its sole discretion, determine from time to time to contribute cash or other property of Seagull Energy as additional equity to the ENSTAR Alaska Group, which would increase Seagull Energy's Retained Interest in the ENSTAR Alaska Group and, accordingly, would increase the Retained Interest Fraction and decrease the Outstanding Interest Fraction.

For further discussion of, and illustrations of the calculation of the Retained Interest Fraction, the Outstanding Interest Fraction and the Number of Shares Issuable with Respect to the Retained Interest and the effects thereon of dividends on, and issuances and repurchases of, shares of the ENSTAR Alaska Stock, and transfers of cash or other property attributed to Seagull Energy to the ENSTAR Alaska Group, see "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Retained Interest of Seagull Energy in ENSTAR Alaska Group; Outstanding Interest Fraction" and Annex II hereto.

STOCK EXCHANGE LISTINGS

The Seagull Common Stock is currently listed on the New York Stock Exchange (the "NYSE") under the symbol "SGO." If the ENSTAR Alaska Stock Proposal is implemented, the symbol for the Seagull Common Stock would remain "SGO." Application will be made to the NYSE for listing of the ENSTAR Alaska Stock on the NYSE under the symbol "SGE." See "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Stock Exchange Listings."

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The Company has been advised by tax counsel that the Seagull Common Stock and the ENSTAR Alaska Stock each will be treated for federal income tax purposes as common stock of the Company, and that no gain or loss would be recognized by the Company or its shareholders by reason of the implementation of the ENSTAR Alaska Stock Proposal or the issuance and sale of ENSTAR Alaska Stock in the ENSTAR Alaska Stock Offering. However, there are no court decisions bearing directly on transactions similar to the ENSTAR Alaska Stock Proposal, and the Internal Revenue Service has had under study since 1987 the federal income tax treatment of stock similar to the ENSTAR Alaska Stock. If, contrary to the opinion of counsel, the ENSTAR Alaska Stock were treated as stock of a subsidiary of the Company, the Company would recognize gain on the issuance of such stock in an amount equal to the excess of the fair market value of such stock over its federal income tax basis to the Company, and (assuming that the Outstanding Interest Fraction is greater than 20%) the ENSTAR Alaska Group would not be includable in the Company's consolidated federal income tax return. See "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Certain Federal Income Tax Considerations."

REQUIRED VOTE

The ENSTAR Alaska Stock Proposal will require the affirmative vote of the holders of at least two-thirds of all issued and outstanding shares of Seagull Common Stock.

BACKGROUND AND REASONS FOR THE ENSTAR ALASKA STOCK PROPOSAL AND THE ENSTAR ALASKA STOCK OFFERING

The ENSTAR Alaska Stock Proposal is intended to provide investors with securities reflecting the performance of Seagull Energy separately from the ENSTAR Alaska Group, and to give investors an opportunity to invest in either or both securities depending on their investment objectives, while at the same time retaining the benefits of remaining a single corporation. The ENSTAR Alaska Stock Offering is also intended to provide the Company with significant additional liquidity without the disadvantages associated with the alternative transactions considered by the Board.

The ENSTAR Alaska Stock Proposal is the result of the Board's review of various alternatives for maximizing shareholder value with respect to the ENSTAR Alaska Group. Among the options that have been considered by the Board are (i) selling the ENSTAR Alaska Group, (ii) distributing the ENSTAR Alaska Group to the Company's shareholders in a spin-off and (iii) conducting a public offering of securities issued directly by the ENSTAR Alaska Group representing a portion of the equity ownership of the ENSTAR Alaska Group. After taking into account a variety of factors, including the expected financial, regulatory and tax consequences of these alternatives, as well as structuring constraints imposed by the 1935 Act, the Board currently believes that the ENSTAR Alaska Stock Proposal is the best alternative for maximizing shareholder value with respect to the ENSTAR Alaska Group. However, the Board will continue to evaluate each of the other alternatives mentioned above in light of prevailing market and other conditions, even after shareholder approval is obtained for the ENSTAR Alaska Stock Proposal. See "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Background and Reasons for the ENSTAR Alaska Stock Proposal and the ENSTAR Alaska Stock Offering."

RECOMMENDATION OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE ENSTAR ALASKA STOCK PROPOSAL (INCLUDING THE AMENDMENTS TO THE ARTICLES OF INCORPORATION WHICH CONSTITUTE A PART THEREOF) AND BELIEVES THAT ITS ADOPTION IS IN THE BEST INTERESTS OF THE COMPANY AND ITS SHAREHOLDERS. ACCORDINGLY, THE BOARD OF DIRECTORS UNANIMOUSLY DECLARES THE ENSTAR ALASKA STOCK PROPOSAL ADVISABLE AND RECOMMENDS THAT SHAREHOLDERS VOTE IN FAVOR OF THE ENSTAR ALASKA STOCK PROPOSAL.

MARKET PRICES OF SEAGULL COMMON STOCK

For information concerning market prices of Seagull Common Stock, see "Price Range of and Dividends on Seagull Common Stock."

PROPOSAL 3 -- RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The shareholders are being asked to ratify the selection of the firm of KPMG Peat Marwick as independent auditors for the fiscal year ending December

31, 1994. Representatives of KPMG Peat Marwick will be present at the Annual Meeting, will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from shareholders. Approval of the selection of auditors requires the affirmative vote of the holders of a majority of the shares of Seagull Common Stock present or represented by proxy and entitled to vote at the Annual Meeting.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE IN FAVOR OF PROPOSAL 3.

None of the holders of Seagull Common Stock has appraisal rights in connection with any proposal to be acted upon at the Annual Meeting, including without limitation the ENSTAR Alaska Stock Proposal. Under applicable Texas law, amendments to a corporation's Articles of Incorporation, such as the amendments contemplated by the ENSTAR Alaska Stock Proposal, do not entitle shareholders to appraisal rights.

SEAGULL ENERGY CORPORATION

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL DATA

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	PRO FORMA 1993(1)	HISTORICAL YEAR ENDED DECEMBER 31, 1993	1992	1991
SUMMARY INCOME STATEMENT DATA (2):				
Revenues	$ 409,523	$ 377,165	$ 238,829	$248,537
Depreciation, depletion and amortization	131,772	116,556	63,231	52,902
Operating profit	79,759	75,989	29,883	30,183
Net earnings (3)	28,085	27,198	6,688	5,107
Earnings per common share:				
Historical (3)	$ --	$ 0.76	$ 0.26	$ 0.23
Pro forma Seagull Energy	0.59			
Pro forma ENSTAR Alaska Group (4)	0.94			
SUMMARY SEGMENT DATA:				
Exploration and Production (2):				
Depreciation, depletion and amortization	$ 118,768	$ 103,552	$ 52,855	$ 42,646
Operating profit (loss)	46,739	42,969	(1,613)	1,275
Capital expenditures (5)	110,798	97,818	32,115	58,459
Pipeline and Marketing:				
Depreciation, depletion and amortization	5,493	5,493	3,192	3,278
Operating profit	14,065	14,065	9,057	7,884
Capital expenditures (6)	2,115	2,115	1,622	634
Alaska Transmission and Distribution:				
Depreciation, depletion and amortization	7,511	7,511	7,184	6,978
Operating profit	18,955	18,955	22,439	21,024
Capital expenditures	10,094	10,094	9,024	10,492
SUMMARY BALANCE SHEET DATA (END OF PERIOD) (2):				
Property, plant and equipment -- net	$1,149,783	$ 933,189	$ 937,802	$500,255
Total assets	1,342,654	1,118,251	1,102,964	618,552
Long-term debt	513,093	459,787	608,011	219,154
Shareholders' equity (7)	579,379	439,379	243,673	235,797

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(1) The summary income statement data and the summary segment data give effect to (i) the acquisition of Novalta Resources Inc. (the "Seagull Canada Acquisition"), financed initially under the credit agreement for the Company's Canadian subsidiary (the "Canadian Credit Agreement") and the Revolver, and (ii) the application of the estimated net proceeds of $140 million from the issuance and sale for cash of shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group pursuant to the ENSTAR Alaska Stock Offering to repay amounts borrowed under the Revolver, as if both events had occurred on January 1, 1993. The summary balance sheet data give effect to the pro forma transactions and events described in clauses (i) and (ii) above as if both

events had occurred on December 31, 1993.

(2) Includes certain assets acquired in the Mid-Continent region (the "Mid-Continent Assets") since March 8, 1991 and Seagull Mid-South Inc. (formerly Arkla Exploration Company) since December 31, 1992, the respective dates of such acquisitions.

(3) 1992 includes the cumulative effect of two changes in accounting principles aggregating $2.3 million or $0.09 per share. Effective January 1, 1992, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes, and SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions.

(4) Assumes that 7,500,000 shares of ENSTAR Alaska Stock are issued in the ENSTAR Alaska Stock Offering.

(5) Exclusive of consideration paid for the Mid-Continent Assets in 1991 and Seagull Mid-South Inc. in 1992.

(6) Exclusive of consideration paid for two gas gathering systems in 1992.

(7) Reflects the December 13, 1991 and February 5, 1993 issuance and sale of 3,000,000 shares and 10,120,000 shares, respectively, of Seagull Common Stock pursuant to underwritten public offerings.

SEAGULL ENERGY
(WITHOUT ENSTAR ALASKA GROUP)

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL DATA

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

		HISTORICAL		
		YEAR ENDED DECEMBER 31,		
	PRO FORMA 1993(1)	1993	1992	1991
<S>	<C>	<C>	<C>	<C>
SUMMARY INCOME STATEMENT DATA (2):				
Revenues	$ 302,279	$269,921	$129,231	$118,922
Depreciation, depletion and amortization	124,261	109,045	56,047	45,924
Operating profit	60,804	57,034	7,444	9,159
Net earnings (loss) (3)	21,037	20,150	(5,351)	(4,519)
Earnings per common share	$ 0.59	--	--	--
SUMMARY SEGMENT DATA:				
Exploration and Production (2):				
Depreciation, depletion and amortization	$ 118,768	$103,552	$ 52,855	$ 42,646
Operating profit (loss)	46,739	42,969	(1,613)	1,275
Capital expenditures (4)	110,798	97,818	32,115	58,459
Pipeline and Marketing:				
Depreciation, depletion and amortization	5,493	5,493	3,192	3,278
Operating profit	14,065	14,065	9,057	7,884
Capital expenditures (5)	2,115	2,115	1,622	634
SUMMARY BALANCE SHEET DATA (END OF PERIOD) (2):				
Property, plant and equipment -- net	$ 987,779	$771,185	$777,443	$340,119
Total assets	1,156,953	932,550	917,078	429,493
Long-term debt	450,306	397,000	541,000	156,667
Common equity	520,017	380,017	181,906	176,518

</TABLE>

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(1) The summary income statement data and the summary segment data give effect to (i) the Seagull Canada Acquisition, financed initially under the Canadian Credit Agreement and the Company's revolving credit agreement, and (ii) the application of the estimated net proceeds of $140 million from the issuance and sale for cash of shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group pursuant to the ENSTAR Alaska Stock Offering to repay amounts borrowed under the Revolver, as if both events had occurred on January 1, 1993. The summary balance sheet data give effect to the pro forma transactions and events described

in clauses (i) and (ii) above as if both events had occurred on December 31, 1993.

(2) Includes the Mid-Continent Assets since March 8, 1991 and Seagull Mid-South Inc. since December 31, 1992, the respective dates of such acquisitions.

(3) 1992 includes the cumulative effect of a change in accounting principles of $0.7 million. Effective January 1, 1992, the Company adopted SFAS No. 109, Accounting for Income Taxes.

(4) Exclusive of consideration paid for the Mid-Continent Assets in 1991 and Seagull Mid-South Inc. in 1992.

(5) Exclusive of consideration paid for two gas gathering systems in 1992.

ENSTAR ALASKA GROUP

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL AND OPERATING DATA

<TABLE>
<CAPTION>

	PRO FORMA 1993(1)	HISTORICAL YEAR ENDED DECEMBER 31, 1993	1992	1991
	(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)			
<S>	<C>	<C>	<C>	<C>
SUMMARY INCOME STATEMENT DATA:				
Revenues	$107,244	$107,244	$109,598	$129,615
Depreciation and amortization	7,511	7,511	7,184	6,978
Operating profit	18,955	18,955	22,439	21,024
Net earnings (2)	7,048	7,048	12,039	9,626
Earnings per common share (3)	$ 0.94	--	--	--
SUMMARY SEGMENT DATA:				
Alaska Transmission and Distribution:				
Depreciation and amortization	$ 7,511	$ 7,511	$ 7,184	$ 6,978
Operating profit	18,955	18,955	22,439	21,024
Capital expenditures	10,094	10,094	9,024	10,492
SUMMARY BALANCE SHEET DATA (END OF PERIOD):				
Property, plant and equipment -- net	$162,004	$162,004	$160,359	$160,136
Total assets	185,701	185,701	186,519	189,059
Long-term debt	62,787	62,787	67,011	62,487
Common equity	59,362	59,362	61,767	59,279
OPERATING DATA:				
Degree days (4)		9,382	10,653	10,178
Volumes (Bcf)(5)				
Gas Sold		28.9	30.9	35.3
Gas Transported		11.3	10.2	4.3
Combined		40.2	41.1	39.6
Margins ($ per Mcf)(5):				
Gas Sold		1.49	1.47	1.32
Gas Transported		0.36	0.40	0.27
Combined		1.17	1.20	1.20
Year-end customers		88,200	86,400	84,800

</TABLE>

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(1) The summary income statement data and the summary segment data give effect to the issuance and sale of shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group pursuant to the ENSTAR Alaska Stock Offering as if the sale had occurred on January 1, 1993. No pro forma adjustments were necessary to the ENSTAR Alaska Group's historical combined balance sheet as of December 31, 1993 to give effect to the pro forma transaction described above.

(2) 1992 includes the cumulative effect of two changes in accounting principles aggregating $1.6 million. Effective January 1, 1992, the ENSTAR Alaska Group adopted SFAS No. 109, Accounting for Income Taxes, and SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions.

(3) Assumes that 7,500,000 shares of ENSTAR Alaska Stock are issued in the ENSTAR Alaska Stock Offering.

(4) A measure of weather severity calculated by subtracting the mean temperature for each day from 65 degrees Fahrenheit. More degree days equate to

colder weather.

(5) Mcf and Bcf represent one thousand cubic feet and one billion cubic feet of natural gas, respectively.

PRICE RANGE OF AND DIVIDENDS ON SEAGULL COMMON STOCK

The Seagull Common Stock is traded on the NYSE under the symbol "SGO." The following table sets forth, for the periods indicated, the high and low sales price per share for the Seagull Common Stock, as reported on the NYSE Composite Tape.

	HIGH	LOW
1992		
First Quarter	$12 3/4	$10 7/8
Second Quarter	14 1/4	11 3/8
Third Quarter	16	11 7/8
Fourth Quarter	16 7/8	14 5/8
1993		
First Quarter	$24 1/2	$14 7/8
Second Quarter	30	22 7/8
Third Quarter	32 7/8	24
Fourth Quarter	31 1/4	21
1994		
First Quarter	$28 5/8	$23 5/8
Second Quarter (through April 19, 1994)	28 1/2	23

On June 4, 1993, the Company effected the Stock Split. The per share prices, weighted average number of shares outstanding and per share amounts in this Proxy Statement have been adjusted to reflect the Stock Split. However, share amounts included in the balance sheets and statements of shareholders' equity as of dates prior to June 4, 1993 have not been adjusted to reflect the Stock Split.

As of March 10, 1994, the number of holders of record of Seagull Common Stock was 2,910. On March 10, 1994, the day before the public announcement of the ENSTAR Alaska Stock Proposal, the last sales price of the Seagull Common Stock reported on the NYSE Composite Tape was $24 1/4. On   , 1994, the last full day of trading before the date of this Proxy Statement, the last sales price of the Seagull Common Stock reported on the NYSE Composite Tape was $.

No cash dividends have been paid on the Seagull Common Stock since the Company became an independent entity as a result of the spin-off of its shares to the stockholders of Houston Oil & Minerals Corporation in March 1981. The ENSTAR Alaska Stock Proposal would not change the Company's dividend policy with respect to the Seagull Common Stock. Accordingly, the Board does not currently intend to pay dividends on the Seagull Common Stock. See "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Dividend Policy" and "-- Description of Seagull Common Stock and ENSTAR Alaska Stock -- Dividends."

PRINCIPAL SHAREHOLDERS

To the knowledge of the management of the Company and based upon filings with the Securities and Exchange Commission (the "SEC"), the only persons who may be deemed to own beneficially more than 5% of the outstanding Seagull Common Stock (including any "group" as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of February 28, 1994, are named in the following table:

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES	PERCENT OF CLASS
The Equitable Companies Incorporated(1)	3,399,600	9.4%
787 Seventh Avenue		

New York, NY 10019		
FMR Corp.(2)...	2,891,574	8.0%
82 Devonshire Street		
Boston, MA 02109		
RCM Capital Management(3)..............................	2,442,800	6.7%
Four Embarcadero Center, Suite 2900		
San Francisco, CA 94111		

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(1) According to information provided to the Company by The Equitable Companies Incorporated, The Equitable Companies Incorporated and their subsidiaries and certain affiliates (collectively, the "Equitable Entities") beneficially own in the aggregate the shares of Seagull Common Stock indicated above. Except as described below the Equitable Entity holding such shares has sole voting and disposition power with respect to the shares respectively owned by such entity. Alliance Capital Management, L.P. has sole dispositive power with respect to the 3,369,300 shares that it beneficially owns, but has sole voting power with respect to only 2,794,000 shares, shared voting power with respect to 53,800 shares and no voting power with respect to the remaining 521,500 shares.

(2) According to information furnished by FMR Corp., 2,891,574 shares (8.0%) are beneficially owned by Fidelity Management & Research Company, a wholly-owned subsidiary of FMR Corp. and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940. Beneficial ownership by Fidelity Management & Research Company arises as a result of its acting as investment adviser to the Fidelity Magellan Fund, an investment company registered under Section 8 of the Investment Company Act of 1940 (the "Fund"). The Fund had beneficial ownership of all 2,891,574 shares. Edward C. Johnson 3d, Chairman of FMR Corp., owns 34.0% of the outstanding voting common stock of FMR Corp. Various Johnson family members and trusts for the benefit of Johnson family members own FMR Corp. voting common stock. These Johnson family members, through their ownership of voting common stock, form a controlling group with respect to FMR Corp. FMR Corp., through its control of Fidelity Management & Research Company, and the Fund each has sole power to dispose of the 2,891,574 shares. Neither FMR Corp. nor Edward C. Johnson 3d has the sole power to vote or direct the voting of the shares owned directly by the Fund, which power resides with the Fund's Board of Trustees. Fidelity Management & Research Company carries out the voting of the shares under written guidelines established by the Fund's Board of Trustees.

(3) According to information furnished by RCM Capital Management ("RCM"), RCM is an investment adviser and in such capacity may have discretionary authority to dispose of or to vote securities that are under its management, and as a result may be deemed to have beneficial ownership of such securities. RCM Limited L.P. ("RCM Limited") is the General Partner of RCM and RCM General Corporation ("RCM General") is the General Partner of RCM Limited. RCM General and RCM Limited may be deemed to have beneficial ownership of shares as to which RCM is deemed to have beneficial ownership. RCM had sole dispositive power with respect to 2,402,800 of the shares set forth above, shared dispositive power with respect to 40,000 of the shares set forth above, sole voting power with respect to 1,914,450 of such shares and no voting power with respect to 528,350 of such shares. RCM serves as investment manager for the RCM Growth Equity Fund and the RCM Small Cap Fund, two series of the RCM Capital Funds, Inc. (the "RCM Funds"). As of December 31, 1993, the RCM Funds held 601,500 shares of Seagull Common Stock (which shares are included in the shares as to which RCM is deemed to have beneficial ownership). All of these shares were held by the RCM Growth Equity Fund.

PROPOSAL 1 -- ELECTION OF DIRECTORS

Four directors are to be elected at the Annual Meeting. The Company's Bylaws provide for a classified Board of Directors. Thus, the Board of Directors is divided into Classes I, II and III, the terms of office of which are currently scheduled to expire, respectively, on the dates of the Company's Annual Meetings of Shareholders in 1996, 1994 and 1995. Peter J. Fluor, Barry J. Galt, Dean P. Guerin and Robert W. Shower have been nominated to serve in Class II and, if elected, will serve until the Company's 1997 Annual Meeting of Shareholders and until their respective successors shall have been elected and qualified. Each of the nominees for director currently serves as a director of the Company. The remaining eight directors named below will not be required to stand for election at the Annual Meeting because their present terms expire in either 1995 or 1996. A plurality of the votes cast in person or by proxy by the holders of Seagull Common Stock is required to elect a director. Accordingly, under Texas law and the Company's Articles of Incorporation and Bylaws, abstentions and broker non-votes would have no effect on the election of directors. Shareholders may not cumulate their votes in the election of directors.

Unless otherwise instructed or unless authority to vote is withheld, the enclosed proxy will be voted FOR the election of the nominees listed below. Although the Board of Directors does not contemplate that any of the nominees will be unable to serve, if such a situation arises prior to the Annual Meeting, the persons named in the enclosed proxy will vote for the election of such other person(s) as may be nominated by the Board of Directors.

The following table sets forth information regarding the names, ages and principal occupations of the nominees and directors, other directorships in certain companies held by them and the length of continuous service as a director of the Company:

NOMINEES AND DIRECTORS	PRINCIPAL OCCUPATION AND DIRECTORSHIPS	AGE	DIRECTOR SINCE
CLASS II NOMINEES			
Peter J. Fluor	President, Texas Crude Energy, Inc. (independent oil and gas company); Director, Fluor Corporation	46	1980
Barry J. Galt	Chairman of the Board, President and Chief Executive Officer of the Company; Director, Standard Insurance Company and Trinity Industries, Inc.	60	1983
Dean P. Guerin	Chairman, President and Chief Executive Officer, Berry-Barnett Food Distribution Co., Inc. (wholesale grocery); Director, Lone Star Technologies and Trinity Industries, Inc.	72	1982
Robert W. Shower	Executive Vice President and Chief Financial Officer of the Company; Director, Lear Seating Corporation	56	1992
CLASS I DIRECTORS			
John B. Brock	Chief Executive Officer, President and Director, United Meridian Corporation (oil and gas exploration and production); Director, Southwest Bank of Texas	61	1980
John W. Elias	Executive Vice President of the Company	53	1993
Sam F. Segnar	Retired Chairman of the Board and Chief Executive Officer, Enron Corp.; Director, MAPCO, Inc., Hartmarx Corporation, Textron, Inc. and Gulf States Utilities Company	66	1986
George M. Sullivan	Retired Chairman of the Board, Alaska Railroad Corporation	72	1989
CLASS III DIRECTORS			
J. Evans Attwell	Attorney, Vinson & Elkins L.L.P.; Director, American General Corporation, First City Bancorporation of Texas, Inc. and Galveston-Houston Company	63	1974

(Table continued on following page)

NOMINEES AND DIRECTORS	PRINCIPAL OCCUPATION AND DIRECTORSHIPS	AGE	DIRECTOR SINCE
William R. Grant	Chairman, Galen Associates (venture capital health care); Director, Allergan, Inc., Fluor Corporation, New York Life Insurance Company, SmithKline Beecham, p.l.c. and Witco Corporation	69	1986
Richard M. Morrow	Retired Chairman of the Board and Chief Executive Officer, Amoco Corporation; Director, First Chicago Corporation, The First National Bank of Chicago, R.R. Donnelley and Sons Company, Potlatch Corporation, Westinghouse Electric Corporation and Marsh & McLennan Companies, Inc.	68	1992
Dee S. Osborne	President, Finial Investment Corporation (investments); Director, General Atlantic Resources, Inc. and EOTT Energy Corp. (the general partner of EOTT Energy Partners, L.P.); and Chairman and Director, People's Choice TV of Houston, Inc.	63	1983

Each of the nominees and directors named above has been engaged in the principal occupation set forth opposite his name for the past five years except as follows:

Mr. Guerin served as Chairman of the Board of Eppler, Guerin & Turner, Inc. (an investment banking firm) from 1951 until his retirement in December 1987. He was named to his present position in June 1990.

Mr. Shower served for 22 years with the Williams Companies, most recently as Executive Vice President, Finance and Administration and a director until 1986. He served as a Managing Director, Corporate Finance, for Lehman Brothers Inc. (formerly Shearson Lehman Hutton) from 1986 to 1990. He served as Vice President and Chief Financial Officer with AmeriServ Food Company from 1990 to 1991. He served as Senior Vice President, Corporate Development for Albert Fisher, Inc. from 1991 to 1992. Mr. Shower joined the Company as Senior Vice President and Chief Financial Officer in March 1992. He was named to his present position in December 1993.

Mr. Brock served as Chief Executive Officer, President and a director of Ensource Inc. from January 1986 to October 1989, at which time Ensource, Inc. was merged into its parent company, United Meridian Corporation. He served as President, Chief Operating Officer and a director from October 1989 to February 1992. Mr. Brock was named to his present position in February 1992.

Mr. Elias served for 30 years with Amoco Production Company and its parent, Amoco Corporation, in a variety of operational and management positions. Most recently, he served as Group Vice President of Worldwide Natural Gas for Amoco Production from November 1988 to January 1993. Mr. Elias was elected to his present position with the Company in March 1993.

Mr. Segnar served as Chairman of the Board and Chief Executive Officer of HNG/InterNorth, Inc. (now Enron Corp.) from 1984 until his retirement in early 1986. He served as Chairman of the Board of Vista Chemical, Inc. from October 1986 to October 1988 and as Chairman of the Board of Collecting Bank, National Association from April 1988 to February 1993.

Mr. Sullivan served as legislative liaison for the Governor of Alaska during 1987 and as Chairman of the Board, Alaska Railroad Corporation from August 1988 until his retirement in January 1991.

Mr. Grant served as Chairman of New York Life International Investment, Inc. from August 1987 to April 1989. Mr. Grant was named to his present position in May 1989.

Mr. Morrow served as Chairman of the Board and Chief Executive Officer of Amoco Corporation from September 1983 until his retirement in February 1991.

SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT

<TABLE>
<CAPTION>

	SEAGULL COMMON STOCK BENEFICIALLY OWNED(1)	
	NUMBER OF SHARES	PERCENT OF CLASS
<S>	<C>	<C>
NONEMPLOYEE DIRECTORS		
J. Evans Attwell	31,200(2)	*
John B. Brock	76,572(2)(3)	*
Peter J. Fluor	27,198(2)(4)	*
William R. Grant	2,800(2)	*
Dean P. Guerin	41,200(2)	*
Richard M. Morrow	7,200(2)	*
Dee S. Osborne	48,000(2)	*
Sam F. Segnar	2,600(2)	*
George M. Sullivan	2,200(2)	*
EXECUTIVE OFFICERS		
Barry J. Galt	548,321(2)(5)(6)	1.6%
John W. Elias	7,112(2)(6)	*
Robert W. Shower	38,460(2)(5)(6)	*
Richard F. Barnes	45,820(2)	*
Thomas P. McConn	64,635(2)(5)(6)	*
DIRECTORS AND EXECUTIVE OFFICERS AS A GROUP (18 PERSONS)	1,042,151(7)	2.8

</TABLE>

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* Less than 1%.

(1) Unless otherwise indicated, beneficial owners have sole voting and investment power with respect to the shares listed. Amounts shown are as of April 4, 1994, except for amounts held by the trustee of the Company's Thrift Plan and Employee Stock Ownership Plan, which are as of December 31, 1993.

(2) Includes 517,020 shares that the nonemployee directors and the above named executive officers have a right to purchase within 60 days pursuant to stock options ("Options") granted under the Company's stock option plans as follows: each nonemployee director -- 1,200, Mr. Galt -- 380,400, Mr. Elias -- 6,666, Mr. Shower -- 36,000, Mr. Barnes -- 35,820 and Mr. McConn -- 54,000. Prior to exercising these Options, the officers will have no voting or investment power with respect to said shares.

(3) Includes 51,372 shares held directly by family members for which Mr. Brock disclaims any power to vote or dispose of or have direct disposition.

(4) Includes 8,000 shares held by certain trusts with respect to which Mr. Fluor is the sole trustee but for which he disclaims any beneficial ownership.

(5) Includes 19,786 shares held by the trustee of the Company's Thrift Plan for which the above named executive officers have sole voting power and no investment power. Shares held are as follows: Mr. Galt -- 12,395, Mr. Shower -- 1,164 and Mr. McConn -- 6,227.

(6) Includes 11,676 shares held by the trustee of the Company's Employee Stock Ownership Plan for which the above named executive officers have sole voting power and no investment power. Shares held are as follows: Mr. Galt -- 5,526, Mr. Elias -- 446, Mr. Shower -- 1,296 and Mr. McConn -- 4,408.

(7) Includes 58,135 shares held for directors and executive officers as a group in the Company's Thrift Plan and Employee Stock Ownership Plan for which such persons have sole voting power and no investment power. Also, includes 594,046 shares for directors and executive officers as a group that said persons have the right to purchase within 60 days pursuant to Options granted under the Company's stock option plans. Prior to exercising these Options, said persons will have no voting or investment power with respect to said shares.

DIRECTORS' MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors held 14 meetings during 1993. Each director attended at least 75% of the aggregate total meetings of the Board of Directors and any committee on which such director served.

The Company has the following standing committees:

Audit Committee. The Audit Committee, which currently consists of Messrs. Grant, Guerin, Morrow and Segnar, met three times during 1993. Its principal functions are to confirm the existence of effective accounting and internal control systems and to oversee the entire audit function, both independent and internal.

Compensation Committee. The Compensation Committee, which currently consists of Messrs. Brock, Fluor and Osborne, met nine times during 1993. Its principal functions are to study, advise and consult with the Company's management respecting the compensation of officers and other key employees of the Company. Members of the Compensation Committee are not eligible to participate in any of the plans or programs they administer.

Executive Committee. The Executive Committee, which currently consists of Messrs. Attwell, Brock, Galt, Osborne and Segnar, met two times during 1993. Its principal function is to aid and assist the Company's management in the day-to-day operation of the Company.

Nominating Committee. The Nominating Committee, which currently consists of Messrs. Attwell, Grant, Morrow and Sullivan, met two times during 1993. Its principal function is to make proposals to the full Board of Directors for candidates to be nominated by the Board to fill vacancies or for new directorship positions, if any, which may be created from time to time. The Nominating Committee will consider suggestions from any source, including shareholders, regarding possible candidates for director. No procedure has yet been established for the consideration of nominees recommended by shareholders.

COMPENSATION OF DIRECTORS

During 1993, each director of the Company who is not a full-time employee was paid an annual director's fee of $20,000 per year plus $1,000 for each meeting of the Board of Directors attended. Audit, Executive, Compensation and Nominating Committee outside members are paid $750 for each committee meeting attended. Each outside committee chairman receives an additional $1,000 per year. In addition, a nonemployee director who attends a meeting of a committee of which he is not a member is entitled to an attendance fee of $750.

Stock Options. The Company has a Nonemployee Directors Stock Option Plan (the "Directors Option Plan") which was approved at the 1993 annual meeting of shareholders (the "1993 Annual Meeting"). The Company utilizes stock options in order to award and retain highly-qualified independent directors, and to allow them to develop a sense of proprietorship and personal involvement in the development and financial success of the Company.

The Directors Option Plan provides for the grant of options to acquire Seagull Common Stock to each director who is not and never has been an employee of the Company (an "Eligible Director"). On the date of the 1993 Annual Meeting, each Eligible Director received an option to purchase 6,000 shares of Seagull Common Stock at an exercise price equal to the fair market value of the Seagull Common Stock on the date of grant. In addition, each Eligible Director who is elected or appointed to the Board of Directors for the first time will receive on the date of such director's election or appointment an option to purchase 6,000 shares of Seagull Common Stock at an exercise price equal to the fair market value of the Seagull Common Stock on the date of grant.

On the date of any Annual Meeting of Shareholders prior to the termination of the Directors Option Plan, each Eligible Director who is continuing in office will automatically receive an option to purchase an additional 6,000 shares of Seagull Common Stock at an exercise price equal to the fair market value of the Seagull Common Stock on the date of grant. All outstanding options have terms of ten years and vest 20% per year over the initial five years of their terms.

Deferred Fee Plan. The Company has an Outside Directors Deferred Fee Plan (the "Deferred Fee Plan"), a non-qualified plan, which was amended and restated effective May 1, 1991. The Deferred Fee Plan requires the automatic deferral of one-half of the annual retainer fee for all directors who are not employees of the Company ("Outside Directors"). In addition, Outside Directors may elect to defer all or a portion of their remaining directors' fees under the Deferred Fee Plan. Amounts automatically deferred under the Deferred Fee Plan are credited based upon "phantom stock" units, which have the same value as Seagull Common Stock, which increase or decrease in value to the full extent of any increase or decrease in the value of Seagull Common Stock and which receive credit for any cash or stock dividends paid with respect to Seagull Common Stock. With respect to fees deferred by Outside Directors prior to January 1, 1991, or fees deferred in excess of the one-half automatic deferral, Outside Directors are permitted to make quarterly elections regarding the method of income crediting for these deferrals, which may be credited either based upon "phantom stock" units or with interest equivalents based upon the prime rate of interest as published in The Wall Street Journal on the last day of the quarter, plus a bonus rate of interest of up to 2% depending on the number of years the Outside Director has served on the Board. All "phantom stock" units credited to Outside Directors' accounts must remain so credited until distribution or, if distribution is to be in a form other than lump sum, the effective date of a final income crediting election made after Board of Directors membership has ceased. Subject to certain restrictions, Outside Directors may elect the timing and mode of their distributions from the Deferred Fee Plan, except on the occurrence of events such as death, plan termination or change of control. Distributions under the Deferred Fee Plan can be made only in cash. Benefits under the Deferred Fee Plan constitute unfunded, unsecured obligations of the Company. As of April 4, 1994 all Outside Directors were participants in the Deferred Fee Plan. If the ENSTAR Alaska Stock Proposal is approved by the shareholders and implemented, the Company currently intends to amend the Deferred Fee Plan to allow Outside Directors to elect to have a portion of their deferred fees credited based on "phantom stock" units, which will be designed to have the same value and the same dividend and liquidation characteristics as the ENSTAR Alaska Stock.

The following table sets forth Seagull Common Stock "phantom stock" units credited to each participant's account during 1993 and total units credited as of April 4, 1994:

<TABLE>

<CAPTION>

	SEAGULL COMMON STOCK PHANTOM STOCK UNITS CREDITED	
	IN FISCAL 1993	AS OF APRIL 4, 1994
<S>	<C>	<C>
J. Evans Attwell	1,652	24,509
John B. Brock	1,583	14,577
Peter J. Fluor	1,613	21,677
William R. Grant	1,404	15,993
Dean P. Guerin	1,510	17,206
Richard M. Morrow	1,434	3,529
Dee S. Osborne	1,568	20,762
Sam F. Segnar	382	1,732
George M. Sullivan	747	2,170

</TABLE>

CERTAIN TRANSACTIONS AND OTHER MATTERS

The Company's Thrift Plan invests in three different mutual funds (the "Fidelity Funds") affiliated with FMR Corp. (a beneficial owner of more than 5% of the outstanding Seagull Common Stock; see "Principal Shareholders"). However, the amount of money invested in those Fidelity Funds depends upon elections made by the Company's employee participants in the Thrift Plan. The Company believes that the Thrift Plan invests on the same basis in terms of rates and fees as are offered generally to similar employee investment vehicles. As of January 31, 1994, the aggregate amount of funds invested by the Thrift Plan in these funds was $9.2 million.

Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"), an Equitable Entity has acted as an underwriter for various equity and debt offerings conducted by the Company. In February 1993, DLJ acted as an underwriter in the Company's public offering of 10,120,000 shares of Seagull Common Stock, in consideration for underwriting discounts and commissions of $839,602, together with reimbursements for certain out-of-pocket expenses. In July 1993, DLJ acted as an underwriter in the Company's public offering of an aggregate of $250 million of senior and senior subordinated debentures, in consideration for underwriting discounts and commissions of $900,000, together with reimbursements for certain out-of-pocket expenses. The consideration paid to DLJ in these securities offerings was comparable to the commissions and discounts for the other investment banking firms in these transactions that were not affiliated with the Equitable Entities. See "Principal Shareholders."

During 1993, the Company retained the law firm of Moyers, Martin, Santee, Imel & Tetrick ("Moyers, Martin"), of Tulsa, Oklahoma, with respect to matters of Oklahoma law. Moyers, Martin has been retained to perform similar services with respect to matters of Oklahoma law in 1994. Mr. D. Stanley Tacker, Mr. Galt's son-in-law, is a partner in Moyers, Martin. Mr. Galt is Chairman, President and Chief Executive Officer of the Company.

Pursuant to the requirements of Section 16(a) of the Exchange Act, Janice K. Hartrick, Chief Counsel and Vice President, Environmental Affairs of the Company, filed a report of change in beneficial ownership on Form 4 with the SEC during February 1994. However, because the sale to which the Form 4 related occurred during September 1993, Ms. Hartrick's filing was not timely made. Ms. Hartrick has advised the Company that she has made all other Section 16(a) filings during 1993 on a timely basis.

Compensation Committee Interlocks and Insider Participation

J. Evans Attwell, a director of the Company, served as a member of the Compensation Committee during 1993 until May 11, 1993, the date of the 1993 Annual Meeting of Shareholders, at which time his term expired. During 1993, the Company retained the law firm of Vinson & Elkins L.L.P., of which Mr. Attwell is an attorney, to perform various legal services for the Company. Vinson & Elkins L.L.P. has been retained to perform similar services in 1994.

The Company and UMC Petroleum Corporation, a subsidiary of United Meridian Corporation ("UMC"), entered into a Lease Purchase and Drilling Agreement in 1992 in connection with a UMC-operated gas and oil property. Based on this agreement, $ was paid during 1993 to UMC by the Company. The foregoing transaction was on terms consistent with general industry terms. John B. Brock, a director of the Company and a member of the Compensation Committee, is Chief Executive Officer, President and Director of UMC.

EXECUTIVE COMPENSATION

The following table sets forth annual and long-term compensation for services in all capacities to the Company for the fiscal years ended December 31, 1991, 1992 and 1993, of those persons who were, at December 31, 1993, the Chief Executive Officer and the other four most highly compensated executive officers of the Company (the "Named Officers"):

SUMMARY COMPENSATION TABLE

NAME & PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION SALARY($)	BONUS($)(1)	OTHER ANNUAL COMPENSATION ($)(2)(3)	LONG-TERM COMPENSATION AWARDS SECURITIES UNDERLYING OPTIONS/(SARS) (SHS.)(4)	ALL OTHER COMPENSATION ($)(2)(5)
Barry J. Galt............................	1993	$ 465,000	$ 298,000	$ 0	100,000	$ 31,155
Chairman of the Board, President	1992	$ 440,000	$ 440,000	$ 0	150,000	$ 75,913
and Chief Executive Officer	1991	$ 410,000	$ 140,000		0	
John W. Elias............................	1993	$ 187,500(6)	$ 80,000	$110,431(7)	100,000	$ 11,250
Executive Vice President						
Robert W. Shower.........................	1993	$ 204,000	$ 86,000	$ 0	30,000	$ 12,240
Executive Vice President	1992	$ 149,205(8)	$ 95,730	$ 85,637(9)	90,000	$ 23,951
and Chief Financial Officer						
Richard F. Barnes........................	1993	$ 222,000	$ 17,500	$ 0	16,000	$ 13,413
President, ENSTAR	1992	$ 210,000	$ 30,000	$ 0	25,000	$ 13,800
Natural Gas Company	1991	$ 185,000	$ 20,000		0	
Thomas P. McConn.........................	1993	$ 204,000	$ 84,000	$ 0	24,000	$ 12,240
President, Seagull	1992	$ 184,000	$ 107,560	$ 0	40,000	$ 30,381
Energy E&P Inc.	1991	$ 168,000	$ 32,000		0	

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(1) Amounts shown include cash compensation earned and received by executive officers as well as amounts earned but deferred under the Executive Incentive Plan for the respective fiscal years.

(2) The rules of the SEC permit a phase in, beginning in 1992, for the disclosures under the headings "Other Annual Compensation" and "All Other Compensation."

(3) No amounts are included for perquisites and personal benefits unless they exceed the lesser of $50,000 or 10% of annual salary and bonus.

(4) No grants of stock appreciation rights have been made.

(5) Amounts reported under "All Other Compensation" represent contributions by the Company to defined contribution plans.

(6) Mr. Elias joined the Company as an employee on March 8, 1993.

(7) Includes a one-time payment of $100,000 given at the time of Mr. Elias's employment in lieu of reimbursement for relocation expenses.

(8) Mr. Shower joined the Company as an employee on March 9, 1992.

(9) Includes a one-time payment of $75,000 given at the time of Mr. Shower's employment in lieu of reimbursement for relocation expenses.

COMPENSATION ARRANGEMENTS

Mr. Galt has an employment agreement which had an initial term of three years. This term is extended an additional year on December 31 of each year that Mr. Galt remains an employee of the Company, with the result that the remaining term of the employment agreement is not less than two years nor more than three years at any given time. If, however, the Company terminates Mr. Galt's employment because of gross negligence or willful misconduct in the performance of his duties, the employment agreement will terminate immediately. Similarly, if Mr. Galt terminates his employment voluntarily other than in connection with a "change in control" of the Company or other than because he is not re-elected to his current positions (including as a director) or is assigned materially inconsistent duties, the employment agreement will terminate. Mr. Galt's current annual salary under his employment agreement is $496,000.

During the term of his employment, Mr. Galt will also receive the use of an automobile, various club memberships and certain other personal and business related benefits. Mr. Galt also had an outstanding loan from the Company made in connection with his purchase of his principal residence in Houston, Texas. During 1993, the highest balance on the loan, which accrued interest at 6% per annum, was $200,000. Mr. Galt made a regularly scheduled principal payment of $25,000 during 1993, and the remaining principal balance of $175,000 was paid in full on August 27, 1993.

OPTION EXERCISES AND FISCAL YEAR-END VALUES

The following is information with respect to the unexercised options to purchase Seagull Common Stock under the Company's stock option plans granted to the Named Officers and held by them at December 31, 1993.

NAME	SHARES ACQUIRED ON EXERCISE (SHS.)	VALUE REALIZED ($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT DECEMBER 31, 1993(SHS.)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT DECEMBER 31, 1993($)(1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Barry J. Galt..................	173,740	$4,436,229	350,400	289,600	$5,658,525	$ 2,405,100
John W. Elias..................	0	$ 0	0	100,000	$ 0	$ 0
Robert W. Shower...............	0	$ 0	18,000	102,000	$ 241,875	$ 967,500
Richard F. Barnes..............	0	$ 0	40,820	45,200	$ 641,994	$ 385,950
Thomas P. McConn...............	0	$ 0	46,000	71,000	$ 647,250	$ 606,813

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(1) Value based on the closing price on the NYSE Composite Tape for the Seagull Common Stock on December 31, 1993 ($25.375).

OPTION GRANTS

The following is information with respect to grants of Options in fiscal 1993 pursuant to the Company's stock option plans to the Named Officers reflected in the Summary Compensation Table on page 29. No stock appreciation rights were granted under those plans in fiscal 1993.

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED (SHS.)(1)	INDIVIDUAL GRANTS: % OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL 1993	EXERCISE OR BASE PRICE ($/SH.)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATE OF STOCK PRICE APPRECIATION FOR OPTION TERM(2)	
					5%	10%
Barry J. Galt................	100,000	18%	$26.375	5/11/2003	$1,658,710	$4,203,496
John W. Elias................	100,000	18%	$26.375	5/11/2003	$1,658,710	$4,203,496
Robert W. Shower.............	30,000	5%	$26.375	5/11/2003	$ 497,613	$1,261,049
Richard F. Barnes............	16,000	3%	$26.375	5/11/2003	$ 265,394	$ 672,559
Thomas P. McConn.............	24,000	4%	$26.375	5/11/2003	$ 398,090	$1,008,839

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(1) Options were granted to the Named Officers on May 11, 1993. The exercise price per share is equal to the closing price of the Seagull Common Stock on the NYSE Composite Tape on the date of grant. Options granted vest incrementally in three years beginning three years from the date of grant and will not begin to become exercisable until May 11, 1996, except for options granted to Mr. Elias, which vest at a rate of 20% per year beginning one year from the date of grant. If a "change of control" were to occur, vesting of all outstanding Options is subject to acceleration by the Compensation Committee, so that such Options could be exercisable for a period of time determined by the Compensation Committee of the Board of Directors.

(2) The dollar amounts under these columns represent the potential realizable value of each grant of Options assuming that the market price of the

Seagull Common Stock appreciates in value from the date of grant at the 5% and 10% annual rates of return prescribed by the SEC. These calculations are not intended to forecast possible future appreciation, if any, of the price of Seagull Common Stock.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Company's executive compensation program is designed to help the Company attract, motivate and retain the executive resources that the Company needs in order to maximize its return to shareholders. The fundamental philosophy is to relate the amount of compensation "at risk" for an executive directly to his or her contribution to the Company's success in achieving superior performance objectives. The Company's executive compensation program, as structured and implemented by the Compensation Committee (the "Committee"), consists of three main components: (1) base salary; (2) potential for an annual bonus based on overall Company performance as well as individual performance and (3) the opportunity to earn long-term stock-based incentives that are intended to encourage the achievement of superior results over time and to align executive officer and shareholder interests. The compensation program is structured to provide senior management with a total compensation package that -- at expected levels of performance -- is competitive with those provided to executives who hold comparable positions or have similar qualifications in other organizations of the Company's size. The peer companies named under the heading "Shareholder Return Performance Presentation" are used by the Committee in evaluating executive compensation levels.

Base Salary Program. The Company's base salary program is designed to provide base salaries for senior management that are generally more conservative than those provided by peer companies. The base salaries for the Company's senior management group are generally targeted by the Committee to fall within the 50th percentile for the Company's peers, although salaries for certain key managers may be above the 50th percentile. However, the Committee ensures that the Company's overall compensation is competitive with market norms by providing more aggressive incentive compensation, as discussed below, in order to emphasize and encourage pay-for-performance. The Committee believes that the Company's ability to provide salaries that are competitive with market alternatives, which vary depending upon the nature and level of the position in question, is critical to attracting and maintaining talented senior managers. The Committee reviews information contained in proxy statements, special surveys and other sources and employs the services of an outside compensation consultant to analyze the competitive level of senior management compensation.

The Committee reviews and adjusts executive base salaries annually based on each individual employee's performance over time, general competitive market salary levels and the Company's overall financial condition and results of operations, primarily measured by cash flow from operations. No specific weight or emphasis is placed on any one of these factors.

The Chief Executive Officer's salary was increased by 7.3%, 5.6% and   % for the years 1992, 1993 and the current year, respectively. These adjustments were intended to bring Mr. Galt's salary closer in line with the market rate for his position and to recognize performance above targeted levels in the areas of growth in market capitalization, actual cash flow generated from operations measured against the Company's annual operating plan and progress toward achieving the Company's overall business strategy. No specific weight or emphasis is placed on any one of these factors. The Committee believes that Mr. Galt's base salary for 1994 approximates the 50th percentile for the Company's peer group.

Short-Term Incentive Compensation. Under the Company's Executive Incentive Plan, the Committee grants annual cash incentive awards that are dependent upon the Company's achievement of previously established objectives for the fiscal year and an evaluation of each individual participant's contributions to those achievements. The Committee utilizes data obtained from an independent compensation consultant to determine the targeted annual incentive award levels for plan eligible positions. Such awards are targeted to fall within the 50th percentile for companies similar in size to the Company.

One-half of each eligible employee's annual incentive award for 1993, the objective portion, was based on the Company's actual cash flow generated from operations measured against the Company's annual operating plan. The remaining half of the award for each eligible employee, the subjective portion, is based upon the individual employee's contribution to the Company's annual success in his or her area of responsibility, measured by both quantitative and qualitative factors. No specific formula is utilized for weighing individual performance.

In order to encourage retention of key personnel, annual incentive awards generally are paid out over a period expiring approximately three years after the beginning of the annual evaluation period for the award in question.

Mr. Galt received an annual incentive bonus for 1993 of $298,000. This annual incentive bonus was based on the above discussed factors. Specifically, the Committee noted that the Company's actual cash flow from operations for 1993 exceeded by % the projected cash flow from operations included in the Company's 1993 operating plan and that shareholders of the Company experienced a 63.3% return during 1993 as compared to the 19.6% return experienced by the companies included in the peer group (see the comparative total returns table set forth below). The Committee also considered Mr. Galt's role in the Company's execution of its overall business strategy.

Long-Term Incentive Compensation. The Company currently grants long-term incentive compensation in the form of stock options. The Committee emphasizes incentive compensation in the form of stock options because they tend to align the interests of employees and shareholders by rewarding performance that increases shareholder values. Option holders will only recognize value when the stock price increases over the exercise price established on the date of grant.

The Committee establishes the overall level of stock options by considering the stock option grant levels of companies included in the peer group. Stock option awards by the Company are targeted by the Committee to fall within the 75th percentile or above among the peer companies. The Committee bases individual option grants on individual performance and level of responsibility of the optionee.

All outstanding options have terms of ten years. In order to encourage retention, and to ensure that the stock option program provides a long-term incentive, these options include specified vesting schedules. With respect to all options granted prior to May 1993, the vesting schedule provides that the options vest 20% per year over the initial five years of their terms. However, because the Committee believes that it important to emphasize the long-term nature of this incentive program, the Committee has adopted a policy in May 1993 that all options granted after that date would vest 40% on the third anniversary of the date of grant, and an 20% would become exercisable in each of the next three years. Because Mr. Elias's initial employment package (including option grants) had been determined prior to May 1993, the option granted to him in May 1993 to purchase 100,000 shares of Seagull Common Stock was made under the previously existing vesting schedule. Options granted to the Named Officers and certain other key employees have been granted at 100% of the market value of the stock on the date of grant. The exercise price is payable in cash, shares of Seagull Common Stock, by broker-financed cashless exercise, or any combination of the above.

On May 11, 1993, the Committee granted non-qualified stock options to purchase an aggregate of 100,000 shares of Seagull Common Stock to Mr. Galt for an exercise price of $26.375 per share. The options were granted at 100% of fair market value on the date of grant. The option grant was based on a competitive number of options for chief executive officers in the peer group. The options will not produce gain for Mr. Galt unless the Company's share price rises over the exercise price established on the date of grant and therefore emphasize pay-for-performance in the form of enhanced shareholder value.

The Committee periodically reviews the Company's executive compensation package to ensure that the Company provides an appropriate mix of base salary and short-term and long-term compensation opportunities that are competitive with market alternatives.

Section 162(m). The Internal Revenue Service ("IRS") has issued proposed regulations implementing Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") relating to the limitation of the deductibility for federal income tax purposes of certain executive compensation in excess of $1 million annually. Section 162(m) is applicable to such compensation paid after December 31, 1993. The Committee has been advised that, pursuant to the transition rules contained in these regulations, Section 162(m) does not apply to written binding contracts existing on February 17, 1993 or to performance-based plans. The transition rules also provide that plans approved before December 20, 1993 pursuant to Rule 16b-3 under the Exchange Act will be treated as performance-based until the earliest of (i) the expiration or material modification of the plan, (ii) the issuance of all stock under the plan and (iii) the first shareholders meeting to elect directors

occurring after December 31, 1996. Accordingly, the transition rules would treat the gain from exercised stock options as performance-based compensation, which is excludable from the $1,000,000 limitation. During 1994, no executive of the Company will receive compensation in excess of $1 million unless a significant number of vested stock options are exercised. The Committee is not recommending changes or amendments to any executive compensation plans of the Company during 1994.

Compensation Committee
Peter J. Fluor, Chairman
John B. Brock
Dee S. Osborne

SHAREHOLDER RETURN PERFORMANCE PRESENTATION

The performance graph shown below was prepared by Towers Perrin (benefits consultants retained by the Company) using data from the Standard and Poor's Compustat Database for use in this Proxy Statement. As required by applicable rules of the SEC, the graph was prepared based upon the following assumptions:

1. $100 was invested in Seagull Common Stock, the S&P 500 and the Peer Group (as defined below) on December 31, 1988.

2. Peer Group investment is weighted based on the market capitalization of each individual company within the Peer Group at the beginning of each year.

3. Dividends are reinvested on the ex-dividend dates.

The companies that comprise the Company's Peer Group are as follows: Anadarko Petroleum Corporation, Apache Corporation, Burlington Resources, Inc., Cabot Oil & Gas Corporation, Devon Energy Corporation, Enron Oil & Gas Company, Equitable Resources, Inc., The Louisiana Land & Exploration Company, Maxus Energy Corporation, Mesa Inc., Mitchell Energy & Development Corp., Murphy Oil Corporation, Noble Affiliates, Inc., Oryx Energy Company, Parker & Parsley Petroleum Company, Plains Petroleum Company, Pogo Producing Company, Santa Fe Energy Resources, Inc., Southwestern Energy Company and Union Texas Petroleum Holdings, Inc. (collectively, the "Peer Group").

SEAGULL ENERGY CORPORATION

COMPARATIVE TOTAL RETURNS

DECEMBER 1988 -- DECEMBER 1993

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
AMONG SEAGULL ENERGY CORPORATION, S&P 500 INDEX AND PEER GROUP**

<TABLE>
<CAPTION>
MEASUREMENT PERIOD

(FISCAL YEAR COVERED)	SEAGULL CORP.	S&P 500	PEER GROUP
12/31/88	100.00	100.00	100.00
12/31/89	148.00	132.00	153.00
12/31/90	196.00	127.00	126.00
12/31/91	161.00	166.00	114.00
12/31/92	202.00	179.00	132.00
12/31/93	330.00	197.00	158.00

	12/31/88	12/31/89	12/31/90	12/31/91	12/31/92	12/31/93
Seagull Energy Corporation	$ 100	$ 148	$ 196	$ 161	$ 202	$ 330
S&P 500 Index	$ 100	$ 132	$ 127	$ 166	$ 179	$ 197
Peer Group	$ 100	$ 153	$ 126	$ 114	$ 132	$ 158

Assumes $100 invested on December 31, 1988 in Seagull Common Stock, S&P 500 Index and the Peer Group.

* Total Return assumes the reinvestment of dividends.
** Fiscal year ending December 31.

EXECUTIVE SUPPLEMENTAL RETIREMENT PLAN

The Company has an Executive Supplemental Retirement Plan (the "Retirement Plan") in which Barry J. Galt is the only current participant. The Retirement Plan was established to provide supplemental retirement benefits for those employees who are designated by the Board of Directors as members and who complete the required period of employment with the Company. Benefits under the Retirement Plan constitute unfunded, unsecured obligations of the Company. The Retirement Plan provides a benefit for the surviving spouse of a participant who dies before retirement with a vested benefit.

Subject to specified vesting requirements, a participant is entitled to receive when his or her employment is terminated or at his or her normal retirement date, whichever is later, a pension equal to the applicable percentage of average monthly compensation less 50% of his social security benefit. Compensation covered by the Retirement Plan includes base salary only. Mr. Galt is fully vested under the Retirement Plan.

For Mr. Galt, the applicable percentage is 50% and his average monthly base compensation (which does not include bonuses) is determined based on his last three consecutive calendar years of employment with the Company. Based on Mr. Galt's current annual salary, the estimated annual benefit for Mr. Galt, assuming retirement at age 65, is $277,734 with such payment continuing to the survivor for life upon the death of either Mr. Galt or his spouse.

ENSTAR NATURAL GAS COMPANY RETIREMENT PLAN

Richard F. Barnes is the only Named Officer eligible to participate in the ENSTAR Natural Gas Company Retirement Plan (the "ENSTAR Retirement Plan").

The salaried employees of ENSTAR Natural Gas Company, a division of the Company, are eligible to participate in the ENSTAR Retirement Plan. Under the non-contributory plan, a participant who retires at or after the age of 65 with four years of plan participation is eligible for a monthly retirement benefit equal to 2% of a participant's average monthly compensation multiplied by his or her years of benefit service not to exceed ten full years, added to an amount equal to 1% of the participant's average monthly compensation multiplied by his or her benefit service exceeding ten full years. Benefits under the ENSTAR Retirement Plan are not subject to reduction because of Social Security benefits but are reduced by benefits payable under another defined benefit plan to the extent that there is a duplication of benefits for the same period of service.

The ENSTAR Retirement Plan provides that a participant's benefit will be determined pursuant to the above formula as of the date of termination of employment, but also provides that such benefit will be at least equal to the participant's accrued benefit as of December 31, 1988.

A participant (or his or her beneficiary) may also be entitled to the foregoing benefit under the ENSTAR Retirement Plan if the participant terminates employment by reason of early retirement (i.e., after the participant has attained the age of 55 and completed five years of vesting service), by reason of total and permanent disability, by reason of death or if the participant terminates employment after the participant has attained a "vested percentage" in his or her ENSTAR Retirement Plan benefit based on his or her years of vesting service under the following schedule:

YEARS OF SERVICE	VESTED PERCENTAGE
Less than 5	0%
5 or more	100%

The following table shows estimated annual benefits payable upon normal retirement at age 65 based on certain salary assumptions and years of service.

PENSION PLAN TABLE*

RANGE OF COMPENSATION	YEARS OF SERVICE 15	20	25	30	35
$ 50,000	$12,500	$15,000	$17,500	$20,000	$22,500
$ 75,000	$18,750	$22,500	$26,250	$30,000	$33,750
$100,000	$25,000	$30,000	$35,000	$40,000	$45,000
$125,000	$31,250	$37,500	$43,750	$50,000	$56,250
$150,000	$37,500	$45,000	$52,500	$60,000	$67,500

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* For purposes of determining the benefits shown above, plan compensation for all years of service has been limited to $150,000 in accordance with the limits on qualified plan compensation under Section 401(a)(17) of the Code, without regard to any future adjustments for changes in the cost of living, and benefits accrued prior to January 1, 1994 with respect to plan compensation in excess of $150,000 have been disregarded.

The following table sets forth the estimated annual benefits payable under normal retirement at age 65, assuming current remuneration levels and participation until normal retirement at age 65, with respect to Mr. Barnes under the provisions of the ENSTAR Retirement Plan:

	CURRENT CREDITED YEARS OF SERVICE	ESTIMATED CREDITED YEARS OF SERVICE AT AGE 65	CURRENT COMPENSATION COVERED BY PLAN	CURRENT COMPENSATION ADJUSTED FOR PLAN COMPENSATION LIMITS	ESTIMATED ANNUAL BENEFIT PAYABLE UPON RETIREMENT
Richard F. Barnes	21	36	$249,500	$150,000	$ 60,700*

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* This benefit assumes the current limitation on plan compensation, $150,000, will remain at $150,000 (with no inflationary adjustments). Mr. Barnes' service from 1967 through 1980 has been recognized under this plan and another retirement plan. Accordingly, his benefit under the ENSTAR Retirement Plan formula has been reduced by $7,896 per year, which is his accrued benefit under the other plan.

PROPOSAL 2 -- THE ENSTAR ALASKA STOCK PROPOSAL

GENERAL

The holders of shares of Seagull Common Stock are being asked to consider and approve the ENSTAR Alaska Stock Proposal that, if approved, would authorize the amendments to the Articles of Incorporation set forth in Annex III hereto. Such amendments would, among other things (i) authorize 25,000,000 shares of a new class of common stock of the Company, the ENSTAR Alaska Stock, with such designations, preferences, limitations and relative rights, including voting rights, thereof as are set forth in the Articles of Amendment set forth in Annex III hereto and described below and (ii) amend the terms of the existing capital stock of the Company to allow for the issuance of the ENSTAR Alaska Stock.

While the Seagull Common Stock and the ENSTAR Alaska Stock will both constitute common stock of the Company, each class is intended to reflect separately the performance of the relevant business group. The ENSTAR Alaska Stock is intended to reflect the performance of the ENSTAR Alaska Group, which is comprised of the Company's natural gas transmission and distribution operations in South-Central Alaska. The Seagull Common Stock would reflect separately the performance of the Company's remaining two business segments that consist of (i) natural gas exploration, development and production, which is the Company's primary business focus, and (ii) pipeline and marketing operations.

The Company currently expects that, shortly after shareholder approval of the ENSTAR Alaska Stock Proposal and subject to prevailing market and other conditions, it will make a public offering for cash of shares of ENSTAR Alaska Stock in the ENSTAR Alaska Stock Offering. The timing and size of such offering and the price at which such shares would be sold would be determined by the Board at the time of such offering based upon then prevailing market and other conditions; however, it is currently contemplated that the Company would offer to the public shares of ENSTAR Alaska Stock that would represent 100% of the equity attributable to the ENSTAR Alaska Group and that Seagull Energy would not own a Retained Interest. The net proceeds from the ENSTAR Alaska Stock Offering are currently estimated to be approximately $140 million. The net proceeds of the ENSTAR Alaska Stock Offering would be used to repay amounts borrowed under the Revolver, none of which debt is attributable to the ENSTAR Alaska Group. Based upon the assumptions set forth in the pro forma financial information included in Annexes IV and V, the pro forma debt to capital ratio for the Company as a whole as of December 31, 1993 would improve from 59.8% (after taking into account the Seagull Canada Acquisition) to 47.0% as a result of the ENSTAR Alaska Stock Proposal and the ENSTAR Alaska Stock Offering, and the pro forma debt to capital ratio for Seagull Energy (without ENSTAR Alaska Group) as of December 31, 1993 would improve from 60.8% to 46.4%. See "Unaudited Pro Forma Condensed Financial Statements" in Annexes IV and V. The Company, with assistance from its financial advisor, performed the analysis required to estimate the net proceeds from the proposed ENSTAR Alaska Stock Offering. This analysis consisted of a valuation and trading performance analysis of selected comparable natural gas utility companies. The valuation included a review of comparable dividend yields, dividend payout rates, dividend growth rates and the ability to generate cash flow in excess of capital requirements. The valuation analysis also involved applying an appropriate initial public offering discount and deducting the estimated costs relating to such an offering.

Notwithstanding approval by shareholders of the ENSTAR Alaska Stock Proposal, the Company would not file the Articles of Amendment to the Articles of Incorporation set forth in Annex III hereto with the Texas Secretary of State until immediately prior to consummation of the ENSTAR Alaska Stock Offering. At any time prior to such filing, notwithstanding approval of the ENSTAR Alaska Stock Proposal by shareholders, the Board could, in its sole discretion, abandon the entire ENSTAR Alaska Stock Proposal or the ENSTAR Alaska Stock Offering without further action by the Company's shareholders. The determination of whether to proceed with the ENSTAR Alaska Stock Offering would be made by the Board based on, among other things, the proposed terms of such offering and then prevailing market and other conditions. The Board reserves the right to sell shares of ENSTAR Alaska Stock representing less than 100% of the equity attributable to the ENSTAR Alaska Group and also reserves the right not to proceed with the ENSTAR Alaska Stock Offering if it determines that consummation of such offering is not in the best interests of the Company. If a material change is made after shareholder approval in the amendments to the Company's

Articles of Incorporation that comprise the ENSTAR Alaska Stock Proposal, the Company would be required to submit any such material changes to the shareholders for further approval.

IF THE ENSTAR ALASKA STOCK PROPOSAL IS NOT APPROVED BY THE SHAREHOLDERS OR THE ENSTAR ALASKA STOCK OFFERING IS NOT CONSUMMATED, THE ARTICLES OF AMENDMENT WILL NOT BE FILED AND THE ENSTAR ALASKA STOCK WILL NOT BE ISSUED.

The authorized but unissued shares of Seagull Common Stock and ENSTAR Alaska Stock would be available for issuance from time to time by the Company at the discretion of the Board of Directors for any proper corporate purpose, which could include raising capital, payment of stock dividends, providing compensation or benefits to employees or acquiring companies or businesses. The approval of the shareholders of the Company will not be solicited by the Company for the issuance from the authorized but unissued shares of common stock of the Company of any additional shares of Seagull Common Stock or ENSTAR Alaska Stock (unless such approval is deemed advisable by the Board of Directors or is required by stock exchange regulations). Having separate equity securities will afford the Company increased flexibility to raise capital and make acquisitions with an equity security specifically related to a particular business group.

The affirmative vote of the holders of at least two-thirds of the outstanding shares of Seagull Common Stock is required for approval of the ENSTAR Alaska Stock Proposal.

SPECIAL CONSIDERATIONS

SHAREHOLDERS OF ONE COMPANY; FINANCIAL EFFECTS ON ONE GROUP COULD AFFECT OTHER GROUP

Notwithstanding the allocation of assets and liabilities (including contingent liabilities), shareholders' equity and items of income and expense between Seagull Energy and the ENSTAR Alaska Group for the purpose of preparing their respective financial statements, the change in the equity structure of the Company contemplated by the ENSTAR Alaska Stock Proposal would not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. The Company and its subsidiaries would each continue to be responsible for their respective liabilities. Holders of Seagull Common Stock and ENSTAR Alaska Stock will be common shareholders of the Company and would continue to be subject to all of the risks associated with an investment in the Company and all of its businesses and liabilities.

Financial effects arising from either Seagull Energy or the ENSTAR Alaska Group that affect the Company's consolidated results of operations or financial condition could affect the results of operations or financial position of the other business group or the market price of both classes of common stock of the Company. In addition, any net losses of Seagull Energy or the ENSTAR Alaska Group and dividends or distributions on, or repurchases of, either class of common stock of the Company will reduce the assets of the Company legally available for payment of dividends on both classes of common stock of the Company. Accordingly, the Company's consolidated financial information should be read in conjunction with Seagull Energy's and the ENSTAR Alaska Group's combined financial information.

If the ENSTAR Alaska Stock Proposal is approved by the shareholders and implemented by the Board of Directors, following issuance of the ENSTAR Alaska Stock, the Company would provide to holders of Seagull Common Stock and ENSTAR Alaska Stock separate financial statements, management's discussion and analysis of financial condition and results of operations, business descriptions and other information for the relevant business group and for the consolidated Company. The financial statements of each business group would reflect the financial position, results of operations and cash flows of the businesses included therein. However, such group financial statements could also include contingent liabilities that are not separately identified with the operations of a specific business group. Upon request, the Company would provide to any holder of Seagull Common Stock or ENSTAR Alaska Stock a copy of the separate financial statements of the other business group. See "Management and Accounting Policies" below and the financial information of the Company, Seagull Energy and the ENSTAR Alaska Group set forth in Annexes IV, V and VI hereto, respectively.

FIDUCIARY DUTIES

Although the Company is aware of no precedent concerning the manner in which Texas law would be applied to a board of directors' duties in the context of multiple classes of common stock with divergent interests, the Company believes that a Texas court would hold that a board of directors owes an equal duty to all shareholders regardless of class and does not have separate or additional duties to any group of shareholders. That duty is the fiduciary duty to act in good faith and in the honest belief that its actions are in the

Company's best interests. The Company believes that, under Texas law, a good faith determination by a disinterested and adequately informed board, or a committee thereof, which the directors honestly believe is in the best interests of the corporation, would be a defense to any challenge by or on behalf of the holders of either class of stock to a board determination that could have a disparate effect on different classes of stock.

Disproportionate ownership interests of members of the Board of Directors in one or both classes of common stock of the Company or disparate values between both classes of common stock could create or appear to create potential conflicts of interest when directors are faced with decisions that could have different implications for different classes. Nevertheless, the Company believes that a director would be able to discharge his or her fiduciary responsibilities even if his or her interests in shares of both classes of common stock were disproportionate and/or had disparate values. Under the terms of the Company's employee stock option plans and Directors Option Plan, if the ENSTAR Alaska Stock Proposal is approved by shareholders and implemented by the Board, employee and nonemployee directors would continue to receive options to purchase only shares of Seagull Common Stock. If the ENSTAR Alaska Stock Proposal is approved by the shareholders and implemented, the Company currently intends to amend its thrift plans to provide employees (including directors who are employees) with an option to have a portion of their accounts invested in shares of ENSTAR Alaska Stock. In addition, the Company also currently intends to amend its supplemental benefit plans and the Deferred Fee Plan to provide employee and nonemployee directors, as applicable, with an option to have a portion of their accounts under such plans allocated to "phantom stock" units, which will be designed to have the same value and the same dividend and liquidation characteristics as the ENSTAR Alaska Stock.

POTENTIAL CONFLICTS OF INTEREST

The existence of separate classes of common stock could give rise to occasions when the interests of holders of Seagull Common Stock and the holders of ENSTAR Alaska Stock may diverge or appear to diverge. Examples include determinations by the Board to (i) pay or omit the payment of dividends on either class of common stock of the Company, (ii) allocate the proceeds of issuances of ENSTAR Alaska Stock subsequent to the ENSTAR Alaska Stock Offering either to Seagull Energy in respect of its Retained Interest, if any, or to the equity of the ENSTAR Alaska Group, (iii) exchange Seagull Common Stock for ENSTAR Alaska Stock at a premium, (iv) approve dispositions of assets of the ENSTAR Alaska Group and (v) make operational and financial decisions with respect to one group that could be considered to be detrimental to the other business group. Each of the foregoing potential conflicts of interest is discussed below:

No Assurance of Payment of Dividends. Dividends on the Seagull Common Stock and on the ENSTAR Alaska Stock are limited under Texas law to legally available funds and are subject to the prior payment of dividends on outstanding shares of any class or series of capital stock of the Company with preferential dividend provisions. Dividends on the Seagull Common Stock and the ENSTAR Alaska Stock would also be subject to the direct and indirect restrictions contained in the Company's Credit Agreement and other financing arrangements. See "Dividend Policy" below. Notwithstanding the amount of legally available funds of the Company under Texas law or the Available Seagull Energy Dividend Amount and the Available ENSTAR Alaska Dividend Amount described below, dividends on the capital stock in the aggregate may not at any time exceed the amount then permitted under the limitations in such debt instruments. Payment of dividends on either class of common stock will decrease the amount of funds available under such limitations for the payment of dividends on both classes of common stock. The Board of Directors reserves the right, in its sole discretion, to declare and pay dividends exclusively on the Seagull Common Stock or exclusively on the ENSTAR Alaska Stock, or on both, in equal or unequal amounts, notwithstanding the respective amount of funds legally available for dividends on each class, the amount of prior dividends declared on each class or any

other factor. See "Dividend Policy" below. The Company has not paid any cash dividends on shares of Seagull Common Stock since it became an independent entity in 1981. See "Price Range of and Dividends on Seagull Common Stock."

Allocation of Proceeds upon Issuance of ENSTAR Alaska Stock. The Company intends to use the net proceeds of the ENSTAR Alaska Stock Offering to repay amounts borrowed under the Company's Revolver, none of which debt is attributable to the ENSTAR Alaska Group. In future offerings of ENSTAR Alaska

Stock, the Board would, in its sole discretion, determine the allocation of the net proceeds of such sale between Seagull Energy in respect of its Retained Interest, if any, and the ENSTAR Alaska Group. If the Board allocated 100% of the net proceeds of a sale of ENSTAR Alaska Stock to the ENSTAR Alaska Group, the net proceeds would be reflected entirely in the financial statements of the ENSTAR Alaska Group. To the extent a Retained Interest in the ENSTAR Alaska Group continues to be attributed to Seagull Energy, net proceeds from any future offerings of ENSTAR Alaska Stock could be allocated to Seagull Energy or to both Seagull Energy and the ENSTAR Alaska Group, in which event the net proceeds would be reflected in the financial statements of the respective business group as allocated. See "Retained Interest of Seagull Energy in ENSTAR Alaska Group; Outstanding Interest Fraction" below.

Optional Exchange of ENSTAR Alaska Stock. The Board could, in its sole discretion, determine to exchange shares of ENSTAR Alaska Stock for shares of Seagull Common Stock at a 15% premium at any time or a 10% premium following any dividend or partial redemption undertaken in connection with a disposition of all or substantially all of the properties or assets of the ENSTAR Alaska Group. This determination could be made at a time when either or both the Seagull Common Stock and the ENSTAR Alaska Stock may be considered to be overvalued or undervalued. In addition, any such exchange at either the 10% or the 15% premium would dilute the interests in the Company of the holders of Seagull Common Stock and could preclude holders of both classes of common stock of the Company from retaining their investment in a security that is intended to reflect separately the performance of the relevant business group. See "Description of Seagull Common Stock and ENSTAR Alaska Stock -- Exchange and Redemption" below.

Dispositions of ENSTAR Alaska Group Assets. Assuming the assets of the ENSTAR Alaska Group continue to represent less than substantially all of the properties and assets of the Company, the Board could, in its sole discretion and without shareholder approval, approve sales and other dispositions of any amount of the properties and assets of the ENSTAR Alaska Group since Texas law requires shareholder approval only for a sale or other disposition of all or substantially all of the properties and assets of the entire Company not in the "usual and regular course of business." Furthermore, under the TBCA, a sale would be in the "usual and regular course of business" if the Company, directly or indirectly, either continues to engage in one or more businesses or applies a portion of the consideration received in connection with the sale to the conduct of a business in which the Company (either through the ENSTAR Alaska Group, Seagull Energy or another business group) engages following the transaction. However, the ENSTAR Alaska Stock Proposal contains provisions that, in the event of a Disposition (as hereinafter defined) of all or substantially all of the properties and assets of the ENSTAR Alaska Group, require the Company to either (i) distribute to holders of the ENSTAR Alaska Stock an amount equal to their proportionate interest in the Net Proceeds of such Disposition, either by special dividend or by redemption of all or part of the outstanding shares of the ENSTAR Alaska Stock, or (ii) exchange the outstanding shares of ENSTAR Alaska Stock for a number of shares of Seagull Common Stock equal to 110% of an average daily ratio of the Market Value of one share of ENSTAR Alaska Stock to the Market Value of one share of Seagull Common Stock. See "Description of Seagull Common Stock and ENSTAR Alaska Stock -- Exchange and Redemption" below.

Operational and Financial Decisions. The Board could, in its sole discretion, from time to time, make operational and financial decisions that affect disproportionately the businesses of Seagull Energy and the ENSTAR Alaska Group, such as transfers of funds between such groups. The decision to provide funds to one business group may adversely affect the ability of the other group to obtain funds sufficient to implement its growth strategies. Although the Board has not yet done so, the Board could, in its sole discretion, from time to time, establish one or more committees of the Board to review matters raising conflict issues and to report to the Board on such matters.

LIMITED ADDITIONAL SHAREHOLDER RIGHTS

Under the ENSTAR Alaska Stock Proposal, holders of Seagull Common Stock and holders of ENSTAR Alaska Stock would have only the rights of common shareholders of the Company, and would not be provided any rights specifically related to their respective business groups, other than (i) the two-thirds separate class vote requirements under certain limited circumstances, as described under "Description of Seagull Common Stock and ENSTAR Alaska Stock -- Voting Rights" below, (ii) with respect to the ENSTAR Alaska Stock, the dividend/redemption/exchange provisions described under "Description of Seagull Common Stock and ENSTAR Alaska Stock -- Exchange and Redemption" below and (iii) certain limited class voting rights provided under Texas law. See "Limited Separate Shareholder Voting Rights; Effects on Voting Power" below.

LIMITED SEPARATE SHAREHOLDER VOTING RIGHTS; EFFECTS ON VOTING POWER

Under the ENSTAR Alaska Stock Proposal, subject to certain limited exceptions, holders of shares of Seagull Common Stock and holders of shares of ENSTAR Alaska Stock would vote together as a single class (together with the holders of shares of all classes and series of capital stock of the Company entitled to vote together with the holders of shares of common stock of the Company) on all matters as to which common shareholders generally are entitled to vote. Holders of each class common stock of the Company will have no rights to vote on matters as a separate class (except in certain limited circumstances as described below). Separate meetings for the holders of each class of common stock of the Company will not be held.

Certain matters as to which the holders of the Company's common stock could be entitled to vote together as a single class could involve a divergence or the appearance of a divergence of the interests of the holders of Seagull Common Stock and holders of ENSTAR Alaska Stock. When a vote is taken on any matter as to which all stock is voting together as one class, the class of common stock that is entitled to more than the number of votes required to approve such matter would be in a position to control the outcome of the vote on such matter. See "Description of Seagull Common Stock and ENSTAR Alaska Stock -- Voting Rights" below. The relative voting power of shares of Seagull Common Stock and ENSTAR Alaska Stock would fluctuate from time to time, with each share of Seagull Common Stock having one vote and each share of ENSTAR Alaska Stock having a variable number of votes, based upon the relative Market Value of one share of Seagull Common Stock to one share of ENSTAR Alaska Stock. If the ENSTAR Alaska Stock Proposal is approved by the shareholders and implemented by the Board of Directors, holders of Seagull Common Stock would continue to be entitled to a substantial majority of the total votes to which the then outstanding voting stock of the Company is entitled. In the event that there would be a significant increase in the Market Value of the ENSTAR Alaska Stock relative to the Market Value of the Seagull Common Stock or if additional shares of the ENSTAR Alaska Stock were issued, the number of votes to which such outstanding ENSTAR Alaska Stock would be entitled would increase, although it is unlikely that during the foreseeable future the holders of Seagull Common Stock would possess less than a majority of the total votes to which the outstanding voting stock of the Company would be entitled. See "Description of Seagull Common Stock and ENSTAR Alaska Stock -- Voting Rights" below.

LIMITED APPROVAL RIGHTS OF FUTURE ISSUANCES OF STOCK

The ENSTAR Alaska Stock Proposal provides authorization for the issuance of up to 25,000,000 shares of a new class of common stock, the ENSTAR Alaska Stock. The authorized but unissued shares of Seagull Common Stock and ENSTAR Alaska Stock would be available for issuance from time to time by the Company at the sole discretion of the Board for any proper corporate purpose, which could include raising capital, providing compensation or benefits to employees, paying stock dividends or acquiring companies or businesses. The approval of the shareholders of the Company would not be solicited by the Company for the issuance from the authorized but unissued shares of common stock of any additional shares of Seagull Common Stock or ENSTAR Alaska Stock (unless such approval is deemed advisable by the Board of Directors or is required by stock exchange regulations).

MANAGEMENT AND ACCOUNTING POLICIES SUBJECT TO CHANGE

The Board of Directors has adopted certain management and accounting policies and agreements described herein with respect to dividends, the allocation of corporate expenses, assets and liabilities (including contingent liabilities) and inter-group transactions, any and all of which could be modified or rescinded in the sole discretion of the Board of Directors without approval of the shareholders, although the Board of Directors has no present intention to do so. In addition, the ENSTAR Alaska Group is subject to regulation by the APUC and has historically been operated as a separate business unit for which separate audited financial statements have been prepared on an annual basis. Accordingly, a majority of the accounting and management policies described in this Proxy Statement have historically been employed by the Company with respect to the ENSTAR Alaska Group, particularly in light of the regulation of the ENSTAR Alaska Group by the APUC.

The Board of Directors may also adopt additional policies depending upon the circumstances. Any determination of the Board of Directors to modify or rescind such policies, or to adopt additional policies, including any such decision that would have disparate impacts upon holders of Seagull Common Stock and holders of ENSTAR Alaska Stock, would be made by the Board of Directors in good faith and in the honest belief that such decision is in the best interests of the Company. See "Fiduciary Duties" and "Potential Conflicts of Interest" above. Any such determination would also be made in light of the requirements imposed by the APUC that any transactions between the ENSTAR Alaska Group and its affiliates, including Seagull Energy, must be on terms comparable to arm's length transactions. In addition, generally accepted accounting principles require that any change in accounting policy be preferable (in accordance with such principles) to the policy previously established.

EFFECT ON CASH FLOW FROM THE ENSTAR ALASKA GROUP TO SEAGULL ENERGY

The Company has historically received cash from the ENSTAR Alaska Group in the form of dividends and payments under the Management Agreement and Tax Sharing Agreement described below. These dividends and contractual payments, after taking into account the costs and tax obligations related to the contractual payments, have been used by Seagull Energy (together with other funds available to it) to fund its operations, including its capital expenditure programs. If the ENSTAR Alaska Stock Proposal is adopted, Seagull Energy will no longer receive the benefit of dividends from the ENSTAR Alaska Group, but will continue to receive payments under the Management Agreement and the Tax Sharing Agreement. During the three years ended December 31, 1993, the ENSTAR Alaska Group paid regular dividends of $8 million per year and a special dividend of $20 million in 1991. See "Management and Accounting Policies" and "Description of Seagull Common Stock and ENSTAR Alaska Stock -- Voting Rights" below.

Since 1985, Seagull Energy has provided certain management and administrative services to the ENSTAR Alaska Group. In consideration for these services, the ENSTAR Alaska Group has agreed to pay Seagull Energy an annual management fee equal to the greater of (i) $1,925,000 and (ii) the sum of (A) the direct cost of providing such services and (B) the allocable portion of Seagull Energy's general and administrative expenses associated with providing such services. The Management Agreement would continue in effect following implementation of the ENSTAR Alaska Stock Proposal. Seagull Energy and the ENSTAR Alaska Group are also parties to the Tax Sharing Agreement pursuant to which the ENSTAR Alaska Group generally pays Seagull Energy an amount equal to the amount of income taxes that would be payable by the ENSTAR Alaska Group on a "stand alone" basis, excluding the effects of historical purchase accounting adjustments. The ENSTAR Alaska Group would continue to be included in the Company's consolidated group for income tax purposes after the implementation of the ENSTAR Alaska Stock Proposal, and the Tax Sharing Agreement would continue in effect. See "Management and Accounting Policies" below.

POTENTIAL EFFECTS OF EXCHANGE OF ENSTAR ALASKA STOCK

The terms of the ENSTAR Alaska Stock permit the exchange of all outstanding shares of ENSTAR Alaska Stock for Seagull Common Stock upon the terms described under "Description of Seagull Common Stock and ENSTAR Alaska Stock -- Exchange and Redemption" below. Since any such exchange would be

at a premium to the then current market price of the ENSTAR Alaska Stock being exchanged, the issuance of additional shares of Seagull Common Stock in connection with such an exchange would dilute the interests in the Company of all holders of Seagull Common Stock. The Company cannot predict the impact of the potential for such exchanges or of any issuance of additional shares of Seagull Common Stock in connection with such an exchange on the market price of either class of common stock of the Company.

NO ASSURANCE AS TO MARKET PRICE

Since there has been no prior market for ENSTAR Alaska Stock, there can be no assurance as to the price to be received by the Company upon the sale thereof. It is also not possible to predict the impact of the sale of ENSTAR Alaska Stock on the market price of the Seagull Common Stock and, accordingly, there can be no assurance that the market price of the Seagull Common Stock would equal or exceed the market price of such stock prior to the Company's announcement or implementation of the ENSTAR Alaska Stock Proposal. See "Price Range of and Dividends on Seagull Common Stock."

The market prices of the Seagull Common Stock and the ENSTAR Alaska Stock would be determined in the trading markets and could be influenced by many factors, including the consolidated results of the Company, as well as the respective performances of Seagull Energy and the ENSTAR Alaska Group, investors' expectations for the Company as a whole, Seagull Energy and the ENSTAR Alaska Group, trading volume and general economic and market conditions. There can be no assurance that investors would assign values to either the Seagull Common Stock or the ENSTAR Alaska Stock based on the reported financial results and prospects of the relevant business group or the dividend policies established by the Board with respect to such group. Accordingly, financial effects of either group that affect the Company's consolidated results of operations or financial condition could affect the market price of shares of both classes of common stock of the Company. In addition, the Company cannot predict the impact on the market price of either class of common stock of certain terms of such securities, such as the ability of the Company to exchange shares of ENSTAR Alaska Stock for Seagull Common Stock, the discretion of the Board to make various determinations and the minority voting power of the ENSTAR Alaska Stock.

LIMITATIONS ON POTENTIAL UNSOLICITED ACQUISITIONS OF A GROUP

If Seagull Energy and the ENSTAR Alaska Group were stand-alone corporations, any person interested in acquiring either of such corporations without negotiation with management could seek control of the outstanding stock of such corporation by means of a tender offer or proxy contest. Although adoption of the ENSTAR Alaska Stock Proposal would create a new class of common stock of the Company intended to reflect the performance of the ENSTAR Alaska Group, a person interested in acquiring only one business group without negotiation with the Company's management would still be required to seek control of the voting power represented by all of the outstanding capital stock of the Company entitled to vote on such acquisition, including the class of common stock related to the other business group. See " -- Limited Separate Shareholder Voting Rights; Effects on Voting Power" above. This result is similar to the consequences under the Company's current capital structure, since a person interested in acquiring an interest in any of the Company's business segments without negotiation with the Company's management would still be required to seek control of the voting power represented by all of the outstanding common stock of the Company.

PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

As a result of its ownership of the gas distribution operations included in the ENSTAR Alaska Group, the Company is a "public utility company" within the meaning of the 1935 Act. Accordingly, any company that directly or indirectly owns, controls or holds with power to vote 10% or more of the outstanding voting securities of the Company would generally be deemed to be a "holding company" within the meaning of the 1935 Act, and therefore would be subject to the registration, reporting and simplification requirements of the 1935 Act. Following implementation of the ENSTAR Alaska Stock Proposal, the calculation of ownership of the voting securities of the Company would be made on the basis of the percentage of the voting power of the outstanding shares of the Company. Because of the fluctuation in relative voting power between the ENSTAR

Alaska Stock and the Seagull Common Stock based on Market Value described below, a shareholder could reach the 10% threshold without acquiring any additional shares. For example, if a shareholder owned shares of Seagull Common Stock with 9.99% of the outstanding voting power of the Company's shares, then a relatively modest drop in the Market Value of the ENSTAR Alaska Stock (or increase in the Market Value of the Seagull Common Stock) could increase the relative voting power of Seagull Common Stock and cause the shareholder to become a "holding company" without acquiring any additional shares. The Articles of Amendment to the Articles of Incorporation provide that, even if the respective Market Values of the ENSTAR Alaska Stock and the Seagull Common Stock fluctuate relative to the other from time to time, the number of votes to which the ENSTAR Alaska Stock is entitled will not change until the next applicable record date.

DIVIDEND POLICY

The Company has not paid any cash dividends on shares of Seagull Common Stock since it became an independent entity in 1981. The ENSTAR Alaska Stock Proposal would not change the Company's dividend policy with respect to the Seagull Common Stock. Accordingly, the Board does not currently intend to pay dividends on the Seagull Common Stock.

Dividends on the ENSTAR Alaska Stock would be paid at the discretion of the Board based primarily upon the financial condition, results of operations and business requirements of the ENSTAR Alaska Group and the Company as a whole. If the ENSTAR Alaska Stock Proposal is approved and the ENSTAR Alaska Stock Offering is completed, the Board of Directors currently intends to pay an initial dividend on the ENSTAR Alaska Stock of $8.25 million per year in the aggregate.

While the Board of Directors does not currently intend to change the dividend policies referred to above, it reserves the right to do so at any time and from time to time. Under the ENSTAR Alaska Stock Proposal and Texas law, the Board of Directors would not be required to pay dividends in accordance with the foregoing dividend policies.

In making its dividend decisions with respect to the Seagull Common Stock and the ENSTAR Alaska Stock, the Board of Directors will rely on the financial statements of Seagull Energy and the ENSTAR Alaska Group, respectively, as well as the financial statements of the Company. See Annexes V and VI hereto for the historical financial statements and pro forma financial data of Seagull Energy and the ENSTAR Alaska Group, respectively. The method of calculating earnings per share for the Seagull Common Stock and the ENSTAR Alaska Stock reflects the intent of the Board of Directors that separately reported surplus and earnings of Seagull Energy and the ENSTAR Alaska Group are to be the source for payment of, and the basis for determining, dividends to be paid on the respective class of stock, although liquidation rights of the respective class of stock and legally available funds of the Company may be based on different factors.

Subject to the restrictions on the funds out of which dividends on the Seagull Common Stock and the ENSTAR Alaska Stock may be paid, as described below in the next paragraph and under "Description of Seagull Common Stock and ENSTAR Alaska Stock -- Dividends," the Board of Directors would be able, in its sole discretion, to declare and pay dividends exclusively on either the Seagull Common Stock or the ENSTAR Alaska Stock, or on both, in equal or unequal amounts, notwithstanding the respective amount of funds available for dividends on each class, the amount of prior dividends declared on each class or any other factor.

The Revolver restricts the Company's declaration or payment of dividends on and repurchases of capital stock of the Company unless each of the following tests have been met and after making such dividend payment such tests continue to be met: (i) the Tangible Net Worth is not less than $350 million, (ii) the ratio of the Company's earnings before interest expense, taxes, depreciation and amortization to the Company's interest expense (including operating lease rentals and capitalized interest) is not less than 3.5:1.0, (iii) the Debt to Capitalization Ratio is less than 60%, (iv) the aggregate amount of outstanding loans under the Credit Agreement, together with all other senior indebtedness of the Company and its subsidiaries (excluding Alaska Pipeline Company ("APC")) then outstanding, must not exceed the Borrowing Base and (v) no Event of Default or unmatured Event of Default shall have occurred and be continuing; provided that in any event the

aggregate dividend payments may not exceed 33 1/3% of the consolidated cumulative net income of the Company and its subsidiaries on a cumulative annual basis from January 1, 1993. The foregoing restrictions do not apply to dividends payable solely in the form of additional shares of common stock of the Company or to dividends payable on up to $100 million of preferred stock. The capitalized terms used herein to describe the restrictions contained in the Credit Agreement have the meanings assigned to them in the Credit Agreement. Under the most restrictive of these tests, as of December 31, 1993, approximately $9.1 million was available for payment of dividends on (other than the stock dividends described above) or repurchase of capital stock of the Company. In connection with the consummation of the ENSTAR Alaska Stock Offering, the Credit Agreement will be required to be amended to allow for the payment of cash dividends on the ENSTAR Alaska Stock. The senior unsecured notes of APC provide for restrictions on dividends, additional borrowings and purchases, redemptions or retirements of shares of capital stock, other than in stock of APC. Under the most restrictive of these provisions, approximately $14.2 million was available for the making of restricted investments, restricted payments and restricted subordinated debt payments by APC as of December 31, 1993.

MANAGEMENT AND ACCOUNTING POLICIES

If the ENSTAR Alaska Stock Proposal is approved by shareholders and implemented by the Board, the Company would continue to prepare financial statements in accordance with generally accepted accounting principles, consistently applied, for each of Seagull Energy and the ENSTAR Alaska Group, and these financial statements, taken together, would comprise all of the accounts included in the corresponding consolidated financial statements of the Company. The financial statements of each of the business groups reflect the financial position, results of operations and cash flows of the businesses included therein. Consistent with the Articles of Amendment to the Articles of Incorporation and relevant policies, such business group financial statements could also include contingent liabilities that are not separately identified with the operations of a specific business group.

The ENSTAR Alaska Group is subject to regulation by the APUC and has historically been operated as a separate business unit for which separate audited financial statements have been prepared on an annual basis. The ENSTAR Alaska Group has also conducted its own financing activities by issuing debt of APC, and none of the other debt of the Company and its subsidiaries is for the benefit of or attributable to the ENSTAR Alaska Group. Accordingly, a majority of the accounting and management policies described below have historically been employed by the Company with respect to the ENSTAR Alaska Group, particularly in light of the regulation of the ENSTAR Alaska Group by the APUC.

Notwithstanding any allocations of assets or liabilities for the purpose of preparing business group financial statements, holders of Seagull Common Stock or of ENSTAR Alaska Stock would continue to be subject to risks associated with an investment in the Company and all of its businesses, assets and liabilities. See "Special Considerations -- Shareholders of One Company; Financial Effects on One Group Could Affect Other Group" above.

If the ENSTAR Alaska Stock Proposal is approved by shareholders and implemented by the Board, upon issuance of ENSTAR Alaska Stock, cash management and allocation of principal corporate activities between the ENSTAR Alaska Group and Seagull Energy would be based upon methods that management of the Company believes to be reasonable and are reflected in the combined financial statements reflected in Annexes V and VI as follows:

(i) All debt incurred or preferred stock issued by the Company and its subsidiaries would be specifically attributed to and reflected on the financial statements of Seagull Energy, except (a) debt incurred or preferred stock issued by APC and (b) the ENSTAR Alaska Series C Stock (as hereinafter defined).

(ii) For the periods prior to the ENSTAR Alaska Stock Offering, all financial impacts of equity offerings are reflected entirely in the financial statements of Seagull Energy. After the ENSTAR Alaska Stock Offering, all financial impacts of issuances of additional shares of Seagull Common Stock or additional shares of ENSTAR Alaska Stock, the net proceeds of which are attributed to the Retained

Interest of Seagull Energy, would be reflected entirely in the financial statements of Seagull Energy. All financial impacts of issuances of additional shares of ENSTAR Alaska Stock, the net proceeds of which are allocated to the ENSTAR Alaska Group, would be reflected entirely in the financial statements of the ENSTAR Alaska Group. Financial impacts of dividends or other distributions on, and purchases of, shares of Seagull Common Stock and ENSTAR Alaska Stock would be reflected entirely in the financial statements of Seagull Energy and the ENSTAR Alaska Group, respectively, except that, while Seagull Energy has a Retained Interest, Seagull Energy financial statements would be credited with, and the ENSTAR Alaska Group financial statements would be charged with, an amount that bears the same relation to the aggregate amount of such dividend or other distribution as the ratio of the Number of Shares Issuable with Respect to the Retained Interest to the number of shares of ENSTAR Alaska Stock then outstanding.

(iii) It is currently anticipated that the ENSTAR Alaska Group would continue to conduct its own financing activities by having APC incur debt or issue shares of preferred stock. It is also currently anticipated that Seagull Energy would continue to conduct its own financing activities. However, if funds were to be transferred between the ENSTAR Alaska Group and Seagull Energy (other than payments pursuant to the contracts described in paragraphs (v) and (vi) below), such transfers of funds would generally be accounted for as short-term loans at an interest rate comparable to the rate that the Company could obtain in an arm's length transaction or as an equity contribution to, or return of capital by, the ENSTAR Alaska Group. In such latter event, Seagull Energy's Retained Interest in the ENSTAR Alaska Group would be increased or decreased, as applicable, by the amount of such contribution or return of capital, as a result of which (a) the Number of Shares Issuable with Respect to the Retained Interest would be increased or decreased by an amount equal to the amount of such contribution or return of capital divided by the Market Value of a share of ENSTAR Alaska Stock and (b) Seagull Energy's Retained Interest Fraction would be increased or decreased and the Outstanding Interest Fraction would be decreased or increased accordingly. The Board could determine, in its sole discretion, to make such contribution or return of capital after consideration of a number of factors, including, among others, the relative levels of internally generated cash flows of each business group, the long-term business prospects for each business group, the capital expenditure plans of and the investment opportunities available to each business group and the availability, cost and time associated with alternative financing sources.

(iv) The balance sheet of Seagull Energy would reflect any net short-term loans to or borrowings from the ENSTAR Alaska Group, and the balance sheet of the ENSTAR Alaska Group would reflect any net short-term loans to or borrowings from Seagull Energy. Similarly, the respective income statements of Seagull Energy and the ENSTAR Alaska Group would reflect interest income or expense, as the case may be, associated with such loans or borrowings and the respective statements of cash flows of Seagull Energy and the ENSTAR Alaska Group would reflect changes in the amounts thereof deemed outstanding.

(v) Since 1985, when the Company acquired the ENSTAR Alaska Group, Seagull Energy has provided certain management and administrative services to the ENSTAR Alaska Group pursuant to a series of written management agreements. The most recent such agreement, the Agreement for Services, was entered into effective as of January 1, 1993. Pursuant to such Management Agreement, Seagull Energy provides certain management, financial reporting, legal, human resources, treasury, investor relations and administrative services to the ENSTAR Alaska Group. In consideration for these services, the ENSTAR Alaska Group has agreed to pay Seagull Energy an annual management fee equal to the greater of (i) $1,925,000 and (ii) the sum of (A) the direct cost of providing such services and (B) the allocable portion of Seagull Energy's general and administrative expenses associated with providing such services, primarily determined by reference to the relative amount of time spent by Seagull Energy's employees to provide such services. The Management Agreement would continue in effect following implementation of the ENSTAR Alaska Stock Proposal. The Management Agreement may be amended by agreement between Seagull Energy and the ENSTAR Alaska Group.

(vi) Seagull Energy and the ENSTAR Alaska Group are also parties to the Tax Sharing Agreement dated as of January 1, 1986. Because the ENSTAR Alaska Group is included in the Company's consolidated group for income tax purposes, tax deductions and credits attributable to Seagull Energy tend to reduce the amount of income tax that would be payable if such taxes were calculated solely with respect to the operations of the ENSTAR Alaska Group. Pursuant to the Tax Sharing Agreement, the ENSTAR Alaska Group generally pays Seagull Energy an amount equal to the amount of income taxes that would be payable by the ENSTAR Alaska Group on a "stand alone" basis, excluding the effects of historical purchase accounting adjustments. In this regard, the assets and liabilities of the ENSTAR Alaska Group are accounted for based upon the ENSTAR Alaska Group's original historical cost prior to the ENSTAR Alaska Group's acquisition by the Company in 1985. To the extent current taxes paid by the ENSTAR Alaska Group to Seagull Energy pursuant to the Tax Sharing Agreement differ from amounts computed based on income and expenses included in the accompanying statements of earnings, such amounts are recorded as an adjustment to common equity. The ENSTAR Alaska Group would continue to be included in the Company's consolidated group for income tax purposes after the implementation of the ENSTAR Alaska

Stock Proposal, and the Tax Sharing Agreement would continue in effect. The Tax Sharing Agreement may be amended by agreement between Seagull Energy and the ENSTAR Alaska Group.

The above policies and agreements could be modified or rescinded by the Board, in its sole discretion, without approval of shareholders, although there is no present intention to do so. The Board could also adopt additional policies depending upon the circumstances. Any determination of the Board to modify or rescind such policies, to adopt additional policies or to amend the Management Agreement or the Tax Sharing Agreement, including any such decision that could have disparate effects upon holders of each class of common stock of the Company, would be made by the Board in good faith and in the honest belief that such decision is in the best interests of the Company. Any such determination would also be made in light of the requirements imposed by the APUC that any transactions between the ENSTAR Alaska Group and its affiliates, including Seagull Energy, must be on terms comparable to arm's length transactions. In addition, generally accepted accounting principles require that changes in accounting policy must be preferable (in accordance with such principles) to the policy previously in place.

DESCRIPTION OF SEAGULL COMMON STOCK AND ENSTAR ALASKA STOCK

THE FOLLOWING DESCRIPTION IS QUALIFIED BY REFERENCE TO ANNEX I -- GLOSSARY OF CERTAIN TERMS AND TO ANNEX III TO THIS PROXY STATEMENT, WHICH CONTAINS THE FULL TEXT OF THE PROPOSED AMENDMENT TO ARTICLE FOUR OF THE ARTICLES OF INCORPORATION.

GENERAL

The Company's Articles of Incorporation currently provide that the Company is authorized without further shareholder action to issue 105,000,000 shares of capital stock, consisting of 100,000,000 shares of Seagull Common Stock and 5,000,000 shares of Preferred Stock, par value $1.00 per share (the "Preferred Stock"), of which 500,000 shares are designated as Series B Junior Participating Preferred Stock (the "Seagull Energy Series B Stock"). As of April 4, 1994, the Company had issued and outstanding 36,064,649 shares of Seagull Common Stock and no shares of Seagull Energy Series B Stock. If the ENSTAR Alaska Stock Proposal is adopted, the Articles of Incorporation will be amended to authorize the issuance of 130,000,000 shares of capital stock, of which 25,000,000 shall be shares of a new class of the Company's common stock, the ENSTAR Alaska Stock, with the voting powers and relative, participating, optional and other special rights and qualifications, limitations and restrictions thereof set forth in Annex III hereto and described herein. Upon implementation of the ENSTAR Alaska Stock Proposal by the Board, the Board would also designate 250,000 shares as a new series of Preferred Stock designated as the Series C Junior Participating Preferred Stock (the "ENSTAR Alaska Series C Stock"). As further described below under "Restated Rights Agreement" the Board would authorize and declare a distribution on all ENSTAR Alaska Stock that might be issued from time to time of one preferred stock purchase right for each

outstanding share of the ENSTAR Alaska Stock that would entitle the registered holder to purchase from the Company a unit consisting of one one-hundredth of a share of ENSTAR Alaska Series C Stock.

The treasury shares and the authorized but unissued shares of Preferred Stock, Seagull Common Stock and ENSTAR Alaska Stock would be available for issuance from time to time by the Company at the sole discretion of the Board for any proper corporate purpose, which could include raising capital, providing compensation or benefits to employees, paying stock dividends or acquiring companies or businesses. The approval of the shareholders of the Company will not be solicited by the Company for the issuance from the authorized but unissued shares of Preferred Stock, Seagull Common Stock or ENSTAR Alaska Stock (unless such approval is deemed advisable by the Board of Directors or is required by stock exchange regulations). Any net proceeds from, or other effects of, the issuance by the Company of Seagull Common Stock or ENSTAR Alaska Stock (other than unissued shares of ENSTAR Alaska Stock which may be issued with respect to any Retained Interest) will be attributed to the respective business group. All preferred stock issued by the Company and its subsidiaries would be specifically attributed to and reflected on the financial statements of Seagull Energy, except (i) preferred stock issued by APC and (ii) the ENSTAR Alaska Series C Stock. See "Management and Accounting Policies" above.

DIVIDENDS

Dividends on the Seagull Common Stock and the ENSTAR Alaska Stock will be subject to the same limitations as dividends on the existing Seagull Common Stock, which are limited to the amount of funds of the Company legally available under the TBCA for the payment of dividends by the Company on its capital stock, and subject to the prior payment of dividends on any outstanding shares of any class or series of preferred stock of the Company. Under the TBCA, no dividends may be paid to the shareholders if, after giving effect to such dividend, the Company would not be able to pay its debts as they become due in the usual course of business or the Company's total assets would be less than its total liabilities. Assuming the Seagull Canada Acquisition and the ENSTAR Alaska Stock Offering had been completed as of December 31, 1993, the Company had legally available assets at such date of $575.0 million, subject to the Company's ability to continue to pay its debts as they become due in the usual course of business after having distributed any such amount.

Dividends on the Seagull Common Stock, in addition to such limitations, will be further limited to an amount not in excess of the Available Seagull Energy Dividend Amount, which is intended to be similar to the amount that would be legally available for the payment of dividends on Seagull Common Stock under the TBCA if Seagull Energy were a separate company. There can be no assurance that there will be an Available Seagull Energy Dividend Amount. See "Dividend Policy" above.

"Available Seagull Energy Dividend Amount," on any date, means an amount equal to the excess of (i) the amount by which the total assets of Seagull Energy exceed the total debts of Seagull Energy, over (ii) the stated capital attributable to the Seagull Common Stock and any class or series of preferred stock of the Company attributed to Seagull Energy as of such date, determined as provided in the TBCA as if Seagull Energy were a corporation for such purposes and on a basis consistent with the determination of Seagull Energy Corporation Earnings Attributable to Seagull Energy; provided that such excess must be reduced by an amount, if any, sufficient to ensure that Seagull Energy would be able to pay its debts as they become due in the usual course of its business.

"Seagull Energy Corporation Earnings Attributable to Seagull Energy," for any period, means the net income or loss of Seagull Energy for such period (or for fiscal periods of the Company commencing prior to the date on which the Articles of Amendment became effective (the "Effective Date"), the pro forma net income or loss of Seagull Energy for such period as if the Effective Date had been the first day of such fiscal period) determined in accordance with generally accepted accounting principles in effect at such time, reflecting income and expense of the Company allocated to Seagull Energy on a basis substantially consistent with allocations made with respect to the ENSTAR Alaska Group, including, without limitation, corporate administrative costs, net interest and other financial costs and income taxes.

Assuming the Seagull Canada Acquisition and the ENSTAR Alaska Stock Offering had been completed as of December 31, 1993, the Available Seagull Energy Dividend Amount at such date would have been at least $516.4 million (assuming no Retained Interest). Payment of dividends on any preferred stock of the Company allocated to Seagull Energy will decrease the Available Seagull Energy Dividend Amount. The Company currently has no outstanding shares of preferred stock.

Dividends on the ENSTAR Alaska Stock, in addition to the limitations set forth above, will be further limited to an amount not in excess of the Available ENSTAR Alaska Group Dividend Amount, which is intended to be similar to the amount that would be legally available for the payment of dividends on ENSTAR Alaska Stock under the TBCA if the ENSTAR Alaska Group were a separate company. There can be no assurance that there will be an Available ENSTAR Alaska Group Dividend Amount. See "Dividend Policy" above.

"Available ENSTAR Alaska Group Dividend Amount," on any date, means the product of (x) the Outstanding Interest Fraction as of such date and (y) an amount equal to the excess of (i) the amount by which the total assets of the ENSTAR Alaska Group exceed the total debts of the ENSTAR Alaska Group, over (ii) the stated capital attributable to the ENSTAR Alaska Stock and any class or series of preferred stock of the Company attributed to the ENSTAR Alaska Group as of such date, determined as provided in the TBCA as if the ENSTAR Alaska Group were a corporation for such purposes and on a basis consistent with the determination of Seagull Energy Corporation Earnings Attributable to the ENSTAR Alaska Group; provided that such excess must be reduced by an amount, if any, sufficient to ensure that the ENSTAR Alaska Group would be able to pay its debts as they become due in the usual course of its business.

"Seagull Energy Corporation Earnings Attributable to the ENSTAR Alaska Group," for any period, shall mean the net income or loss of the ENSTAR Alaska Group for such period (or for the fiscal periods of the Company commencing prior to the Effective Date, the pro forma net income or loss of the ENSTAR Alaska

Group for such period as if the Effective Date had been the first day of such fiscal period) determined in accordance with generally accepted accounting principles in effect at such time, reflecting income and expense of the Company allocated to the ENSTAR Alaska Group on a basis substantially consistent with allocations made with respect to Seagull Energy, including, without limitation, corporate administrative costs, net interest and other financial costs and income taxes.

Assuming the ENSTAR Alaska Stock Offering had been completed as of December 31, 1993, the Available ENSTAR Alaska Dividend Amount at such date would have been at least $58.6 million (assuming no Retained Interest). Payment of dividends on any preferred stock of the Company allocated to the ENSTAR Alaska Group will decrease the Available ENSTAR Alaska Group Dividend Amount. The Company currently has no outstanding shares of preferred stock.

The TBCA limits the amount of distributions on capital stock to the legally available funds of the Company, which are determined on the basis of the entire Company, and not just the respective business groups. Consequently, the amount of legally available funds for payment of dividends on both classes of common stock of the Company will reflect the amount of any net losses of Seagull Energy and of the ENSTAR Alaska Group and any distributions on, or repurchases of, the Seagull Common Stock or the ENSTAR Alaska Stock. Dividend payments on the Seagull Common Stock or the ENSTAR Alaska Stock may be precluded because of the unavailability of legally available funds under the TBCA, even though the Available Seagull Energy Dividend Amount test or Available ENSTAR Alaska Group Dividend Amount test, as the case may be, may be met. For restrictions on the payment of dividends contained in the Company's debt instruments, see "Dividend Policy" above.

To the extent that the ENSTAR Alaska Group pays any dividend or makes any other distribution on the outstanding shares of ENSTAR Alaska Stock, an amount that bears the same relation to the aggregate amount of such dividend or other distribution as the ratio of the Number of Shares Issuable with Respect to the Retained Interest to the number of shares of ENSTAR Alaska Stock then outstanding would be transferred from the ENSTAR Alaska Group to Seagull Energy with respect to the Retained Interest, if any. See Annex II hereto for illustrations of the effect of dividends on ENSTAR Alaska Stock.

Subject to the prior payment of dividends on outstanding shares of Preferred Stock and the foregoing limitations, the Board may, in its sole discretion, declare and pay dividends on both classes or only one class of common stock of the Company in equal or unequal amounts, notwithstanding the amount of funds available for dividends on either class, the respective voting and liquidation rights of either class, the amount of prior dividends declared on either class or any other factor.

EXCHANGE AND REDEMPTION

The Articles of Incorporation currently do not provide for either mandatory or optional exchange or redemption of the Seagull Common Stock. The ENSTAR Alaska Stock Proposal will permit the exchange or redemption of the ENSTAR Alaska Stock (but not the Seagull Common Stock) upon the terms described below for such class.

If the Board should at any time determine to transfer all of the Company's interest in the assets and liabilities of the ENSTAR Alaska Group (and no other assets or liabilities) to a wholly owned subsidiary of the Company (the "ENSTAR Alaska Group Subsidiary"), the Board may, in its sole discretion, provided that there are funds of the Company legally available therefor, exchange all of the outstanding shares of ENSTAR Alaska Stock for a number of outstanding shares of the ENSTAR Alaska Group Subsidiary equal to the product of the Outstanding Interest Fraction and the number of all outstanding shares of common stock of the ENSTAR Alaska Group Subsidiary, on a pro rata basis. The Company will retain any balance of the outstanding shares of the ENSTAR Alaska Group Subsidiary in lieu of the Retained Interest Fraction of Seagull Energy in the ENSTAR Alaska Group, if any.

The provisions described in the preceding paragraph provide a mechanism to retire all of the outstanding shares of ENSTAR Alaska Stock in one transaction if the Board determines to spin-off all the assets and liabilities of the ENSTAR Alaska Group to the holders of the ENSTAR Alaska Stock. If shares of ENSTAR Alaska Stock were exchanged for shares of an ENSTAR Alaska Group Subsidiary, the subsidiary stock would not be common stock of the Company, and the holders of the Seagull Common Stock would comprise all of the common shareholders of the Company. Holders of the subsidiary stock (including the Company, if it retained any interest in the subsidiary) would, however, vote on all matters presented to a vote of shareholders of the subsidiary, which would then be a separate corporation.

Upon the sale, transfer, assignment or other disposition (whether by merger, consolidation, sale or contribution of assets or stock or otherwise, but not including any pledge, mortgage, deed of trust or trust indenture) (a "Disposition"), in one transaction or a series of related transactions, by the Company and/or its subsidiaries of all or substantially all of the properties and assets of the ENSTAR Alaska Group to one or more persons or entities (other than (x) in connection with the Disposition by the Company of all of the Company's properties and assets in one transaction or a series of related transactions which results in a liquidation, dissolution or winding-up of the Company, (y) on a pro rata basis to (1) the holders of all outstanding shares of ENSTAR Alaska Stock and (2) the Company for the benefit of Seagull Energy with respect to the Number of Shares Issuable with Respect to the Retained Interest, or (z) to any person or entity controlled by the Company), the Company is required, on or prior to the 75th Business Day (as defined in Annex III hereto) following the consummation of such Disposition, to:

(A) declare and pay a dividend in cash and/or in securities or other property received as proceeds of such Disposition to the holders of ENSTAR Alaska Stock, subject to the limitations on dividends on ENSTAR Alaska Stock set forth under "Dividends" above, in an amount equal to the product of the Outstanding Interest Fraction and the Net Proceeds of such Disposition; or

(B) (1) if such Disposition involves all (not merely substantially all) of the assets and properties of the ENSTAR Alaska Group, then, if there are funds of the Company legally available therefor, redeem all outstanding shares of ENSTAR Alaska Stock in consideration for cash and/or for securities or other property received as proceeds of such Disposition for an aggregate payment equal to the product of the Outstanding Interest Fraction and the Net Proceeds of such Disposition; or

(2) if such Disposition involves substantially all (but not all) of the assets and properties of the ENSTAR Alaska Group or if the Company does not have sufficient funds legally available to make the full payment contemplated pursuant to clause (B)(1), then, to the extent that there are funds of the Company legally available therefor, redeem the number of whole shares outstanding of ENSTAR Alaska Stock that has an aggregate average Market Value, during the 10-Business Day period beginning on the sixth Business Day following such consummation, closest to the value of the product of the Outstanding Interest Fraction and the Net Proceeds of such Disposition, for cash and/or for securities or other property received as proceeds of such Disposition in an amount equal to such product; or

(C) exchange each outstanding share of ENSTAR Alaska Stock for a number of fully paid and nonassessable shares of Seagull Common Stock (or, if there are no shares of Seagull Common Stock outstanding on such Exchange Date (as defined in Annex III hereto) and shares of any other class of common stock of the Company (other than ENSTAR Alaska Stock) are then outstanding, of such other class of common stock as then has the largest Market Capitalization), equal to 110% of the average daily ratio (calculated to the nearest five decimal places) of the Market Value of one share of ENSTAR Alaska Stock to the Market Value of one share of Seagull Common Stock or such other class of common stock, as the case may be, during the 10-Business Day period beginning on the sixth Business Day following such consummation.

As of any date, "substantially all of the properties and assets of the ENSTAR Alaska Group" means a portion of such properties and assets (1) that represents at least 80% of the then-current market value (as determined by the Board of Directors) of the properties and assets of the ENSTAR Alaska Group as of such date or (2) from which were derived at least 80% of the aggregate operating profit for the immediately preceding twelve fiscal quarterly periods of the Company (calculated on a pro forma basis to include revenues derived from any of such properties and assets acquired during such period) derived from the properties and assets of the ENSTAR Alaska Group as of such date. Under the TBCA, a sale of substantially all the assets of the Company would require approval by the holders of at least two-thirds of the outstanding shares of the Seagull Common Stock and the ENSTAR Alaska Stock, voting together as a single class; however, such shareholder vote requirements would not apply, under current circumstances, to a sale of only all or substantially all the assets of the ENSTAR Alaska Group because such sale would not involve the sale of all or substantially all of the assets of the Company. Furthermore, under the TBCA, a sale would be in the "usual and regular course of business" if the Company, directly or indirectly, either continues to engage in one or more businesses or applies a portion of the consideration received in connection with the sale to the conduct of a business in which the Company (either through the ENSTAR Alaska Group, Seagull Energy or another business group) engages following the transaction.

"Net Proceeds" means, as of any date with respect to any Disposition of any of the properties and assets of the ENSTAR Alaska Group, an amount, if any, equal to the gross proceeds of such Disposition after any payment of, or reasonable provision for, (i) any taxes payable by the Company in respect of such Disposition as described below, (ii) any taxes payable by the Company in respect of any resulting dividend or redemption, (iii) any transaction costs, including, without limitation, any legal, investment banking and accounting fees and expenses and (iv) any liabilities (contingent or otherwise) of, allocated to or related to the ENSTAR Alaska Group, including, without limitation, any liabilities for deferred taxes or any indemnity or guarantee obligations incurred in connection with the Disposition or any liabilities for future purchase price adjustments and any preferential amounts plus any accumulated and unpaid dividends in respect of Preferred Stock attributed to the ENSTAR Alaska Group. The "taxes payable by the Company" in respect of a Disposition, as contemplated by clause (i), shall be deemed to be an amount equal to the sum of (x) the excess of the gross proceeds realized by the Company from such Disposition over the aggregate federal or state income tax basis, as applicable (the "realized gain," regardless of whether recognized for federal or state tax purposes) of the properties and assets so disposed of multiplied by the highest rate of tax applicable to corporations under section 11 of the Internal Revenue Code of 1986 as then in effect or the corresponding provision of any subsequently enacted federal tax law (the "federal tax rate") and (y) with respect to each state that would impose income or similar tax with respect to a taxable disposition of any of such properties or assets an amount

equal to the realized gain with respect to such properties or assets multiplied by the product of the decimal that expresses the highest rate of such state tax applicable to corporations and the decimal which expresses one minus the federal tax rate. For purposes of determining "Net Proceeds," any properties and assets of the ENSTAR Alaska Group remaining after such Disposition shall constitute "reasonable provision" for such amount of taxes, costs and liabilities (contingent or otherwise) as can be supported by such properties and assets. To the extent the proceeds of any Disposition include any securities or other property other than cash, the Board of Directors shall determine the value of such securities or property in accordance with the TBCA.

In connection with any dividend or redemption referred to in clause (A) or (B) above following a Disposition, the Board could, in its sole discretion, pay the dividend or redemption price referred to in clause (A) or (B) above in cash even if securities or other non-cash properties were received as proceeds of such Disposition.

At the time of any dividend or redemption made as a result of a Disposition, Seagull Energy financial statements will be credited with, and the ENSTAR Alaska Group financial statements will be charged with, an amount equal to the product of (i) the aggregate amount paid in respect of such dividend or redemption times (ii) a fraction, the numerator of which is equal to the Number of Shares Issuable with Respect to the Retained Interest and the denominator of which is equal to the number of shares of ENSTAR Alaska Stock then outstanding. See Annex II for illustrations of the calculation of the amount of the Retained Interest and the effects thereon of dividends on, and repurchases of, shares of ENSTAR Alaska Stock.

The option described in clause (C) above provides the Company with additional flexibility by allowing the Company to deliver consideration in the form of shares of Seagull Common Stock rather than cash or securities or other property received as proceeds of a Disposition. This alternative could be used, for example, in circumstances when the Company does not have sufficient legally available funds under the TBCA to pay the full amount of the dividend or redemption described in clause (A) or (B) above or when the Company desires to retain such proceeds.

The Board may, in its sole discretion within one year after a dividend or partial redemption made as a result of a Disposition described in clause (A) or (B)(2) above, exchange each remaining outstanding share of ENSTAR Alaska Stock for a number of fully paid and nonassessable shares of Seagull Common Stock equal to 110% of the Market Value Ratio as of the fifth Business Day prior to the date notice of such exchange is mailed to such holders. Any such exchange would dilute the interest in the Company of holders of Seagull Common Stock and could preclude holders of either class of common stock of the Company from retaining their investment in a security reflecting separately the business of their respective business group. In determining whether to effect any such exchange following such a dividend or partial redemption, the Board, in its sole discretion and consistent with its fiduciary duties to all the shareholders, in addition to other matters, would likely consider whether the remaining properties and assets of the ENSTAR Alaska Group continue to constitute a viable business. Other considerations could include the number of shares of ENSTAR Alaska Stock remaining issued and outstanding, the per share market price of the ENSTAR Alaska Stock and the cost of maintaining shareholder accounts.

If less than substantially all of the assets of the ENSTAR Alaska Group are disposed of by the Company in one transaction and an additional transaction is consummated at a later time in which an amount of assets are disposed of by the Company which, together with the assets disposed of in the first transaction, would have constituted substantially all of the assets of the ENSTAR Alaska Group at the time of the first transaction, the Company will not be required to pay a dividend on, redeem or exchange the outstanding shares of ENSTAR Alaska Stock, unless such transactions constitute a series of related transactions. The second transaction, however, could trigger such requirement if the assets disposed of in such transaction constituted at least substantially all of the assets of the ENSTAR Alaska Group at such time. If less than substantially all of the properties and assets of the ENSTAR Alaska Group are disposed of by the Company, the holders of the ENSTAR Alaska Stock will not be entitled to receive any dividend or have their shares of ENSTAR Alaska Stock redeemed or exchanged for Seagull Common Stock, although the Board could determine, in its sole discretion, to pay a dividend on the ENSTAR Alaska Stock in an amount related to the proceeds of such Disposition. However, subject to certain permitted inter-group transfers described herein, such proceeds could

not be used in the business of Seagull Energy without the approval of two-thirds of the outstanding ENSTAR Alaska Stock, as set forth under "Voting Rights" below.

The Board may also at any time, in its sole discretion, declare that each of the outstanding shares of ENSTAR Alaska Stock shall be exchanged for a number of fully paid and nonassessable shares of Seagull Common Stock equal to 115% of the Market Value Ratio as of the fifth Business Day prior to the date notice of such exchange is mailed to such holders. Any such exchange would dilute the interest of holders of Seagull Common Stock in the Company and could preclude holders of either class of common stock of the Company from retaining their investment in a security reflecting separately the business of their respective business group.

For the definitions of "Disposition," "Exchange Date," "Market Capitalization," "Market Value," "Market Value Ratio" and "Number of Shares Issuable with Respect to the Retained Interest," see Annex III hereto.

Not earlier than the 16th Business Day and not later than the 20th Business Day following the consummation of a sale of all or substantially all of the properties and assets of the ENSTAR Alaska Group, the Company would be required to publish, in all editions of a daily newspaper with a national circulation that publishes financial news, an announcement as to which of the actions specified in clauses (A), (B) or (C) above it had irrevocably determined to take.

If the Company determines to pay a dividend pursuant to clause (A) above, the Company would promptly following such determination cause to be given to each holder of ENSTAR Alaska Stock and of Convertible Securities convertible into or exercisable for ENSTAR Alaska Stock a notice setting forth (i) the record date for determining holders entitled to receive such dividend, which date shall be not earlier than the 30th Business Day and not later than the 40th Business Day following the consummation of such Disposition, (ii) the anticipated payment date of such dividend, (iii) the kind and aggregate amount of shares of capital stock, cash and/or other securities or property to be distributed in respect of shares of ENSTAR Alaska Stock, (iv) the number of outstanding shares of ENSTAR Alaska Stock and the number of shares of ENSTAR Alaska Stock into or for which such Convertible Securities are then convertible or exercisable and (v) a statement to the effect that holders of such Convertible Securities shall only be entitled to receive such dividend if they convert such Convertible Securities into or exercise them for ENSTAR Alaska Stock prior to the record date.

If the Company determined to undertake a redemption pursuant to clause (B) above, the Company would promptly following such determination cause to be given to each holder of ENSTAR Alaska Stock and of Convertible Securities convertible into or exercisable for ENSTAR Alaska Stock a notice setting forth (i) a date not earlier than the 30th Business Day and not later than the 40th Business Day following the consummation of such Disposition which shall be the date as of which shares of ENSTAR Alaska Stock then outstanding shall be subject to redemption pursuant to such provision, (ii) the anticipated Redemption Date (as defined in Annex III hereto), (iii) the kind and aggregate amount (or, in the case of a partial redemption, the per share amount) of shares of capital stock, cash and/or other securities or property to be paid as a redemption price in respect of shares of ENSTAR Alaska Stock, (iv) the number of shares of ENSTAR Alaska Stock to be redeemed, (v) the number of outstanding shares of ENSTAR Alaska Stock and the number of shares of ENSTAR Alaska Stock into or for which such Convertible Securities are then convertible or exercisable and (vi) a statement to the effect that holders of such Convertible Securities shall only be eligible to participate in such redemption if they convert such Convertible Securities into or exercise them for ENSTAR Alaska Stock prior to the date referred to in clause (i) of this sentence, and a statement as to what, if anything, such holder shall be entitled to receive pursuant to the terms of such Convertible Securities and the Articles of Incorporation if such holder thereafter converts or exercises such Convertible Securities. Promptly following the applicable record date, the Company would cause to be given to each holder of record as of such date of ENSTAR Alaska Stock to be so redeemed a notice setting forth (A) a statement that shares of ENSTAR Alaska Stock will be redeemed, (B) the Redemption Date, (C) in the event of a partial redemption, the number of shares of ENSTAR Alaska Stock held by such holder to be redeemed, (D) the kind and per share amount of shares of capital stock, cash and/or other securities or property to be distributed

to such holder with respect to each share of ENSTAR Alaska Stock to be redeemed, including details as to the calculation thereof, (E) the place or places where certificates for shares of ENSTAR Alaska Stock, properly endorsed or assigned for transfer (unless the Company shall waive such requirement), are to be surrendered for delivery of certificates for shares of such capital stock, cash and/or other securities or property, (F) if applicable, a statement to the effect that the shares being redeemed may no longer be transferred on the transfer books of the Company after the date of the applicable record date and (G) a statement to the effect that dividends on such shares of ENSTAR Alaska Stock shall cease to be paid as of such Redemption Date. Such notice shall be sent by first-class mail, postage prepaid, not less than 25 Business Days nor more than 35 Business Days prior to the Redemption Date, and in any case to each holder of ENSTAR Alaska Stock to be redeemed, at such holder's address as the same appears on the transfer books of the Company.

If the Company determined to undertake any exchange described above, the Company would promptly following such determination cause to be given to each holder of record of the ENSTAR Alaska Stock and of Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock, a further notice setting forth (i) a statement that shares of ENSTAR Alaska Stock shall be exchanged or redeemed, as the case may be, (ii) the Exchange Date, (iii) the kind and per share amount of shares of common stock of the Company or the ENSTAR Group Subsidiary, as the case may be, to be issued in exchange for each share of ENSTAR Alaska Stock, including details as to the calculation thereof, (iv) the place or places where certificates for shares of ENSTAR Alaska Stock, properly endorsed or assigned for transfer (unless the Company shall waive such requirement), are to be surrendered for delivery of certificates for shares of such capital stock, cash and/or other securities or property, (v) a statement to the effect that, except for dividends or distributions declared prior to the Exchange Date, dividends on such shares of ENSTAR Alaska Stock shall cease to be paid as of such Exchange Date, (vi) if applicable, a statement to the effect that the shares being redeemed may no longer be transferred on the transfer books of the Company after the date of the applicable record date and (vii) a statement to the effect that a holder of Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock shall only be entitled to receive shares of common stock of the Company or the ENSTAR Alaska Group Subsidiary, as the case may be, upon such exchange if such holder converts or exercises such Convertible Securities on or prior to such Exchange Date, and a statement as to what, if anything, such holder shall be entitled to receive pursuant to the terms of such Convertible Securities and the Articles of Incorporation if such holder thereafter converted or exercised such Convertible Securities. Such notice would be sent by first-class mail, postage prepaid, not less than 25 Business Days nor more than 35 Business Days prior to the Exchange Date and in any case to each holder of the ENSTAR Alaska Stock and to each holder of Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock, at such holder's address as the same appears on the transfer books of the Company.

Neither the failure to mail any notice described above to any particular holder of ENSTAR Alaska Stock or, if applicable, of Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock, nor any defect therein shall affect the sufficiency thereof with respect to any other holder of ENSTAR Alaska Stock or, if applicable, of such Convertible Securities.

If less than all of the outstanding shares of ENSTAR Alaska Stock were to be redeemed pursuant to clause (B)(2) above, such shares would be redeemed by the Company pro rata or by lot, among the holders of ENSTAR Alaska Stock outstanding at the close of business on the date referred to in clause (i) of the last sentence in the second preceding paragraph, or by such other method as may be determined by the Board of Directors to be equitable.

No adjustments in respect of dividends would be made upon the exchange or redemption of any shares of ENSTAR Alaska Stock; provided, however, that if such shares were exchanged or redeemed by the Company after the record date for determining holders of ENSTAR Alaska Stock entitled to any dividend or distribution thereon, the holders of such shares at the close of business on such record date would be entitled to receive the dividend or other distribution payable on or with respect to such shares on the date set for payment of such dividend or other distribution, notwithstanding such exchange or redemption, in each case without interest.

Before any holder of shares of ENSTAR Alaska Stock would be entitled to receive certificates representing shares of any capital stock, cash and/or other securities or property to be distributed to such holder with respect to any exchange or redemption of shares of ENSTAR Alaska Stock, such holder would be required to surrender at such office as the Company specified certificates for such shares of ENSTAR Alaska Stock, properly endorsed or assigned for transfer (unless the Company waived such requirement). As soon as practicable after the Company's receipt of certificates representing such shares of ENSTAR Alaska Stock, the Company would deliver to the person for whose account such shares of ENSTAR Alaska Stock were so surrendered, or to his nominee or nominees, certificates representing the number of whole shares of the kind of capital stock or cash and/or other securities or property to which such person was entitled as aforesaid, together with any fractional payment referred to below, in each case without interest. If less than all of the shares of ENSTAR Alaska Stock represented by any one certificate were to be redeemed, the Company would issue and deliver a new certificate for the shares of ENSTAR Alaska Stock not redeemed.

The Company would not be required to issue or deliver fractional shares of any class of capital stock or any fractional securities to any holder of ENSTAR Alaska Stock upon any exchange, redemption, dividend or other distribution described above. If more than one share of ENSTAR Alaska Stock were held at the same time by the same holder, the Company could aggregate the number of shares of any class of capital stock that would be issuable or the amount of securities that would be deliverable to such holder upon any exchange, redemption, dividend or other distribution (including any fractions of shares or securities). If the number of shares of any class of capital stock or the amount of securities remaining to be issued or delivered to any holder of ENSTAR Alaska Stock is a fraction, the Company would, if such fractional shares were not issued or delivered to such holder, pay a cash adjustment in respect of such fractional shares in an amount equal to the fair market value of such fractional shares on the fifth Business Day prior to the date such payment was to be made. For purposes of the preceding sentence, "fair market value" of any fractional share means (i) in the case of any fraction of a share of capital stock of the Company, the product of such fraction and the Market Value of one share of such capital stock and (ii) in the case of any other fractional security, such value as is determined by the Board of Directors.

From and after any exchange or redemption of shares of ENSTAR Alaska Stock, all rights of a holder of shares of ENSTAR Alaska Stock that were exchanged or redeemed would cease except for the right, upon surrender of the certificates representing such shares of ENSTAR Alaska Stock, to receive certificates representing shares of the kind and amount of capital stock or cash and/or other securities or property for which such shares were exchanged or redeemed, together with any fractional payment and rights to dividends as provided above. No holder of a certificate, that immediately prior to the applicable exchange for ENSTAR Alaska Stock represented shares of ENSTAR Alaska Stock, would be entitled to receive any dividend or other distribution with respect to shares of any kind of capital stock into which ENSTAR Alaska Stock was exchanged until surrender of such holder's certificate for a certificate or certificates representing shares of such kind of capital stock. Upon such surrender, there would be paid to the holder the amount of any dividends or other distributions (without interest) which theretofore became payable with respect to a record date after the exchange, but that were not paid by reason of the foregoing, with respect to the number of whole shares of the kind of capital stock represented by the certificate or certificates issued upon such surrender. From and after an exchange for ENSTAR Alaska Stock, the Company would, however, be entitled to treat the certificates for ENSTAR Alaska Stock that were not yet surrendered for exchange as evidencing the ownership of the number of whole shares of the kind or kinds of capital stock for which the shares of such ENSTAR Alaska Stock represented by such certificates should have been exchanged, notwithstanding the failure to surrender such certificates.

The Company would pay any and all documentary, stamp or similar issue or transfer taxes that might be payable in respect of the issue or delivery of any shares of capital stock and/or other securities on exchange of shares of ENSTAR Alaska Stock pursuant to the Articles of Incorporation. The Company would not, however, be required to pay any tax that might be payable in respect of any transfer involved in the issuance and delivery of any shares of capital stock and/or other securities in a name other than that in which the shares of ENSTAR Alaska Stock so exchanged or redeemed were registered, and no such issuances or

delivery would be made unless and until the person requesting such issuance paid to the Company the amount of any such tax, or established to the satisfaction of the Company that such tax had been paid.

VOTING RIGHTS

The Articles of Incorporation currently provide that holders of Seagull Common Stock have one vote per share on all matters submitted to a shareholder vote. The ENSTAR Alaska Stock Proposal provides that the holders of all classes of common stock of the Company shall vote together as a single class (with the holders of all classes and series of capital stock, if any, of the Company entitled to vote together with the holders of common stock of the Company) on all matters as to which holders of common stock of the Company are entitled to vote other than a matter with respect to which such class would be entitled to vote separately. On all matters to be voted on by the holders of all classes of common stock of the Company and any such class or series of capital stock together as a single class, (i) each outstanding share of Seagull Common Stock would have one vote and (ii) each outstanding share of ENSTAR Alaska Stock would have a number of votes equal to the quotient (calculated to the nearest three decimal places), as of the fifth Business Day prior to the applicable record date or shareholder consent date, of (A) the sum of (1) four times the average ratio of X to Y for the five-Business Day period ending on such fifth Business Day, (2) three times the average ratio of X to Y for the next preceding five-Business Day period, (3) two times the average ratio of X to Y for the next preceding five-Business Day period and (4) the average ratio of X to Y for the next preceding five-Business Day period, divided by (B) ten, where X is the Market Value of ENSTAR Alaska Stock and Y is the Market Value of the Seagull Common Stock or, if there are no shares of Seagull Common Stock outstanding on such record or other applicable date or on any of the 25 Business Days prior thereto, the sum of the Market Values of each class of common stock of the Company then outstanding; provided that until the ENSTAR Alaska Stock or such other class of common stock of the Company has been traded after issuance on a national securities exchange or the National Association of Securities Dealers Automated Quotations National Market System for at least 25 Business Days, each outstanding share of ENSTAR Alaska Stock would be entitled to a number of votes equal to the average ratio (calculated to the nearest three decimal places) of the Market Value of a share of ENSTAR Alaska Stock to the Market Value of a share of Seagull Common Stock (or, if there are no shares of Seagull Common Stock outstanding, the sum of the average of the Market Values of a share of each class of common stock of the Company then outstanding) for each Business Day during the period commencing on the date the ENSTAR Alaska Stock or such other class of common stock of the Company, as the case may be, is initially so traded and ending on the last Business Day on or before the applicable record date or shareholder consent date. If shares of only one class of common stock of the Company were outstanding, each share of that class would have one vote. If either class of common stock of the Company was entitled to vote separately as a class with respect to any matter, each share of that class would be entitled to one vote in the separate vote on such matter.

To illustrate the foregoing, if the weighted average Market Values for the Seagull Common Stock and the ENSTAR Alaska Stock, as determined using the above formula, were $30.00 and $20.00, respectively, each share of Seagull Common Stock would have one vote and each share of ENSTAR Alaska Stock would have two-thirds of a vote ($20.00 / $30.00). In voting on any proposal where both classes of common stock vote together as a single class (with the holders of all classes or series of preferred stock, if any, entitled to vote together with the holders of common stock of the Company) and assuming there were issued and outstanding 37,000,000 shares of Seagull Common Stock and 7,500,000 shares of ENSTAR Alaska Stock, the shares of Seagull Common Stock and ENSTAR Alaska Stock would represent 88% and 12%, respectively, of the total voting power.

If the ENSTAR Alaska Stock Proposal is approved and implemented by the Board, the Company will set forth the amount of outstanding shares of the Seagull Common Stock and the ENSTAR Alaska Stock in its Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q filed pursuant to the Exchange Act and will disclose in any proxy statement for a shareholder meeting the number of outstanding shares and per share voting rights of the Seagull Common Stock and the ENSTAR Alaska Stock.

The relative voting rights of the Seagull Common Stock and the ENSTAR Alaska Stock could fluctuate as described above so that a holder's voting rights could more closely reflect the Market Value of such holder's

equity investment in the Company. Fluctuations in the relative voting rights of the Seagull Common Stock and the ENSTAR Alaska Stock could influence an investor interested in acquiring and maintaining a fixed percentage of the Company's voting power to acquire such percentage of both classes of the Company's common stock, and would limit the ability of investors in one class to acquire for the same consideration relatively more or less votes per share than investors in the other class.

As a result of its ownership of the gas distribution operations included in the ENSTAR Alaska Group, the Company is a "public utility company" within the meaning of the 1935 Act. Accordingly, any company that directly or indirectly owns, controls or holds with power to vote 10% or more of the outstanding voting securities of the Company would generally be deemed to be a "holding company" within the meaning of the 1935 Act, and therefore would be subject to the registration, reporting and simplification requirements of the 1935 Act. The calculation of ownership of the voting securities of the Company would be made on the basis of the percentage of the voting power of the outstanding shares of the Company. Because of the fluctuation in relative voting power between the ENSTAR Alaska Stock and the Seagull Common Stock described above, a shareholder could reach the 10% threshold without acquiring any additional shares. For example, if a shareholder owned shares of Seagull Common Stock with 9.99% of the outstanding voting power of the Company's shares, then a relatively modest drop in the Market Value of the ENSTAR Alaska Stock (or increase in the Market Value of the Seagull Common Stock) could increase the relative voting power of Seagull Common Stock and cause the shareholder to become a "holding company" without acquiring any additional shares. The Articles of Amendment to the Articles of Incorporation would provide that, even if the respective Market Values of the ENSTAR Alaska Stock and the Seagull Common Stock fluctuate relative to the other from time to time, the number of votes to which the ENSTAR Alaska Stock is entitled will not change until the next applicable record date.

In addition to such other vote or consent as shall then be required by law, the Articles of Incorporation or the Bylaws, the vote or consent of the holders of at least 66 2/3% of all of the shares of Seagull Common Stock then outstanding, voting as a separate class, shall be necessary for:

(i) the declaration or payment of any dividend on, or the making of any other payment or distribution with respect to, any shares of ENSTAR Alaska Stock, if such dividend, payment or distribution is to be made with (x) any of the properties and assets of Seagull Energy or (y) shares of Seagull Common Stock (or Convertible Securities convertible into or exercisable for Seagull Common Stock) or any security that represents an equity interest in a person or entity (other than the Company) that owns any of the properties or assets of Seagull Energy;

(ii) the use of any of the properties and assets of Seagull Energy in any business of the Company other than a business of Seagull Energy, unless such use arises from a transfer for value of such properties or assets from Seagull Energy to the ENSTAR Alaska Group; or

(iii) any issuance or sale of shares of Seagull Common Stock, or Convertible Securities convertible into or exercisable for Seagull Common Stock, for the account of the ENSTAR Alaska Group;

provided that, notwithstanding the foregoing, no such vote shall be required for loans by Seagull Energy to the ENSTAR Alaska Group at rates determined in a manner consistent with the Company's policy with respect to loans between groups at such time. See "Management and Accounting Policies" above.

Similarly, in addition to such other vote or consent as shall then be required by law, the Articles of Incorporation or the Bylaws, the vote or consent of the holders of at least 66 2/3% of all of the shares of ENSTAR Alaska Stock then outstanding, voting as a separate class, shall be necessary for:

(i) the declaration or payment of any dividend on, or the making of any other payment or distribution with respect to, any shares of any other class of common stock, if such dividend, payment or distribution is to be made with (x) any of the properties and assets of the ENSTAR Alaska Group or (y) shares of ENSTAR Alaska Stock (or Convertible Securities convertible into or exercisable for ENSTAR Alaska Stock) or any security that represents an equity interest in a person or entity (other than the Company) that owns any of the properties or assets of the ENSTAR Alaska

Group, other than

any shares of ENSTAR Alaska Stock (or Convertible Securities convertible into or exercisable for ENSTAR Alaska Stock) issued by the Company as a dividend or distribution on the Seagull Common Stock, but only if the sum of (1) the number of shares of ENSTAR Alaska Stock to be so dividended or distributed (or the number of shares of ENSTAR Alaska Stock into which or for which the Convertible Securities to be so dividended or distributed would be convertible or exercisable at such time) and (2) the number of such shares that would be issuable at such time upon conversion or exercise of any other Convertible Securities then outstanding that are attributed to Seagull Energy is less than or equal to the Number of Shares Issuable with Respect to the Retained Interest;

(ii) the use of any of the properties and assets of the ENSTAR Alaska Group in any business of the Company other than a business of the ENSTAR Alaska Group, unless such use arises from a transfer for value of such properties or assets from the ENSTAR Alaska Group to Seagull Energy; or

(iii) any issuance or sale of shares of ENSTAR Alaska Stock, or Convertible Securities convertible into or exercisable for ENSTAR Alaska Stock, for the account of any business group other than (x) the ENSTAR Alaska Group or (y) Seagull Energy but only if the sum of (1) the number of shares of ENSTAR Alaska Stock to be so issued or sold (or the number of shares of ENSTAR Alaska Stock into which or for which the Convertible Securities to be so issued or sold would be convertible or exercisable at such time), and (2) the number of such shares which would be issuable at such time upon conversion or exercise of any other Convertible Securities then outstanding which are attributed to Seagull Energy is less than or equal to the Number of Shares Issuable with Respect to the Retained Interest;

provided that, notwithstanding the foregoing, no such vote shall be required for loans by the ENSTAR Alaska Group to Seagull Energy at rates determined in a manner consistent with the Company's policy with respect to loans between groups at such time. See "Management and Accounting Policies" above.

The approval of the holders of at least two-thirds of the outstanding shares of either class of common stock of the Company voting as a separate class is currently required under the TBCA for any amendment to the Articles of Incorporation that would (i) increase or decrease the aggregate number of authorized shares of such class; (ii) increase or decrease the par value of the shares of such class; (iii) effect an exchange, reclassification or cancellation of all or part of the shares of such class; (iv) effect an exchange, or create a right of exchange, of all or any part of the shares of another class into shares of such class; (v) change the designations, preferences, limitations or relative rights of the shares of such class; (vi) change the shares of such class, whether with or without par value, into the same or a different number of shares, either with or without par value, of the same class or another class or series; (vii) create a new class or series of shares having rights and preferences equal, prior, or superior to the shares of such class, or increase the rights and preferences of any class or series having rights and preferences equal, prior, or superior to the shares of such class, or increase the rights and preferences of any class or series having rights or preferences later or inferior to the shares of such class in such a manner as to become equal, prior, or superior to the shares of such class; (viii) divide the shares of such class into series and fix and determine the designation of such series and the variations in the relative rights and preferences between the shares of such series; or (ix) cancel or otherwise affect dividends on the shares of such class which had accrued but had not been declared.

MERGERS AND CONSOLIDATIONS

Under the TBCA, the holders of the Seagull Common Stock currently would be entitled to share proportionately in the consideration, if any, attributable to the Seagull Common Stock pursuant to the terms of any merger or consolidation to which the Company is a party. Under the ENSTAR Alaska Stock Proposal, the holders of the outstanding shares of each class of common stock would be entitled to receive, or have their shares converted into, a fraction of the consideration attributable to the common stock of the Company pursuant to the terms of any merger or consolidation to which the Company is a party, where such fraction is equal to the quotient of (A) the sum of (1) four times the average ratio of x to y for the five-Business Day period ending on the Business Day prior to the date of the first public announcement of the merger or consolidation, (2) three times the average ratio of x to y for the next preceding five-Business Day period, (3) two times the average ratio of x to y for the next preceding five-Business Day period and (4) the average ratio of x to y for the next preceding five-Business Day period, divided by (B) ten, where x is the Market Capitalization of such class of common stock, and y is the aggregate Market Capitalization of all classes of common stock of the Company. As indicated above, the foregoing provisions would apply only if the terms of the merger or consolidation provide for the receipt of consideration by, or conversion of shares held by, holders of common stock of the Company. For example, in a merger in which the Company is the surviving corporation, it is likely that all shares of common stock of the Company would remain outstanding and the foregoing provisions would not apply.

LIQUIDATION RIGHTS

Currently, in the event of a liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, after the holders of the Preferred Stock receive the full preferential amounts plus any accumulated and unpaid dividends to which they are entitled, holders of the Seagull Common Stock will receive the funds remaining for distribution to common shareholders. Under the ENSTAR Alaska Stock Proposal, the holders of the outstanding shares of each class of common stock would be entitled to receive a fraction of the funds of the Company remaining for distribution to its shareholders, where such fraction is equal to the quotient of (A) the sum of (1) four times the average ratio of x to y for the five-Business Day period ending on the Business Day prior to the date of the first public announcement of (I) a voluntary liquidation, dissolution or winding-up by the Company or (II) the institution of the proceeding for the involuntary liquidation, dissolution or winding-up of the Company, (2) three times the average ratio of x to y for the next preceding five-Business Day period, (3) two times the average ratio of x to y for the next preceding five-Business Day period and (4) the average ratio of x to y for the next preceding five-Business Day period, divided by (B) ten, where x is the Market Capitalization of such class of common stock, and y is the aggregate Market Capitalization of both classes of common stock of the Company. Neither the merger nor consolidation of the Company into or with any other corporation, nor the merger or consolidation of any other corporation into or with the Company, nor a sale, transfer or lease of all or any part of the assets of the Company, would be deemed a liquidation, dissolution or winding-up for these purposes. See "Mergers and Consolidations" above.

DETERMINATIONS BY THE BOARD OF DIRECTORS

Any determinations made in good faith by the Board of Directors under any provision described above under "Description of Seagull Common Stock and ENSTAR Alaska Stock," and any determinations with respect to any business group or the rights of holders of either class of common stock of the Company made pursuant to or in furtherance of any provision described above under "Description of Seagull Common Stock and ENSTAR Alaska Stock," shall be final and binding on all shareholders.

OTHER RIGHTS

Neither the holders of the Seagull Common Stock nor the holders of the ENSTAR Alaska Stock have any preemptive rights or any rights to convert their shares into any other securities of the Company.

RETAINED INTEREST OF SEAGULL ENERGY IN ENSTAR ALASKA GROUP; OUTSTANDING INTEREST FRACTION

The Company currently intends to sell shares of ENSTAR Alaska Stock representing 100% of the equity interest in the ENSTAR Alaska Group. Nevertheless, the percentage of the equity of the Company attributable to the ENSTAR Alaska Group to be sold to the public in the ENSTAR Alaska Stock Offering will depend upon then prevailing market and other conditions at the time of the ENSTAR Alaska Stock Offering. To the extent that the number of shares of ENSTAR Alaska Stock to be issued and sold in the ENSTAR Alaska Stock Offering would represent less than 100% of the equity attributable to the ENSTAR Alaska Group, the Company would retain and attribute to Seagull Energy a Retained Interest in the ENSTAR Alaska Group. Seagull Energy's Retained Interest in the ENSTAR Alaska Group would not be represented by actual shares of the ENSTAR Alaska Stock and could not be voted by Seagull Energy.

The "Outstanding Interest Fraction" means the percentage interest in the ENSTAR Alaska Group intended to be represented at any time by the outstanding shares of ENSTAR Alaska Stock, and the "Retained Interest Fraction" means the remaining percentage interest in the ENSTAR Alaska Group that is attributed to Seagull Energy. The sum of the Outstanding Interest Fraction and the Retained Interest Fraction would always equal 100%. The "Number of Shares Issuable with Respect to the Retained Interest" means the number of shares of ENSTAR Alaska Stock that could be sold or otherwise issued by the Company for the account of

Seagull Energy in respect of its Retained Interest.

The Company intends to use the net proceeds from the ENSTAR Alaska Stock Offering to repay amounts borrowed under the Revolver, none of which debt is attributable to the ENSTAR Alaska Group. In future offerings of ENSTAR Alaska Stock, the Board would, in its sole discretion, determine the allocation of the net proceeds of such sale between Seagull Energy and the ENSTAR Alaska Group. If the Board allocated 100% of the net proceeds of a sale of ENSTAR Alaska Stock to the ENSTAR Alaska Group, the net proceeds would be reflected entirely in the financial statements of the ENSTAR Alaska Group. To the extent a Retained Interest in the ENSTAR Alaska Group continues to be attributed to Seagull Energy, net proceeds from any future offerings of ENSTAR Alaska Stock could be allocated to Seagull Energy or to both Seagull Energy and the ENSTAR Alaska Group, in which event the net proceeds would be reflected in the financial statements of the respective business group as allocated. If the net proceeds of an offering of ENSTAR Alaska Stock were allocated to Seagull Energy's Retained Interest in the ENSTAR Alaska Group, the Number of Shares Issuable with Respect to the Retained Interest of Seagull Energy in the ENSTAR Alaska Group would be reduced. If the net proceeds of an offering of ENSTAR Alaska Stock Offering were not allocated to Seagull Energy, the Number of Shares Issuable with Respect to the Retained Interest in the ENSTAR Alaska Group would not be reduced, but the Retained Interest Fraction with respect to the ENSTAR Alaska Group would nonetheless be reduced, and the Outstanding Interest Fraction with respect to the ENSTAR Alaska Group would be increased accordingly. A determination as to the allocation of such net proceeds would be made by the Board, in its sole discretion, after consideration of a number of factors, including, among others, the relative levels of internally generated cash flows of each business group, the long-term business prospects for each business group, the capital expenditure plans of and the investment opportunities available to each business group and the availability, cost and time associated with alternative financing sources.

If the Company issued shares of ENSTAR Alaska Stock for the account of Seagull Energy, the relative voting power of holders of shares of ENSTAR Alaska Stock immediately prior to such issuance would be diluted even though any consideration received for such shares would not be attributed to the ENSTAR Alaska Group. At any time that all shares of ENSTAR Alaska Stock that were issuable with respect to the Retained Interest in the ENSTAR Alaska Group were issued, the Retained Interest would be zero and shares of ENSTAR Alaska Stock could no longer be issued for the account of Seagull Energy.

In the event of any dividend or other distribution on outstanding shares of ENSTAR Alaska Stock (including any dividend of, or redemption with, Net Proceeds from a Disposition) while Seagull Energy has a Retained Interest in the ENSTAR Alaska Group, Seagull Energy's financial statements would be credited with, and the ENSTAR Alaska Group's financial statements would be charged with, an amount equal to the product of (i) the aggregate amount paid in respect of such dividend or other distribution, times (ii) a fraction, the numerator of which is the Number of Shares Issuable with Respect to the Retained Interest and the denominator of which is the number of shares of ENSTAR Alaska Stock then outstanding.

If any shares of ENSTAR Alaska Stock were subsequently repurchased from time to time by the Company, the Company would identify (i) the number of shares of ENSTAR Alaska Stock repurchased for the account of Seagull Energy with respect to its Retained Interest, the purchase price of which would be reflected entirely in the financial statements of Seagull Energy, and (ii) the number of such shares repurchased for the account of the ENSTAR Alaska Group, the purchase price of which would be reflected entirely in the financial statements of the ENSTAR Alaska Group. In the event that the Company repurchases shares of ENSTAR Alaska Stock for consideration that is attributable to Seagull Energy, the Number of Shares Issuable with Respect to the Retained Interest and the Retained Interest Fraction would increase, and the Outstanding Interest Fraction would decrease accordingly. In the event that the Company

repurchases shares of ENSTAR Alaska Stock for consideration that is attributable to the ENSTAR Alaska Group, the Number of Shares Issuable with Respect to the Retained Interest would not change, but the Retained Interest Fraction would increase, and the Outstanding Interest Fraction would decrease accordingly. The Board of Directors could, in its sole discretion, determine whether repurchases of ENSTAR Alaska Stock should be made with consideration attributable to Seagull Energy or the ENSTAR Alaska Group, by considering a number of factors, including, among others, the relative levels of internally generated cash flows of each business group, the long-term business prospects for each business group, the capital expenditure plans of and the investment opportunities available to each business group and the availability, cost and time associated with alternative financing sources.

The Board of Directors could, in its sole discretion, determine from time to time to transfer cash or other property from the ENSTAR Alaska Group to Seagull Energy as a return of capital, which would decrease Seagull Energy's Retained Interest, if any, in the ENSTAR Alaska Group and, accordingly, would decrease the Retained Interest Fraction and increase the Outstanding Interest Fraction. The Board of Directors could, in its sole discretion, determine from time to time to contribute cash or other property of Seagull Energy as additional equity to the ENSTAR Alaska Group, which would increase Seagull Energy's Retained Interest in the ENSTAR Alaska Group and, accordingly, would increase the Retained Interest Fraction and decrease the Outstanding Interest Fraction. The Board of Directors could determine, in its sole discretion, to make such contributions or returns of capital after consideration of a number of factors, including, among others the relative levels of internally generated cash flows of the business groups, the long-term business prospects for each business group, the capital expenditure plans of and the investment opportunities available to each business group and the availability, cost and time associated with alternative financing sources. See "Management and Accounting Policies" above.

For further discussion of, and illustrations of the calculation of the Retained Interest Fraction, the Outstanding Interest Fraction and the Number of Shares Issuable with Respect to the Retained Interest and the effects thereon of dividends on, and issuances and repurchases of, shares of ENSTAR Alaska Stock, and transfers of cash or other property attributed to one business group to the other business group, see Annex II hereto.

BACKGROUND AND REASONS FOR THE ENSTAR ALASKA STOCK PROPOSAL AND THE ENSTAR ALASKA STOCK OFFERING

The Board continually reviews each of the Company's businesses to determine the best way to realize their inherent values. At a meeting held on January 27, 1994, the Board received reports from management on its analysis of the targeted stock proposal and considered the adoption of a targeted stock program. On February 28, 1994, the Board reviewed the specific terms of the ENSTAR Alaska Stock Proposal and authorized the Company's management to proceed with the ENSTAR Alaska Stock Proposal. On March 11, 1994, the Executive Committee of the Board of Directors met to review the specific terms of the ENSTAR Alaska Stock Proposal that had been developed since the February 28 Board meeting. At this meeting, which was attended by ten of the Company's 12 directors, the Executive Committee confirmed the prior authorization that had been granted by the Board. The Company's intention to proceed with the ENSTAR Alaska Stock Proposal was publicly announced shortly after the adjournment of this meeting.

The ENSTAR Alaska Stock Proposal is the result of the Board's review of various alternatives for maximizing shareholder value with respect to the ENSTAR Alaska Group. The Board considered the following options: (i) selling the ENSTAR Alaska Group, (ii) distributing the ENSTAR Alaska Group to the Company's shareholders in a spin-off and (iii) conducting a public offering of securities issued directly by the ENSTAR Alaska Group representing a portion of the equity ownership of the ENSTAR Alaska Group. After consultation with the Company's financial and legal advisors, the Board currently believes that the ENSTAR Alaska Stock Proposal is the best alternative for maximizing shareholder value with respect to the ENSTAR Alaska Group.

This belief is based upon an analysis that takes into account the expected financial, regulatory and tax consequences of these alternatives, as well as structuring constraints imposed by the 1935 Act. The sale of the

ENSTAR Alaska Group, for example, would require the approval of the APUC, which would involve the delays and uncertainties inherent in any regulatory approval process. For example, when the Company acquired the ENSTAR Alaska Group, the purchase contract was executed in October 1984, but the necessary regulatory approval was not obtained for approximately seven months. Furthermore, the Company would be required to recognize a gain on a sale transaction for income tax purposes, thus reducing the amount of net proceeds that would inure to the benefit of the Company. As more fully described under "Certain Federal Income Tax Considerations" below, and subject to the assumptions described therein, the Company has been advised by its legal counsel that no such gain would be recognized by the Company as a result of the ENSTAR Alaska Stock Proposal.

A spin-off transaction was not considered as attractive as the ENSTAR Alaska Stock Proposal because no additional equity would be infused into the Company's capital structure. A public offering of securities issued directly by the ENSTAR Alaska Group would face serious structuring constraints imposed by the 1935 Act. Typically, these transactions involve the retention by the parent company of at least 80% of the voting securities of the publicly-held subsidiary in order to maintain tax consolidation. However, such a transaction would not be permitted under the 1935 Act unless the Company retained less than 10% of the outstanding voting securities of the ENSTAR Alaska Group. Otherwise, the Company would become a "holding company" within the meaning of the 1935 Act, and therefore would be subject to the registration, reporting and simplification requirements of the 1935 Act. See "Special Considerations -- Public Utility Holding Company Act of 1935."

The ENSTAR Alaska Stock Proposal is intended to provide investors with securities reflecting the performance of Seagull Energy separately from the ENSTAR Alaska Group, and to give investors an opportunity to invest in either or both securities depending on their investment objectives, while at the same time retaining the benefits of remaining a single corporation. The ENSTAR Alaska Stock Offering is also intended to provide the Company with significant additional liquidity without the disadvantages described above with respect to the alternative transactions considered by the Board. The Board believes that the ENSTAR Alaska Stock Offering will enable the Company to raise capital without sacrificing the advantages of maintaining a single consolidated entity, such as avoiding the incremental increase in administrative costs, and enjoying lower borrowing costs than would be incurred by separate entities. The Board also believes there will be additional benefits, such as the ability to file consolidated tax returns.

In arriving at its recommendation and its determination that the ENSTAR Alaska Stock Proposal is in the best interests of the Company, the Board considered carefully various aspects of the proposal at its meetings. In addition to the considerations described above, the Board, with the assistance of its financial and legal advisors, considered the following:

- The ENSTAR Alaska Stock Offering would enable the Company to raise significant additional capital that would reduce the Company's debt-to-equity ratio. Based upon the assumptions set forth in the pro forma financial information included in Annexes IV and V, the pro forma debt to capital ratio for the Company as a whole as of December 31, 1993 would improve from 59.8% (after taking into account the Seagull Canada Acquisition) to 47.0% as a result of the ENSTAR Alaska Stock Proposal and the ENSTAR Alaska Stock Offering, and the pro forma debt to capital ratio for Seagull Energy (without ENSTAR Alaska Group) as of December 31, 1993 would improve from 60.8% to 46.4%. See "Unaudited Pro Forma Condensed Financial Statements" in Annexes IV and V.

- The separate recording of the financial results for each business group and separate trading of each class of common stock of the Company could result in broader and more focused equity research coverage by financial analysts, which should enable the investment community to gain a better understanding of each business group and could serve as an additional discipline on the performance of each business group.

- From a credit perspective, Seagull Energy would benefit from the credit rating of the Company as a whole and, therefore, Seagull Energy would continue to benefit from having the ENSTAR Alaska Group as a part of the Company's organization.

In connection therewith, the Board also evaluated the potentially adverse aspects of the ENSTAR Alaska Stock Proposal, including the uncertainty with respect to the proceeds to be realized in the ENSTAR Alaska Stock Offering and its impact on the market price of the Seagull Common Stock, as well as the fact that implementation of the ENSTAR Alaska Stock Proposal would, to a certain extent, make the capital structure of the Company more complex and require additional disclosure to be made with respect to the ENSTAR Alaska Group. The Board determined, however, that, particularly in light of the increased liquidity resulting from the ENSTAR Alaska Stock Proposal, the positive aspects of the ENSTAR Alaska Stock Proposal outweighed any potentially adverse aspects and concluded that the ENSTAR Alaska Stock Proposal is in the best interests of the Company. Furthermore, the Board will continue to evaluate each of the other alternatives mentioned above in light of prevailing market and other conditions, even after shareholder approval is obtained for the ENSTAR Alaska Stock Proposal. Notwithstanding approval by the shareholders of the ENSTAR Alaska Stock Proposal, the Company will not file the Articles of Amendment to the Articles of Incorporation set forth in Annex III hereto with the Texas Secretary of State until immediately prior to consummation of the ENSTAR Alaska Stock Offering.

STOCK EXCHANGE LISTINGS

The Seagull Common Stock is currently listed on the NYSE under the symbol "SGO." If the ENSTAR Alaska Stock Proposal is implemented, the symbol for the Seagull Common Stock would remain "SGO." Application will be made to the NYSE for listing of the ENSTAR Alaska Stock on the NYSE under the symbol "SGE." The Company cannot predict to what extent a public market will develop for the shares of the ENSTAR Alaska Stock or the prices at which the shares of ENSTAR Alaska Stock may trade in such market or otherwise. It is also not possible to predict the impact of the ENSTAR Alaska Stock Proposal on the prices at which the shares of Seagull Common Stock may trade following implementation of such proposal. See "Special Considerations -- No Assurance as to Market Price" above.

FINANCIAL ADVISOR

The Company has engaged Lehman Brothers Inc. as its exclusive targeted stock financial advisor in connection with the ENSTAR Alaska Stock Proposal. In connection therewith, the Company has agreed to pay Lehman Brothers Inc. a financial advisory fee of $1.25 million if the ENSTAR Alaska Stock Proposal is approved by the Company's shareholders. Lehman Brothers Inc. has not been paid to solicit proxies in connection with the ENSTAR Alaska Stock Proposal. The Company has also agreed to reimburse Lehman Brothers Inc. for certain reasonable out-of-pocket expenses (including fees and expenses of its legal counsel) and has agreed to indemnify Lehman Brothers Inc. against certain liabilities, including liabilities under the federal securities laws. In addition, the Company has agreed that Lehman Brothers Inc. may act as lead manager or agent in connection with the ENSTAR Alaska Stock Offering contemplated herein.

STOCK TRANSFER AGENT AND REGISTRAR

First National Bank of Boston acts as the registrar and transfer agent for the Seagull Common Stock and, if the ENSTAR Alaska Stock Proposal is approved, First National Bank of Boston will act as the registrar and transfer agent for both the Seagull Common Stock and the ENSTAR Alaska Stock.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes the material federal income tax considerations applicable to the ENSTAR Alaska Stock Proposal in the opinion of Vinson & Elkins L.L.P., counsel to the Company. The opinion of counsel and the following summary are based upon the relevant authorities in effect as of the date hereof, including the Code, Treasury regulations and proposed regulations, court decisions and current administrative rulings and pronouncements of the IRS, all of which are subject to change, possibly with retroactive effect. In particular, Congress could enact legislation affecting the treatment of stock with characteristics similar to the ENSTAR Alaska Stock and the Seagull Common Stock or the Treasury Department could change the current law in future regulations, including regulations issued pursuant to its authority under section 337(d) of the Code. However, based upon the advice of counsel, the Company is of

the belief that, as a practical matter, it is unlikely that such legislation or regulations would apply retroactively. The Company has not applied for an advance ruling from the IRS because the IRS announced in 1987 that it is studying the federal income tax treatment of stock that has certain voting and liquidation rights in an issuing corporation but whose dividend rights are determined by reference to the earnings of a segregated portion of the issuing corporation's assets, and that rulings with respect to such stock would not be issued until the IRS resolves the issue of such treatment. The ENSTAR Alaska Stock Proposal contemplates the possibility of the passage of time between the date hereof, the Company's 1994 Annual Meeting and the ENSTAR Alaska Stock Offering. Therefore, the Company will conduct an appropriate reassessment of the law prior to the Annual Meeting and the issuance of the ENSTAR Alaska Stock.

This summary assumes that the Seagull Common Stock is held as a "capital asset" (generally, property held for investment) as defined in the Code; it does not purport to be complete and does not address the tax consequences to holders that are subject to special tax rules. Shareholders should consult their own tax advisors with respect to the application of the federal income tax laws to their particular situation, as well as the applicability and effect of any state, local or foreign tax laws to which they may be subject.

TREATMENT AS COMMON STOCK

In the opinion of counsel, the ENSTAR Alaska Stock and the Seagull Common Stock each will be treated for federal income tax purposes as common stock of the Company. So treated, (i) no income, gain or loss will be recognized to the holders of Seagull Common Stock and there will be no change to a shareholder's basis or holding period for such shareholder's shares of Seagull Common Stock as a result of the implementation of the ENSTAR Alaska Stock Proposal (including the amendment and restatement of the Rights Agreement described below), (ii) implementation of the ENSTAR Alaska Stock Proposal will have no effect on the federal income taxation of dividends received by holders of Seagull Common Stock or of a sale or other disposition of Seagull Common Stock and (iii) no gain or loss will be recognized to the Company upon the implementation of the ENSTAR Alaska Stock Proposal or upon the issuance and sale of ENSTAR Alaska Stock in the ENSTAR Alaska Stock Offering.

There are no court decisions or other authorities that bear directly on transactions similar to the ENSTAR Alaska Stock Proposal, and as noted above the federal income tax treatment of stock similar to ENSTAR Alaska Stock is currently under study by the IRS. If, contrary to the opinion of counsel, the ENSTAR Alaska Stock were treated as stock of a subsidiary of the Company, the Company would recognize gain on the issuance of such stock in an amount equal to the excess of the fair market value of such stock over its federal income tax basis to the Company, and (assuming that the Outstanding Interest Fraction is greater than 20%) the ENSTAR Alaska Group would not be includable in the Company's consolidated federal income tax return.

BACKUP WITHHOLDING

Noncorporate holders of Seagull Common Stock may be subject to backup withholding at the rate of 31% with respect to dividends on, or the proceeds of a sale of, Seagull Common Stock if the holder fails to furnish its taxpayer identification number ("TIN," which for an individual would be such individual's social security number), furnishes an incorrect TIN, or, with respect to dividends, under certain other circumstances. The amount of any backup withholding from a payment to a holder would be allowed as a credit against the holder's federal income tax liability, if any, or refunded, provided the required information is furnished to the IRS.

RESTATED RIGHTS AGREEMENT

Pursuant to a Rights Agreement entered into in March 1989 (the "Rights Agreement"), preferred stock purchase rights ("Seagull Energy Rights") were initially issued by the Board to all holders of Seagull Common Stock. If the ENSTAR Alaska Stock Proposal is approved by shareholders and implemented by the Board, upon issuance of the ENSTAR Alaska Stock, the Rights Agreement would be amended and restated to reflect the change in the capital structure of the Company, and the Board would authorize and declare a

distribution on all the ENSTAR Alaska Stock that might be issued from time to time of one preferred stock purchase right (an "ENSTAR Alaska Right") for each outstanding share of the ENSTAR Alaska Stock. The Rights Agreement, as amended and restated (the "Restated Rights Agreement"), would provide that each ENSTAR Alaska Right (together with each Seagull Energy Right, a "Right") would entitle the registered holder to purchase from the Company a unit consisting of one one-hundredth of a share (an "ENSTAR Alaska Unit") of ENSTAR Alaska Series C Stock, at a cash purchase price per ENSTAR Alaska Unit to be determined by the Board of Directors prior to the ENSTAR Alaska Stock Offering, subject to adjustment from time to time to prevent dilution. The Restated Rights Agreement would provide that each Seagull Energy Right would entitle the registered holder to purchase from the Company a unit consisting of one one-hundredth of a share (a "Seagull Energy Unit, " together with the ENSTAR Alaska Units, "Units") of Seagull Energy Series B Stock, at a cash purchase price per Seagull Energy Unit to be determined by the Board of Directors prior to the ENSTAR Alaska Stock Offering, subject to adjustment from time to time to prevent dilution. The Seagull Energy Series B Stock would be attributed to Seagull Energy. Pursuant to the Articles of Amendment to the Articles of Incorporation set forth as Annex III, the terms of the Seagull Energy Series B Stock would also be amended to take into account the authorization of two classes of common stock of the Company. The ENSTAR Alaska Series C Stock would be a newly designated series of Preferred Stock of the Company and would be attributed to the ENSTAR Alaska Group.

The Rights would not be exercisable until the Distribution Date (as defined below) and, unless earlier redeemed by the Company as described below, the Restated Rights Agreement would expire on March 22, 1999.

The Restated Rights Agreement would provide that, prior to a Distribution Date, the Seagull Energy Rights and ENSTAR Alaska Rights would attach to all certificates representing shares of Seagull Common Stock or ENSTAR Alaska Stock, respectively, then outstanding and no separate Rights certificates would be distributed. Each share of Seagull Common Stock would also represent one Seagull Energy Right and each share of ENSTAR Alaska Stock would also represent one ENSTAR Alaska Right. The Seagull Common Stock and the ENSTAR Alaska Stock are sometimes hereinafter referred to together as the "Voting Common Stock."

Until the Distribution Date, (i) the Rights will be evidenced by the certificates for the Voting Common Stock registered in the names of the holders thereof (which certificates shall also be deemed to be Right certificates) and not by separate Right certificates, and (ii) the right to receive Right certificates will be transferable only in connection with the transfer of shares of Voting Common Stock.

Generally, if the Company is acquired in a merger or other business combination transaction or 50% or more of the Company's consolidated assets or earning power is sold, proper provision will be made so that each holder of a Right will thereafter have the right to receive, upon the exercise thereof at the then current exercise price of the Right, the number of shares of common stock of the acquiring company that at the time of such transaction will have a market value of two times the exercise price of the Right.

After the tenth day following the date on which any person or group of affiliated or associated persons (other than certain excepted persons) acquires beneficial ownership representing 20% or more of the total votes of the outstanding shares of Voting Common Stock (unless such person first acquires shares with 20% or more of the total votes of the outstanding shares of Voting Common Stock pursuant to a cash tender offer for all of the Voting Common Stock, which purchase increases such person's beneficial ownership to shares representing 85% or more of the total votes of the outstanding Voting Common Stock) (an "Acquiring Person") or during such time as there is an Acquiring Person, there shall be any reclassification of securities or recapitalization or reorganization of the Company or other transaction or series of transactions that has the effect of increasing by more than 1% the proportionate share of the outstanding shares of any class of equity securities of the Company or any of its subsidiaries beneficially owned by the Acquiring Person (the earliest of such dates shall be the "Distribution Date"), proper provision shall be made so that each holder of a Right, other than Rights beneficially owned by the Acquiring Person (which will thereafter be void), will thereafter have the right to receive upon exercise that number of shares of Seagull Common Stock or ENSTAR Alaska Stock, as applicable, having a market value of two times the exercise price of the Right. If a person

inadvertently becomes the beneficial owner of Voting Common Stock representing 20% or more of the total votes to which all outstanding shares of Voting Common Stock were entitled due to the fluctuation of the relative voting rights of the ENSTAR Alaska Stock and the Seagull Common Stock described above, such person would not be an Acquiring Person unless and until such person acquired additional shares of Voting Common Stock; provided, however, that for purposes of the Restated Rights Agreement, a determination as to the percentage of Voting Common Stock owned by a person shall be made assuming that the date on which such person acquired its shares was a record date. See "Description of Seagull Common Stock and ENSTAR Alaska Stock -- Voting Rights" above.

The Rights have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that attempts to acquire the Company without conditioning the offer on a substantial number of Rights being acquired or approval of the Board. The Rights should not interfere with any merger or other business combination approved by the Board of Directors of the Company since, among other things, the Board of Directors may, at its option, at any time until 10 days (subject to extension) following the date on which a person or group (other than certain excepted persons) acquires shares representing 20% or more of the total votes of the outstanding Voting Common Stock, redeem all but not less than all the then outstanding Rights at $.01 per Right.

Prior to the Distribution Date, the Company would issue Rights on each share of Seagull Common Stock and on each share of ENSTAR Alaska Stock so that all such shares would have attached Rights. Until a Right is exercised, the holder thereof, as such, would have no rights as a shareholder of the Company, including without limitation, the right to vote or to receive dividends.

The Company, without the approval of any holders of Right certificates, would be able to amend any of the provisions of the Restated Rights Agreement in order to cure any ambiguity, to correct or supplement any provision that may be defective or inconsistent, or to make any other provisions with respect to the Rights that the Company deems necessary or desirable; provided, however, that no amendment to adjust the time period governing redemption would be made at such time as the Rights are not redeemable.

The Rights Agreement, dated as of March 17, 1989, as amended, between the Company and The First National Bank of Boston, as Rights Agent, specifies the terms of the Rights and the foregoing description of the Rights is qualified in its entirety by reference to the Rights Agreement, a copy of which is available upon written request to the Investor Relations Department, Seagull Energy Corporation, 1001 Fannin, Suite 1700, Houston, Texas 77002, telephone (713) 951-4700.

ANTI-TAKEOVER CONSIDERATIONS

The following information is provided with respect to certain matters, in addition to the Restated Rights Agreement, that could be viewed as having the effect of discouraging an attempt to obtain control of the Company.

UNDESIGNATED PREFERRED STOCK

The Articles of Incorporation currently provides for the issuance of preferred stock in series at the discretion of the Board of Directors without further action by the shareholders of the Company (except as provided by Texas law or the rules or regulations of any securities exchange on which either class of outstanding common stock of the Company may then be listed). The Board of Directors may designate any of such series of preferred stock and may establish the relative voting and other rights of each such series.

One of the effects of the existence of unissued and unreserved preferred stock could be to enable the Board of Directors to issue shares to persons friendly to current management which could render more difficult or discourage an attempt to obtain control of the Company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of the Company's management. Such additional shares also could be used to dilute the stock ownership of persons seeking to obtain control of the Company.

Pursuant to the Articles of Incorporation, the Board of Directors is authorized without any further action by the shareholders to determine the designations, preferences, limitations and relative rights, including voting

rights, of the unissued preferred stock. The purpose of authorizing the Board of Directors to determine such designations, preferences, limitations and relative rights, including voting rights, is to eliminate delays associated with a shareholder vote on specific issuances. The Board of Directors could, in its sole discretion, issue series of preferred stock with voting and/or conversion rights that could dilute the relative voting power of any or all classes of common stock of the Company, and which could, among other things, have the effect of delaying, deterring or preventing a change in control of the Company. It is not possible to state the actual effect of the authorization and issuance of preferred stock of the Company upon the rights of holders of the Seagull Common Stock or the ENSTAR Alaska Stock unless and until the Board of Directors determines the attributes of the preferred stock of the Company and the specific rights of its holders. Such effects might include, however, (i) restrictions on dividends on Seagull Common Stock or ENSTAR Alaska Stock if dividends on Preferred Stock have not been paid; (ii) dilution of the voting power of Voting Common Stock to the extent that preferred stock has voting rights, or to the extent that any series of preferred stock of the Company is convertible into either class of common stock of the Company; (iii) dilution of the equity interest of the common stock of the Company; and (iv) limitation on the right of holders of common stock of the Company to share in the Company's assets upon liquidation until satisfaction of any liquidation preference attributable to preferred stock of the Company. The treasury shares and the authorized but unissued shares of Seagull Common Stock and ENSTAR Alaska Stock would also be available for issuance from time to time by the Company at the sole discretion of the Board for any proper corporate purpose. The approval of the shareholders of the Company will not be solicited by the Company for the issuance from the authorized but unissued shares of Seagull Common Stock or ENSTAR Alaska Stock (unless such approval is deemed advisable by the Board of Directors or is required by stock exchange regulations).

CLASSIFIED BOARD; REMOVAL OF DIRECTORS

The Bylaws of the Company provide that the members of the Company's Board of Directors are divided into three classes as nearly equal as possible. Each class is elected for a three-year term. At each annual meeting of shareholders, approximately one-third of the members of the Board of Directors are elected for a three-year term and the other directors remain in office until their three-year terms expire. Furthermore, the Bylaws of the Company provide that neither any director nor the Board of Directors may be removed without cause, and that any removal for cause would require the affirmative vote of the holders of at least a majority of the voting power of the outstanding capital stock entitled to vote for the election of directors. Thus, control of the Board of Directors cannot be changed in one year without removing the directors for cause as described above; rather, at least two annual meetings must be held before a majority of the members of the Board of Directors could be changed. The Bylaws of the Company provide that the Bylaw provisions related to the classified board and removal of directors cannot be altered, amended or repealed without the approval of the holders of at least two-thirds of the outstanding shares entitled to vote thereon.

Certain provisions described above may have the effect of delaying shareholder actions with respect to certain business combinations and the election of new members to the Board of Directors. As such, the provisions could have the effect of discouraging open market purchases of common stock of the Company because they may be considered disadvantageous by a shareholder who desires to participate in a business combination or elect a new director.

Approval of the ENSTAR Alaska Stock Proposal will require the affirmative vote of the holders of at least two-thirds of all issued and outstanding shares of Seagull Common Stock.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ENSTAR ALASKA STOCK PROPOSAL.

PROPOSAL 3 -- RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Board of Directors has appointed the firm of KPMG Peat Marwick, which has served as independent auditors of the Company since 1981, as independent auditors of the Company for the fiscal year ending December 31, 1994, and recommends ratification by the shareholders of such appointment. Such ratification requires the affirmative vote of the holders of a majority of the shares of Seagull Common Stock present or represented by proxy and entitled to vote at the Annual Meeting. Under Texas law, an abstention would have the same legal effect as a vote against this proposal, but a broker non-vote would not be counted for purposes of determining whether a majority has been achieved. The persons named in the accompanying proxy intend to vote for ratification of such appointment unless instructed otherwise on the proxy. The Board of Directors recommends a vote "FOR" this proposal.

In the event the appointment is not ratified, the Board of Directors will consider the appointment of other independent auditors. The Board of Directors may terminate the appointment of KPMG Peat Marwick as the Company's independent auditors without the approval of the shareholders of the Company whenever the Board of Directors deems such termination necessary or appropriate. A representative of KPMG Peat Marwick is expected to attend the Annual Meeting and will have the opportunity to make a statement, if such representative desires to do so, and will be available to respond to appropriate questions.

SHAREHOLDER PROPOSALS

Any shareholder who wishes to submit a proposal for inclusion in the proxy material and for presentation at the Company's 1995 Annual Meeting of Shareholders must forward such proposal to the Secretary of the Company at the address indicated on the first page of this Proxy Statement, so that the Secretary receives it no later than   .

OTHER MATTERS

The Board of Directors does not know of any other matters that are to be presented for action at the Annual Meeting. However, if any other matters properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof, it is intended that the enclosed proxy will be voted in accordance with the judgment of the persons named in the proxy.

By Order of the Board of Directors,

Sylvia Sanchez
Secretary

April , 1994

ANNEX I

GLOSSARY OF CERTAIN TERMS

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<CAPTION>

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ANNEX II

ILLUSTRATIONS OF CERTAIN TERMS

RETAINED INTEREST

The following illustrations demonstrate the calculations of Seagull Energy's Retained Interest in the ENSTAR Alaska Group based on the assumptions set forth herein. In the illustrations below, (i) 1,200 shares of ENSTAR Alaska Stock are assumed to be authorized for issuance and (ii) 600 shares are assumed to be the number of shares of ENSTAR Alaska Stock initially issuable with respect to Seagull Energy's Retained Interest in the ENSTAR Alaska Group (the "Number of Shares Issuable with Respect to the Retained Interest"). Unless otherwise specified, each illustration below should be read independently as if none of the other transactions referred to below had occurred. Actual calculations may be slightly different due to rounding.

At any given time, the fractional interest in the earnings and equity attributable to the ENSTAR Alaska Group that is held by the holders of the outstanding ENSTAR Alaska Stock (the "Outstanding Interest Fraction") would be equal to:

$$\frac{\text{Outstanding Shares of ENSTAR Alaska Stock}}{\text{Outstanding Shares of ENSTAR Alaska Stock + Number of Shares Issuable with Respect to the Retained Interest}}$$

The balance of the equity attributable to the ENSTAR Alaska Group is retained by Seagull Energy ("Retained Interest") and, at any given time, the fractional interest in the equity attributable to the ENSTAR Alaska Group that is intended to be represented by the Retained Interest (the "Retained Interest Fraction") would be equal to:

$$\frac{\text{Number of Shares Issuable with Respect to the Retained Interest}}{\text{Outstanding Shares of ENSTAR Alaska Stock + Number of Shares Issuable with Respect to the Retained Interest}}$$

The sum of the Outstanding Interest Fraction and the Retained Interest Fraction would always equal 100%.

ENSTAR ALASKA STOCK OFFERING

The following illustrations reflect an assumed sale by the Company of 450 shares of ENSTAR Alaska Stock in the ENSTAR Alaska Stock Offering.

Offering for Account of Seagull Energy

Assume all of such shares are identified as sold for the account of Seagull Energy in respect of its Retained Interest, with the net proceeds reflected entirely in the financial statements of Seagull Energy.

Shares previously issued and outstanding	0
Newly issued shares for account of Seagull Energy	450
Total issued and outstanding after ENSTAR Alaska Stock Offering	450

- The Number of Shares Issuable with Respect to the Retained Interest would decrease by the number of shares of ENSTAR Alaska Stock issued in the ENSTAR Alaska Stock Offering for the account of Seagull Energy.

Number of Shares Issuable with Respect to the Retained Interest prior to ENSTAR Alaska Stock Offering	600
Shares issued in ENSTAR Alaska Stock Offering	450
Number of Shares Issuable with Respect to the Retained Interest after ENSTAR Alaska Stock Offering	150

- As a result, the Outstanding Interest Fraction that is represented by the issued and outstanding shares of ENSTAR Alaska Stock (450) is 75%, calculated as follows:

$$\frac{450}{450 + 150}$$

The Retained Interest Fraction would accordingly be 25%.

- In this case, in the event of any dividend or other distribution paid on the outstanding shares of ENSTAR Alaska Stock (other than a dividend or other distribution payable in shares of ENSTAR Alaska Stock), the financial statements of Seagull Energy would be credited, and the financial statements of the ENSTAR Alaska Group would be charged, with an amount equal to 33.3% (representing the ratio of the Number of Shares Issuable with Respect to the Retained Interest (150) to the total number of shares of ENSTAR Alaska Stock issued and outstanding following the ENSTAR Alaska Stock Offering (450)) of the aggregate amount of such dividend or distribution. If, for example, a dividend of $1.00 per share were declared and paid on the 450 shares of ENSTAR Alaska Stock outstanding (an aggregate of $450), Seagull Energy financial statements would be credited with $150, and the ENSTAR Alaska Group financial statements would be charged with that amount in addition to the $450 dividend paid to the holders of ENSTAR Alaska Stock (a total of $600).

- Immediately after the ENSTAR Alaska Stock Offering, the Company would have 750 authorized and unissued shares of such ENSTAR Alaska Stock remaining (1,200 minus 450 issued and outstanding).

Offering for Account of the ENSTAR Alaska Group

Assume all of such shares are identified as sold for the account of the ENSTAR Alaska Group as an increase in its equity, with the net proceeds reflected entirely in the financial statements of the ENSTAR Alaska Group.

Shares previously issued and outstanding	0
Newly issued shares for account of the ENSTAR Alaska Group	450
Total issued and outstanding after ENSTAR Alaska Stock Offering	450

- The Number of Shares Issuable with Respect to the Retained Interest (600) would remain unchanged.

- As a result, the issued and outstanding shares (450) would represent an Outstanding Interest Fraction of 42.9%, calculated as follows:

$$\frac{450}{450 + 600}$$

The Retained Interest Fraction would accordingly be 57.1%.

- In this case, in the event of any dividend or other distribution paid on the outstanding shares of ENSTAR Alaska Stock (other than a dividend or other distribution payable in shares of ENSTAR Alaska Stock), the financial statements of Seagull Energy would be credited, and the financial statements of the ENSTAR Alaska Group would be charged, with an amount equal to 133% (representing the ratio of the

Number of Shares Issuable with Respect to the Retained Interest (600) to the total number of shares of ENSTAR Alaska Stock issued and outstanding following the ENSTAR Alaska Stock Offering (450)) of the aggregate amount of such dividend or distribution.

- Immediately after the ENSTAR Alaska Stock Offering, the Company would have 750 authorized and unissued shares of such ENSTAR Alaska Stock remaining (1,200 minus 450 issued and outstanding).

ADDITIONAL OFFERINGS OF ENSTAR ALASKA STOCK

The following illustrations reflect an assumed sale by the Company of an additional 100 shares of ENSTAR Alaska Stock after the assumed initial issuance of 450 shares of ENSTAR Alaska Stock for the account of Seagull Energy.

Additional Offering for Account of Seagull Energy

Assume all of such shares are identified as sold for the account of Seagull Energy in respect of its Retained Interest, with the net proceeds reflected entirely in the financial statements of Seagull Energy.

Shares previously issued and outstanding	450
Newly issued shares for account of Seagull Energy	100
Total issued and outstanding after additional public offering	550

- The Number of Shares Issuable with Respect to the Retained Interest would decrease by the number of any shares of ENSTAR Alaska Stock issued for the account of Seagull Energy.

Number of Shares Issuable with Respect to the Retained Interest prior to additional public offering	150
Shares issued in additional public offering	100
Number of Shares Issuable with Respect to the Retained Interest after additional public offering	50

- As a result, the total issued and outstanding shares (550) would in the aggregate represent an Outstanding Interest Fraction of 91.7%, calculated as follows:

$$\frac{550}{550 + 50}$$

The Retained Interest Fraction would accordingly be reduced to 8.3%.

- In this case, in the event of any dividend or other distribution paid on ENSTAR Alaska Stock (other than a dividend or other distribution payable in shares of ENSTAR Alaska Stock), the financial statements of Seagull Energy would be credited, and the financial statements of the ENSTAR Alaska Group would be charged, with an amount equal to 9.1% (representing the ratio of the Number of Shares Issuable with Respect to the Retained Interest (50) to the total number of shares of ENSTAR Alaska Stock issued and outstanding following the public offering (550)) of the aggregate amount of such dividend or distribution.

- - The Company would have 650 authorized and unissued shares of such ENSTAR Alaska Stock remaining (1,200 minus 550 issued and outstanding).

Additional Offering for Account of the ENSTAR Alaska Group

Assume all of such shares are identified as sold for the account of the ENSTAR Alaska Group as an increase in its equity, with the net proceeds reflected entirely in the financial statements of the ENSTAR Alaska Group.

Shares previously issued and outstanding	450
Newly issued shares for account of the ENSTAR Alaska Group	100
Total issued and outstanding after additional public offering	550

- - The Number of Shares Issuable with Respect to the Retained Interest (150) would remain unchanged.

- - As a result, the total issued and outstanding shares (550) would in the aggregate represent an Outstanding Interest Fraction of 78.6%, calculated as follows:

$$\frac{550}{550 + 150}$$

The Retained Interest Fraction would accordingly be reduced to 21.4%.

- - In this case, in the event of any dividend or other distribution paid on ENSTAR Alaska Stock (other than a dividend or other distribution payable in shares of ENSTAR Alaska Stock), the financial statements of Seagull Energy would be credited, and the financial statements of the ENSTAR Alaska Group would be charged, with an amount equal to 27.3% (representing the ratio of the Number of Shares Issuable with Respect to the Retained Interest (150) to the total number of shares of ENSTAR Alaska Stock issued and outstanding following the public offering (550)) of the aggregate amount of such dividend or distribution.

- - The Company would have 650 authorized and unissued shares of such ENSTAR Alaska Stock remaining (1,200 minus 550 issued and outstanding).

Offerings of Convertible Securities

If the Company were to issue any Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock, the Outstanding Interest Fraction and the Retained Interest Fraction would be unchanged at the time of such issuance. If any shares of ENSTAR Alaska Stock were issued upon conversion or exercise of such Convertible Securities, however, then the Outstanding Interest Fraction and the Retained Interest Fraction would be affected as shown above under "Additional Offering for Account of Seagull Energy," if such Convertible Securities were attributed to Seagull Energy, or under "Additional Offering for Account of the ENSTAR Alaska Group," if such Convertible Securities were attributed to the ENSTAR Alaska Group.

REPURCHASES OF ENSTAR ALASKA STOCK

The following illustrations reflect an assumed repurchase by the Company of 50 shares of ENSTAR Alaska Stock after the ENSTAR Alaska Stock Offering.

Repurchase for Account of Seagull Energy

Assume all of such shares are identified as repurchased for the account of Seagull Energy as an increase in its Retained Interest in the ENSTAR Alaska Group, with the financial statements of Seagull Energy being charged entirely with the consideration paid for such shares.

Shares previously issued and outstanding	450
Shares repurchased for account of Seagull Energy	50
Total issued and outstanding after repurchase	400

</TABLE>

- - The Number of Shares Issuable with Respect to the Retained Interest would be increased by the number of any shares of ENSTAR Alaska Stock repurchased for the account of Seagull Energy.

Number of Shares Issuable with Respect to the Retained Interest prior to repurchase	150
Number of shares repurchased for the account of Seagull Energy	50
Number of Shares Issuable with Respect to the Retained Interest after repurchase	200

- - As a result, the total issued and outstanding shares (400) would in the aggregate represent an Outstanding Interest Fraction of 66.7%, calculated as follows:

$$\frac{400}{400 + 200}$$

The Retained Interest Fraction would accordingly be increased to 33.3%.

- - The Company would have 800 authorized and unissued shares of such ENSTAR Alaska Stock remaining (1,200 minus 400 issued and outstanding).

Repurchase for Account of the ENSTAR Alaska Group

Assume all of such shares are identified as repurchased for the account of the ENSTAR Alaska Group, with the financial statements of the ENSTAR Alaska Group being charged entirely with the consideration paid for such shares.

Shares previously issued and outstanding	450
Shares repurchased for account of the ENSTAR Alaska Group	50
Total issued and outstanding after repurchase	400

- - The Number of Shares Issuable with Respect to the Retained Interest (150) would remain unchanged.

- - As a result, the total issued and outstanding shares (400) would in the aggregate represent an Outstanding Interest Fraction of 72.7%, calculated as follows:

$$\frac{400}{400 + 150}$$

The Retained Interest Fraction would accordingly be increased to 27.3%.

- - The Company would have 800 authorized and unissued shares of such ENSTAR Alaska Stock remaining (1,200 minus 400 issued and outstanding).

ENSTAR ALASKA STOCK DIVIDENDS

The following illustrations reflect assumed dividends of ENSTAR Alaska Stock on outstanding shares of Seagull Common Stock and outstanding shares of ENSTAR Alaska Stock, respectively, after the assumed initial issuance of 450 shares of ENSTAR Alaska Stock for the account of Seagull Energy.

ENSTAR Alaska Stock Dividend on Seagull Common Stock

Assume 5,000 shares of Seagull Common Stock are outstanding and the Company declares a dividend of 1/50 of a share of ENSTAR Alaska Stock on each outstanding share of Seagull Common Stock.

<TABLE>
<S> <C>

Shares previously issued and outstanding	450
Newly issued shares for account of Seagull Energy	100
Total issued and outstanding after dividend	550

</TABLE>

- - Any dividend of shares of ENSTAR Alaska Stock to the holders of shares of Seagull Energy would be treated as a dividend of shares issuable with respect to Seagull Energy's Retained Interest. As a result, the Number of Shares Issuable with Respect to the Retained Interest would decrease by the number of shares of ENSTAR Alaska Stock distributed to the holders of Seagull Common Stock.

<TABLE>

<S>	<C>
Number of Shares Issuable with Respect to the Retained Interest prior to dividend	150
Number of shares dividended on outstanding shares of Seagull Common Stock	100
Number of Shares Issuable with Respect to the Retained Interest after dividend	50

</TABLE>

The Company will not dividend to holders of Seagull Common Stock a number of shares of ENSTAR Alaska Stock exceeding the number of shares then issuable with respect to the Retained Interest.

- - As a result, the total issued and outstanding shares (550) would in the aggregate represent an Outstanding Interest Fraction of 91.7%, calculated as follows:

$$\frac{550}{550 + 50}$$

The Retained Interest Fraction would accordingly be reduced to 8.3%. Note, however, that after the dividend, the holders of Seagull Common Stock would also hold 100 shares of ENSTAR Alaska Stock, which would represent a direct interest of 16.7% in the equity attributable to the ENSTAR Alaska Group together with the 8.3% Retained Interest of Seagull Energy would represent a 25% interest in such equity, which is the percentage interest the holders of the Seagull Common Stock had prior to the dividend.

- - The Company would have 650 authorized and unissued shares of such ENSTAR Alaska Stock remaining (1,200 minus 550 issued and outstanding).

ENSTAR Alaska Stock Dividend on ENSTAR Alaska Stock

Assume the Company declares a dividend of 1/5 of a share of ENSTAR Alaska Stock on each outstanding share of ENSTAR Alaska Stock.

<TABLE>

<S>	<C>
Shares previously issued and outstanding	450
Newly issued shares for account of the ENSTAR Alaska Group	90
Total issued and outstanding after dividend	540

</TABLE>

- - The Number of Shares Issuable with Respect to the Retained Interest would be increased proportionately to reflect the stock dividend payable in shares of ENSTAR Alaska Stock to holders of shares of ENSTAR Alaska Stock. That is, the Number of Shares Issuable with Respect to the Retained Interest would be increased by a number equal to 33.3% (representing the ratio of the Number of Shares Issuable with Respect to the Retained Interest (150) to the number of shares of ENSTAR Alaska Stock issued and outstanding (450), in each case immediately prior to such dividend) of the aggregate number of shares issued in connection with such dividend or outstanding shares of ENSTAR Alaska Stock (90), or 30.

<TABLE>

<S>	<C>
Number of Shares Issuable with Respect to the Retained Interest prior	

to dividend..	150
Proportionate increase to reflect dividend of shares on outstanding shares of ENSTAR Alaska Stock.......................................	30

Number of Shares Issuable with Respect to the Retained Interest after dividend...	180

</TABLE>

- - As a result, the total issued and outstanding shares (540) would in the aggregate continue to represent an Outstanding Interest Fraction of 75%, calculated as follows:

$$\frac{540}{540 + 180}$$

The Retained Interest Fraction would accordingly continue to be 25%.

- - The Company would have 660 authorized and unissued shares of ENSTAR Alaska Stock remaining (1,200 minus 540 issued and outstanding).

TRANSFERS OF ASSETS BETWEEN SEAGULL ENERGY AND THE ENSTAR ALASKA GROUP

Contribution of Assets from Seagull Energy to the ENSTAR Alaska Group

The following illustration reflects the assumed contribution by Seagull Energy to the ENSTAR Alaska Group, after the assumed initial issuance of 150 shares of ENSTAR Alaska Stock for the account of Seagull Energy, of $400 of assets allocated to Seagull Energy on a date on which the Market Value of the ENSTAR Alaska Stock is $10 per share.

<TABLE>

<S>	<C>
Shares previously issued and outstanding..............................	450
Newly issued shares...	0

Total issued and outstanding after contribution.............	450

</TABLE>

- - The Number of Shares Issuable with Respect to the Retained Interest would be increased to reflect the contribution to the ENSTAR Alaska Group of assets theretofore allocated to Seagull Energy by the number equal to the value of the assets contributed ($400) divided by the Market Value of the ENSTAR Alaska Stock at that time ($10), or 40 shares.

<TABLE>

<S>	<C>
Number of Shares Issuable with Respect to the Retained Interest prior to contribution..	150
Increase to reflect contribution to the ENSTAR Alaska Group of assets allocated to Seagull Energy...	40

Number of Shares Issuable with Respect to the Retained Interest after contribution...	190

</TABLE>

- - As a result, the total issued and outstanding shares (450) would in the aggregate represent an Outstanding Interest Fraction of 70.3%, calculated as follows:

$$\frac{450}{450 + 190}$$

The Retained Interest Fraction would accordingly be increased to 29.7%.

- - The Company would have 750 authorized and unissued shares of such ENSTAR Alaska Stock remaining (1,200 minus 450 issued and outstanding).

Return of Capital to Seagull Energy from the ENSTAR Alaska Group

The following illustration reflects the assumed return of capital to Seagull Energy by the ENSTAR Alaska Group, after the assumed initial issuance of

150 shares of ENSTAR Alaska Stock for the account of Seagull Energy, of $400 of assets allocated to the ENSTAR Alaska Group on a date on which the Market Value of the ENSTAR Alaska Stock is $10 per share.

Shares previously issued and outstanding	450
Change in number of shares	0
Total issued and outstanding after return of capital	450

- The Number of Shares Issuable with Respect to the Retained Interest would be decreased to reflect the return of capital to Seagull Energy of assets theretofore allocated to the ENSTAR Alaska Group by the number equal to the value of the assets transferred to Seagull Energy ($400) divided by the Market Value of the ENSTAR Alaska Stock at that time ($10), or 40 shares.

Number of Shares Issuable with Respect to the Retained Interest prior to return of capital	150
Decrease to reflect return of capital to Seagull Energy of assets allocated to the ENSTAR Alaska Group	40
Number of Shares Issuable with Respect to the Retained Interest after contribution	110

- As a result, the total issued and outstanding (450) would in the aggregate represent an Outstanding Interest Fraction of 80.4%, calculated as follows:

$$\frac{450}{450 + 110}$$

The Retained Interest Fraction would accordingly be decreased to 19.6%.

- The Company would have 750 authorized and unissued shares of such ENSTAR Alaska Stock remaining (1,200 minus 450 issued and outstanding).

ANNEX III

PROPOSED ARTICLES OF AMENDMENT
TO THE
ARTICLES OF INCORPORATION
OF
SEAGULL ENERGY CORPORATION

Pursuant to the provisions of Article 4.04 of the Texas Business Corporation Act, the undersigned corporation adopts the following Articles of Amendment to its Articles of Incorporation:

ARTICLE I

The name of the corporation is Seagull Energy Corporation.

ARTICLE II

The following amendments to the Articles of Incorporation were adopted by the shareholders of the corporation on   , 1994. Upon effectiveness of these amendments, the terms of the Corporation's existing common stock, par value $.10 per share, are amended to have the terms of the Seagull Common Stock described in the amendments set forth below in Article Four of the Articles of Incorporation. Pursuant to the first amendment, Article Four of the Articles of Incorporation is hereby amended so as to read in its entirety as follows:

"ARTICLE FOUR

Section 1. Total Number of Shares; Classes; Preemptive Rights. The total number of shares of stock that the Corporation shall have authority to issue is

130,000,000 shares, divided into 100,000,000 shares of Common Stock of the par value of $.10 per share (the "Seagull Common Stock"), 25,000,000 shares of Seagull Energy Corporation -- ENSTAR Alaska Group Common Stock of the par value of $.10 per share (the "ENSTAR Alaska Stock") and 5,000,000 shares of Preferred Stock of the par value of $1.00 per share ("Preferred Stock").

No shareholder shall have a preemptive right to acquire any shares or securities of any class, whether now or hereafter authorized, which may at any time be issued, sold or offered for sale by the corporation.

Section 2. Dividend Rights. Subject to the rights of the holders of any series of Preferred Stock (or any other class of preferred stock or similar stock or any series thereof), dividends may be declared and paid upon the following classes of stock upon the terms provided for below with respect to each such class solely in the discretion of the Board of Directors:

(a) Dividends on Seagull Common Stock. Dividends on the Seagull Common Stock may be declared and paid only out of the lesser of (i) funds of the Corporation legally available therefor and (ii) the Available Seagull Energy Dividend Amount.

(b) Dividends on ENSTAR Alaska Stock. Dividends on the ENSTAR Alaska Stock may be declared and paid only out of the lesser of (i) funds of the Corporation legally available therefor and (ii) the Available ENSTAR Alaska Dividend Amount.

(c) Discrimination Between Seagull Common Stock and ENSTAR Alaska Stock. The Board of Directors, subject to the provisions of Sections 2(a) and 2(b), may, in its sole discretion, declare and pay dividends on all or less than all classes of common stock of the Corporation in equal or unequal amounts, notwithstanding the amount of funds available for dividends on any class, the respective voting and liquidation rights of any class, the amount of prior dividends declared on any class or any other factor.

Section 3. Exchange and Redemption.

(a) Seagull Common Stock Not Subject to Exchange or Redemption. Shares of Seagull Common Stock are not subject to exchange or redemption.

(b) Exchange and Redemption of ENSTAR Alaska Stock. Shares of ENSTAR Alaska Stock are subject to exchange or redemption, as the case may be, upon the terms provided below:

(i) In the event of the Disposition, in one transaction or a series of related transactions, by the Corporation and/or its subsidiaries of all or substantially all of the properties and assets of the ENSTAR Alaska Group to one or more persons or entities (other than (x) in connection with the Disposition by the Corporation of all of the Corporation's properties and assets in one transaction or a series of related transactions which results in a liquidation, dissolution or winding-up of the Corporation referred to in Section 6, (y) on a pro rata basis to (1) the holders of all outstanding shares of ENSTAR Alaska Stock and (2) the Corporation for the benefit of Seagull Energy with respect to the Number of Shares Issuable with Respect to the Retained Interest, or (z) to any person or entity controlled by the Corporation), the Corporation shall, on or prior to the 75th Business Day following the consummation of such Disposition:

(A) subject to Section 2(b) above, declare and pay a dividend in cash and/or in securities or other property received as proceeds of such Disposition to the holders of ENSTAR Alaska Stock in an amount equal to the product of the Outstanding Interest Fraction and the Net Proceeds of such Disposition; or

(B) (i) if such Disposition involves all (not merely substantially all) of the assets and properties of the ENSTAR Alaska Group), then, if there are sufficient funds of the Corporation legally available for the full payment contemplated by this clause (B)(i), redeem all outstanding shares of ENSTAR Alaska Stock in consideration for cash and/or for securities or other property received as proceeds of such Disposition in an aggregate amount equal to the product of the Outstanding Interest Fraction and the Net Proceeds of such Disposition; or

(ii) if such Disposition involves substantially all (but not all) of the assets and properties of the ENSTAR Alaska Group or if the Corporation does not have sufficient funds legally available to make the full payment contemplated pursuant to clause (B)(i), then to the extent that there are funds of the Corporation legally available therefor, redeem the number of whole shares outstanding of ENSTAR Alaska Stock that has an aggregate average Market Value, during the ten-Business Day period beginning on the sixth Business Day following such consummation, closest to the value of the product of the Outstanding Interest Fraction and the Net Proceeds of such Disposition, for cash and/or for securities or other property received as proceeds of such Disposition in an amount equal to such product; or

(C) exchange each outstanding share of ENSTAR Alaska Stock for a number of fully paid and nonassessable shares of Seagull Common Stock (or, if there are no shares of Seagull Common Stock outstanding on such Exchange Date and shares of any other class or series of common stock of the Corporation (other than ENSTAR Alaska Stock) are then outstanding, of such other class or series of common stock has the largest Market Capitalization as of the close of business on the Business Day immediately preceding the date of the notice sent pursuant to Section 3(c)(iv)) equal to 110% of the average daily ratio (calculated to the nearest five decimal places) of the Market Value of one share of ENSTAR Alaska Stock to the Market Value of one share of Seagull Common Stock or such other class or series of common stock of the Corporation, as the case may be, during the ten-Business Day period beginning on the sixth Business Day following such consummation.

For purposes of this Section 3(b):

(x) as of any date, "substantially all of the properties and assets of the ENSTAR Alaska Group" shall mean a portion of such properties and assets (1) that represents at least 80% of the then-current market value (as determined by the Board of Directors) as of such date of the properties and assets of the ENSTAR Alaska Group as of such date, or (2) from which were derived at least 80% of the aggregate operating profit for the immediately preceding twelve fiscal quarterly periods of the Corporation (calculated on a pro forma basis to include revenues derived from any of such properties and assets acquired during such period) derived from the properties and assets of the ENSTAR Alaska Group as of such date;

(y) in the case of a Disposition of properties and assets in a series of related transactions, such Disposition shall not be deemed to have been consummated until the consummation of the last of such transactions; and

(z) the Board of Directors may, in its sole discretion, pay the dividend or redemption price referred to in clause (A) or (B) of this Section 3(b)(i) in cash even if securities or other non-cash properties are received as proceeds of any Disposition referred to in this Section 3(b)(i).

(ii) After the payment of any dividend or redemption price with respect to ENSTAR Alaska Stock pursuant to clause (A) or (B)(ii), respectively, of Section 3(b)(i), the Board of Directors may, in its sole discretion, declare that each of the remaining outstanding shares of ENSTAR Alaska Stock shall be exchanged, on an Exchange Date prior to the first anniversary of the payment of such dividend or redemption price (as set forth in a notice delivered in accordance with Section 3(c)(iv) to holders of ENSTAR Alaska Stock and Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock), for a number of fully paid and nonassessable shares of Seagull Common Stock (or, if there are no shares of Seagull Common Stock outstanding on such Exchange Date and shares of any other class or series of common stock of the Corporation (other than ENSTAR Alaska Stock) are outstanding as of the close of business on the Business Day immediately preceding the date of the notice sent pursuant to Section 3(c)(iv), of such other class or series of common stock of the Corporation as has the largest Market Capitalization as of such Business Day) equal to 110% of the Market Value Ratio as of the fifth Business Day prior to the date such notice is mailed to such holders.

(iii) At any time, the Board of Directors may, in its sole discretion, declare that each of the outstanding shares of ENSTAR Alaska Stock shall be exchanged, on an Exchange Date set forth in a notice delivered in accordance with Section 3(c)(iv) to holders of ENSTAR Alaska Stock and Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock, for a number of fully paid and nonassessable shares of Seagull Common Stock (or, if there are no shares of Seagull Common Stock outstanding on such Exchange Date and shares of any other class or series of common stock of the Corporation (other than ENSTAR Alaska Stock) are outstanding as of the close of business on the

Business Day immediately preceding the date of the notice sent pursuant to Section 3(c)(iv), of such other class or series of common stock of the Corporation as has the largest Market Capitalization as of such Business Day) equal to 115% of the Market Value Ratio as of the fifth Business Day prior to the date such notice is mailed to such holders.

(iv) For purposes of Section 3(b)(ii) and 3(b)(iii), the "Market Value Ratio," as of any date, shall mean the highest of the following (calculated to the nearest five decimal places): (A) the average ratio of A to B for the five-Business Day period ending on such date, (B) the quotient of (1) the sum of (w) four times the average ratio of A to B for the five-Business Day period ending on such date, (x) three times the average ratio of A to B for the next preceding five-Business Day period, (y) two times the average ratio of A to B for the next preceding five-Business Day period and (z) the average ratio of A to B for the next preceding five-Business Day period, divided by (2) ten and (C) if the dividend pursuant to clause (A) of Section 3(b)(i) was declared and paid or the redemption pursuant to clause (B) of Section 3(b)(i) was made prior to the commencement of the most recently completed fiscal quarter of the Corporation, the average ratio of A to B for such fiscal quarter, where A is the Market Value of one share of ENSTAR Alaska Stock and B is the Market

Value of one share of Seagull Common Stock or such other class or series of common stock of the Corporation as is to be exchanged for ENSTAR Alaska Stock, as the case may be.

(v) At any time on or after the date on which all of the assets and liabilities of the ENSTAR Alaska Group (and no other assets or liabilities) are held directly or indirectly by a wholly-owned subsidiary of the Corporation (the "ENSTAR Alaska Group Subsidiary"), the Board of Directors may, in its sole discretion, provided that there are funds of the Corporation legally available therefor, declare that all of the outstanding shares of ENSTAR Alaska Stock shall be exchanged, on an Exchange Date set forth in a notice delivered in accordance with Section 3(c)(iv) to holders of ENSTAR Alaska Stock and Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock, for the number of outstanding shares of common stock of such ENSTAR Alaska Group Subsidiary equal to the product of the Outstanding Interest Fraction and the number of all outstanding shares of common stock of the ENSTAR Alaska Group Subsidiary, on a pro rata basis, each of which shall, upon such issuance, be fully paid and nonassessable.

(vi) After any Exchange Date or Redemption Date on which all of the outstanding shares of ENSTAR Alaska Stock were exchanged or redeemed, any share of ENSTAR Alaska Stock that is issued on conversion or exercise of any Convertible Securities shall, immediately upon issuance pursuant to such conversion or exercise and without any notice or any other action on the part of the Corporation or its Board of Directors or the holder of such share of ENSTAR Alaska Stock:

(A) in the event then-outstanding shares of ENSTAR Alaska Stock were exchanged for Seagull Common Stock or another class or series of common stock of the Corporation on such Exchange Date pursuant to Section 3(b)(i)(C), 3(b)(ii) or 3(b)(iii), be exchanged for the kind and amount of shares of capital stock, cash and/or other securities or property that a holder of such Convertible Security would have been entitled to receive pursuant to the terms of such Convertible Security had such terms provided that the conversion or exercise privilege in effect immediately prior to any exchange by the Corporation of any of its capital stock for shares of any other capital stock of the Corporation would be adjusted so that the holder of any such Convertible Security thereafter surrendered for conversion or exercise would be entitled to receive the kind and amount of shares of capital stock, cash and/or other securities or property such holder would have received immediately following such action had such Convertible Security been converted or exercised immediately prior thereto; or

(B) in the event then-outstanding shares of ENSTAR Alaska Stock were redeemed in whole pursuant to clause (B) of Section 3(b)(i) or exchanged for common stock of the ENSTAR Alaska Group Subsidiary pursuant to Section 3(b)(v), be redeemed, to the extent of funds of the Corporation legally available therefor, for $.01 per share in cash.

The provisions of clauses (A) and (B) of this Section 3(b)(vi) shall not apply in the event that adjustments in respect of such exchange or redemption are otherwise made pursuant to the provisions of such Convertible Securities.

(c) General Exchange and Redemption Provisions.

(i) Not earlier than the 16th Business Day and not later than the 20th Business Day following the consummation of a Disposition referred to in Section 3(b)(i), the Corporation shall publish an announcement in all editions of a daily newspaper with a national circulation that publishes financial news as to which of the actions specified in clauses (A), (B) or (C) of Section 3(b)(i) it has irrevocably determined to take.

(ii) If the Corporation determines to pay a dividend pursuant to clause (A) of Section 3(b)(i), the Corporation shall promptly following such determination cause to be given to each holder of ENSTAR Alaska Stock and of Convertible Securities convertible into or exercisable for ENSTAR Alaska Stock a notice setting forth (A) the record date for determining holders entitled to receive such dividend, which shall be not earlier than the 30th Business Day and not later than the

40th Business Day following the consummation of such Disposition, (B) the payment date of such dividend, (C) the kind and aggregate amount of shares of capital stock, cash and/or other securities or property to be distributed in respect of shares of ENSTAR Alaska Stock, (D) the number of outstanding shares of ENSTAR Alaska Stock and the number of shares of ENSTAR Alaska Stock into or for which such Convertible Securities are then convertible or exercisable and (E) subject to the last sentence of Section 3(b)(vi), a statement to the effect that holders of such Convertible Securities shall be entitled to receive such dividend only if they convert such Convertible Securities into or exercise them for ENSTAR Alaska Stock prior to the record date referred to in clause (A) of this sentence.

(iii) If the Corporation determines to undertake a redemption pursuant to clause (B) of Section 3(b)(i), the Corporation shall promptly following such determination cause to be given to each holder of ENSTAR Alaska Stock and of Convertible Securities convertible into or exercisable for ENSTAR Alaska Stock a notice setting forth (A) a date not earlier than the 30th Business Day and not later than the 40th Business Day following the consummation of such Disposition which shall be the date as of which shares of ENSTAR Alaska Stock then outstanding shall be subject to redemption pursuant to such provision, (B) the anticipated Redemption Date, (C) the kind and aggregate amount (or, in the case of a partial redemption, the per share amount) of shares of capital stock, cash and/or other securities or property to be paid as a redemption price in respect of shares of ENSTAR Alaska Stock, (D) the number of shares of ENSTAR Alaska Stock held by such holder to be redeemed, (E) the number of outstanding shares of ENSTAR Alaska Stock and the number of shares of ENSTAR Alaska Stock into or for which such Convertible Securities are then convertible or exercisable, and (F) subject to the last sentence of Section 3(b)(vi), a statement to the effect that holders of such Convertible Securities shall be eligible to participate in such redemption only if they convert such Convertible Securities into or exercise them for ENSTAR Alaska Stock prior to the date referred to in clause (A) of this sentence, and a statement as to what, if anything, such holder shall be entitled to receive pursuant to the terms of such Convertible Securities and this Section 3 if such holder thereafter converts or exercises such Convertible Securities. Promptly following the date referred to in clause (A) of the preceding sentence, the Corporation shall cause to be given to each holder of record as of such date of ENSTAR Alaska Stock to be so redeemed a notice setting forth (A) a statement that shares of ENSTAR Alaska Stock shall be redeemed, (B) the Redemption Date, (C) in the event of a partial redemption, the number of shares of ENSTAR Alaska Stock to be redeemed, (D) the kind and per share amount of shares of capital stock, cash and/or other securities or property to be distributed to such holder with respect to each share of ENSTAR Alaska Stock to be redeemed, including details as to the calculation thereof, (E) the place or places where certificates for shares of ENSTAR Alaska Stock, properly endorsed or assigned for transfer (unless the Corporation shall waive such requirement), are to be surrendered for delivery of certificates for shares of such capital stock, cash and/or other securities or property, (F) if applicable, a statement to the effect that the shares being redeemed may no longer be transferred on the transfer books of the Corporation after the date of the applicable record date and (G) a statement to the effect that, subject to Section 3(c)(ix), dividends on such shares of ENSTAR Alaska Stock shall cease to be paid as of such Redemption Date. Such notice shall be sent by first-class mail, postage prepaid, not less than 25 Business Days nor more than 35 Business Days prior to the Redemption Date, and in any case to each holder of ENSTAR Alaska Stock to be redeemed, at such holder's address as the same appears on the transfer books of the Corporation.

(iv) If the Corporation determines to undertake any exchange pursuant to this Section 3 (other than Section 3(b)(vi)), the Corporation shall promptly following such determination cause to be given to each holder of record of ENSTAR Alaska Stock and of Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock a notice setting forth (A) a statement that all outstanding shares of ENSTAR Alaska Stock shall be exchanged, (B) the Exchange Date, (C) the kind and per share amount of shares of common stock of the Corporation or the ENSTAR Alaska Group Subsidiary, as the case may be, to be issued in exchange for each share of ENSTAR

Alaska Stock, including details as to the calculation thereof, (D) the place or places where certificates for shares of ENSTAR Alaska Stock, properly endorsed or assigned for transfer (unless the Corporation shall waive such requirement), are to be surrendered for delivery of certificates for shares of such common stock, (E) a statement to the effect that, subject to Section 3(c)(vii), dividends on such shares of ENSTAR Alaska Stock shall cease to be paid as of such Exchange Date, (F) if applicable, a statement to the effect that the shares being redeemed may no longer be transferred on the transfer books of the Corporation after the applicable record date and (G) subject to the last sentence of Section 3(b)(vi), a statement to the effect that a holder of Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock shall be entitled to receive shares of such common stock upon such exchange only if such holder converts or exercises such Convertible Securities on or prior to such Exchange Date, and a statement as to what, if anything, such holder shall be entitled to receive pursuant to the terms of such Convertible Securities and this Section 3 if such holder thereafter converts or exercises such Convertible Securities. Such notice shall be sent by first-class mail, postage prepaid, not less than 25 Business Days nor more than 35 Business Days prior to the Exchange Date and in any case to each holder of ENSTAR Alaska Stock and to each holder of Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock, at such holder's address as the same appears on the transfer books of the Corporation.

(v) If less than all of the outstanding shares of ENSTAR Alaska Stock are to be redeemed pursuant to clause (B) of Section 3(b)(i), such shares shall be redeemed by the Corporation pro rata or by lot among the holders of ENSTAR Alaska Stock outstanding at the close of business on the date referred to in clause (A) of the last sentence of Section 3(c)(iii) or by such other method as may be determined by the Board of Directors to be equitable.

(vi) The Corporation shall not be required to issue or deliver fractional shares of any class of capital stock or any fractional securities to any holder of ENSTAR Alaska Stock upon any exchange, redemption, dividend or other distribution pursuant to this Section 3. If more than one share of ENSTAR Alaska Stock shall be held at the same time by the same holder, the Corporation may aggregate the number of shares of any class of capital stock that shall be issuable or the amount of securities that shall be deliverable to such holder upon any exchange, redemption, dividend or other distribution (including any fractions of shares or securities). If the number of shares of any class of capital stock or the amount of securities remaining to be issued or delivered to any holder of ENSTAR Alaska Stock is a fraction, the Corporation shall, if such fraction is not issued or delivered to such holder, pay a cash adjustment in respect of such fraction in an amount equal to the fair market value of such fraction on the fifth Business Day prior to the date such payment is to be made. For purposes of the preceding sentence, "fair market value" of any fraction shall be (i) in the case of any fraction of a share of capital stock of the Corporation, the product of such fraction and the Market Value of one share of such capital stock and (ii) in the case of any other fractional security, such value as is determined by the Board of Directors.

(vii) No adjustments in respect of dividends shall be made upon the exchange or redemption of any shares of ENSTAR Alaska Stock; provided, however, that if the Exchange Date or Redemption Date with respect to ENSTAR Alaska Stock shall be subsequent to the record date for the payment of a dividend or other distribution thereon or with respect thereto, the holders of shares of ENSTAR Alaska Stock at the close of business on such record date shall be entitled to receive the dividend or other distribution payable on or with respect to such shares on the date set for payment of such dividend or other distribution, notwithstanding the exchange or redemption of such shares or the Corporation's default in payment of the dividend or distribution due on such date, in each case without interest.

(viii) Before any holder of shares of ENSTAR Alaska Stock shall be entitled to receive certificates representing shares of any capital stock, cash and/or other securities or property to be received by such holder with respect to such shares of ENSTAR Alaska Stock pursuant to this Section 3, such holder shall surrender at such office as the Corporation shall specify certificates for

such shares of ENSTAR Alaska Stock, properly endorsed or assigned for transfer (unless the Corporation shall waive such requirement). The Corporation will as soon as practicable after such surrender of certificates representing such shares of ENSTAR Alaska Stock deliver to the person for whose account such shares of ENSTAR Alaska Stock were so surrendered, or to his nominee or nominees, certificates representing the number of whole shares of the kind of capital stock or cash and/or other securities or property to which such person shall be entitled as aforesaid, together with any fractional payment contemplated by Section 3(c)(vi), in each case without interest. If less than all of the shares of ENSTAR Alaska Stock represented by any one certificate are to be redeemed, the Corporation shall issue and deliver a new certificate for the shares of ENSTAR Alaska Stock not redeemed.

(ix) From and after any applicable Exchange Date or Redemption Date, all rights of a holder of shares of ENSTAR Alaska Stock that were exchanged or redeemed shall cease except for the right, upon surrender of the certificates representing such shares of ENSTAR Alaska Stock, to receive certificates representing shares of the kind and amount of capital stock or cash and/or other securities or property for which such shares were exchanged or redeemed, together with any fractional payment contemplated by Section 3(c)(vi) and rights to dividends as provided in Section 3(c)(vii). No holder of a certificate, that immediately prior to the applicable Exchange Date for ENSTAR Alaska Stock represented shares of ENSTAR Alaska Stock, shall be entitled to receive any dividend or other distribution with respect to shares of any kind of capital stock into which ENSTAR Alaska Stock was exchanged until surrender of such holder's certificate for a certificate or certificates representing shares of such kind of capital stock. Upon such surrender, there shall be paid to the holder the amount of any dividends or other distributions (without interest) which theretofore became payable with respect to a record date after the Exchange Date, but that were not paid by reason of the foregoing, with respect to the number of whole shares of the kind of capital stock represented by the certificate or certificates issued upon such surrender. From and after an Exchange Date for ENSTAR Alaska Stock, the Corporation shall, however, be entitled to treat the certificates for ENSTAR Alaska Stock that have not yet been surrendered for exchange as evidencing the ownership of the number of whole shares of the kind or kinds of capital stock for which the shares of ENSTAR Alaska Stock represented by such certificates shall have been exchanged, notwithstanding the failure to surrender such certificates.

(x) The Corporation will pay any and all documentary, stamp or similar issue or transfer taxes that may be payable in respect of the issue or delivery of any shares of capital stock and/or other securities on exchange of shares of ENSTAR Alaska Stock pursuant hereto. The Corporation shall not, however, be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any shares of capital stock and/or other securities in a name other than that in which the shares of ENSTAR Alaska Stock so exchanged were registered, and no such issue or delivery shall be made unless and until the person requesting such issue has paid to the Corporation the amount of any such tax, or has established to the satisfaction of the Corporation that such tax has been paid.

(xi) Neither the failure to mail any notice required by this Section 3(c) to any particular holder of ENSTAR Alaska Stock or, if applicable, of Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock, nor any defect therein shall affect the sufficiency thereof with respect to any other holder of ENSTAR Alaska Stock or, if applicable, of such Convertible Securities.

Section 4. Voting Rights.

(a) Except as provided in Section 4(b) or 4(c) below, in Article Four of the amended Articles of Incorporation or in any statement of resolution establishing series of shares filed pursuant thereto, the holders of all classes or series of common stock of the Corporation and the holders of each series of Preferred Stock entitled to vote together with the holders of ENSTAR Alaska Stock and Seagull Common Stock shall vote together as a single class on all matters as to which holders of ENSTAR

Alaska Stock and Seagull Common Stock are entitled to vote. On all matters to be voted on by the holders of all classes or series of common stock of the Corporation and such series of Preferred Stock together as a single class, (i) each outstanding share of Seagull Common Stock shall have one vote and (ii) each outstanding share of ENSTAR Alaska Stock shall have a number of votes equal to the quotient (calculated to the nearest three decimal places), as of the fifth Business Day prior to the applicable record date or as of a date on which a consent of shareholders is given, of (A) the sum of (1) four times the average ratio of X to Y for the five-Business Day period ending on such fifth Business Day, (2) three times the average ratio of X to Y for the next preceding five-Business Day period, (3) two times the average ratio of X to Y for the next preceding five-Business Day period and (4) the average ratio of X to Y for the next preceding five-Business Day period, divided by (B) ten, where X is the Market Value of ENSTAR Alaska Stock and Y is the Market Value of the Seagull Common Stock or, if there are no shares of Seagull Common Stock outstanding on such record or other applicable date or on any of the twenty-five Business Days prior thereto, the sum of the Market Values of each class or series of common stock of the Corporation then outstanding; provided that until the ENSTAR Alaska Stock or such other class or series of common stock of the Corporation has been traded after issuance on a national securities exchange or the National Association of Securities Dealers Automated Quotations National Market System for at least twenty-five Business Days, each outstanding share of ENSTAR Alaska Stock shall be entitled to a number of votes equal to the average ratio (calculated to the nearest three decimal places) of the Market Value of a share of ENSTAR Alaska Stock to the Market Value of a share of Seagull Common Stock (or, if there are no shares of Seagull Common Stock outstanding, the sum of the average of the Market Values of a share of each class or series of common stock of the Corporation then outstanding) for each Business Day during the period commencing on the date the ENSTAR Alaska Stock or such other class or series of common stock of the Corporation, as the case may be, is initially so traded and ending on the last Business Day on or before the applicable record date or date as of which a shareholder consent is given. If shares of only one class or series of common stock of the Corporation are outstanding, each share of that class or series shall have one vote. If any class or series of common stock of the Corporation is entitled to vote separately as a series with respect to any matter, each share of that series shall be entitled to one vote in the separate vote on such matter. Notwithstanding any fluctuation in the Market Values described above or the ratios described above after a record date or date on which a shareholder consent is given, the number of votes to which a share of ENSTAR Alaska Stock shall be entitled shall not change until the next record date or date on which a shareholder consent is given; provided, however, that from the Effective Date until the first record date or date as of which a shareholder consent is given, each share of ENSTAR Alaska Stock shall be entitled to the number of votes to which such share would be entitled if the Effective Date were a record date.

(b) In addition to such other vote or consent as shall then be required by law, the amended Articles of Incorporation or the bylaws, the vote or consent of the holders of at least 66 2/3% of all of the shares of Seagull Common Stock then outstanding, voting as a separate class, shall be necessary for any of the following transactions, except as provided below or as otherwise permitted by the terms of the amended Articles of Incorporation:

(i) the declaration or payment of any dividend on, or the making of any other payment or distribution with respect to, any shares of any other class or series of common stock of the Corporation, if such dividend, payment or distribution is to be made with (x) any of the properties and assets of Seagull Energy or (y) shares of Seagull Common Stock (or Convertible Securities convertible into or exercisable for Seagull Common Stock) or any security that represents an equity interest in a person or entity (other than the Corporation) that owns any of the properties or assets of Seagull Energy;

(ii) the use of any of the properties and assets of Seagull Energy in any business of the Corporation other than a business of Seagull Energy, unless such use arises from a transfer for value of such properties or assets from Seagull Energy to another Group; or

(iii) any issuance or sale of shares of Seagull Common Stock, or Convertible Securities convertible into or exercisable for Seagull Common Stock, for the account of any Group other than Seagull Energy;

provided that, notwithstanding the foregoing, no such vote shall be required for loans by Seagull Energy to another Group at rates determined in a manner consistent with the Corporation's policy with respect to loans between Groups at such time.

(c) In addition to such other vote or consent as shall then be required by law, the amended Articles of Incorporation or the bylaws, the vote or consent of the holders of at least 66 2/3% of all of the shares of ENSTAR Alaska Stock then outstanding, voting as a separate class, shall be necessary for any of the following transactions, except as provided below or as otherwise permitted by the terms of the amended Articles of Incorporation:

(i) the declaration or payment of any dividend on, or the making of any other payment or distribution with respect to, any shares of any other class or series of common stock of the Corporation, if such dividend, payment or distribution is to be made with (x) any of the properties and assets of the ENSTAR Alaska Group or (y) shares of ENSTAR Alaska Stock (or Convertible Securities convertible into or exercisable for ENSTAR Alaska Stock) or any security that represents an equity interest in a person or entity (other than the Corporation) that owns any of the properties or assets of the ENSTAR Alaska Group, other than any shares of ENSTAR Alaska Stock (or Convertible Securities convertible into or exercisable for ENSTAR Alaska Stock) issued by the Corporation as a dividend or distribution on the Seagull Common Stock, but only if the sum of (1) the number of shares of ENSTAR Alaska Stock to be so dividended or distributed (or the number of shares of ENSTAR Alaska Stock into which or for which the Convertible Securities to be so dividended or distributed would be convertible or exercisable at such time) and (2) the number of such shares that would be issuable at such time upon conversion or exercise of any other Convertible Securities then outstanding that are attributed to Seagull Energy is less than or equal to the Number of Shares Issuable with Respect to the Retained Interest;

(ii) the use of any of the properties and assets of the ENSTAR Alaska Group in any business of the Corporation other than a business of the ENSTAR Alaska Group, unless such use arises from a transfer for value of such properties or assets from the ENSTAR Alaska Group to another Group; or

(iii) any issuance or sale of shares of ENSTAR Alaska Stock, or Convertible Securities convertible into or exercisable for ENSTAR Alaska Stock, for the account of any Group other than (x) the ENSTAR Alaska Group or (y) Seagull Energy but only if the sum of (1) the number of shares of ENSTAR Alaska Stock to be so issued or sold (or the number of shares of ENSTAR Alaska Stock into which or for which the Convertible Securities to be so issued or sold would be convertible or exercisable at such time), and (2) the number of such shares which would be issuable at such time upon conversion or exercise of any other Convertible Securities then outstanding which are attributed to Seagull Energy is less than or equal to the Number of Shares Issuable with Respect to the Retained Interest;

provided that, notwithstanding the foregoing, no such vote shall be required for loans by the ENSTAR Alaska Group to another Group at rates determined in a manner consistent with the Corporation's policy with respect to loans between Groups at such time.

Section 5. Mergers and Consolidations. In the event of a merger or consolidation to which the Corporation is a party and pursuant to which the holders of common stock of the Corporation are entitled to receive consideration or shares of common stock are converted into securities or other consideration, the holders of the outstanding shares of each class or series of common stock of the Corporation would be entitled to receive, or have their shares converted into, a fraction of the consideration attributable to the common stock of the Corporation pursuant to the terms of any such merger or consolidation, where such fraction is equal to the quotient of (A) the sum of (1) four times the average ratio of x to y for the five-Business Day period

ending on the Business Day prior to the date of the first public announcement of such merger or consolidation, (2) three times the average ratio of x to y for the next preceding five-Business Day period, (3) two times the average ratio of x to y for the next preceding five-Business Day period and (4) the average ratio of x to y for the next preceding five-Business Day period, divided by (B) ten, where x is the Market Capitalization of such class or series of common stock, and y is the aggregate Market Capitalization of all classes and series of common stock of the Corporation.

Section 6. Liquidation Rights. In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, after there shall have been paid or set apart for the holders of preferred stock the full preferential amounts to which they are entitled, the holders of the outstanding shares of each class or series of common stock of the Corporation shall be entitled to receive a fraction of the funds of the Corporation remaining for distribution to its shareholders, where such fraction is equal to the quotient of (A) the sum of (1) four times the average ratio of X to Y for the five-Business Day period ending on the Business Day prior to the date of the first public announcement of (I) a voluntary liquidation, dissolution or winding-up by the Corporation or (II) the institution of the proceeding for the involuntary liquidation, dissolution or winding-up of the Corporation, (2) three times the average ratio of X to Y for the next preceding five-Business Day period, (3) two times the average ratio of X to Y for the next preceding five-Business Day period and (4) the average ratio of X to Y for the next preceding five-Business Day period, divided by (B) ten, where X is the Market Capitalization of such class or series of common stock of the Corporation, and Y is the aggregate Market Capitalization of all classes or series of common stock of the Corporation. Neither the merger nor consolidation of the Corporation into or with any other corporation, nor the merger or consolidation of any other corporation into or with the Corporation, nor a sale, transfer or lease of all or any part of the assets of the Corporation, shall be deemed a liquidation, dissolution or winding-up for purposes of this Section 6.

Section 7. Determinations by the Board of Directors. Any determinations made in good faith by the Board of Directors under any provision in the amended Articles of Incorporation or in any statement of resolution establishing series of shares filed pursuant thereto, and any determinations with respect to any Group or the rights of holders of any class or series of common stock made pursuant to or in furtherance of the amended Articles of Incorporation, shall be final and binding on all shareholders.

Section 8. Definitions. As used in the amended Articles of Incorporation, the following terms shall have the following meanings (with terms defined in the singular having comparable meanings when used in the plural and vice versa), unless another definition is provided or the context otherwise requires. As used in this Section 8, a "contribution" or "transfer" of assets or properties from one Group to another shall be deemed to include a reallocation of such assets or properties from the contributing or transferring Group to the other Group (and correlative phrases shall have correlative meanings).

"Articles of Amendment" shall mean the articles of amendment that amended the Articles of Incorporation of the Corporation to first include this Section 8 in the Article Four of the Articles of Incorporation.

"Available Seagull Energy Dividend Amount," on any date, shall mean an amount equal to the excess of (i) the amount by which the total assets of Seagull Energy exceed the total debts of Seagull Energy, over (ii) the stated capital attributable to the Seagull Common Stock and any series of Preferred Stock attributed to Seagull Energy as of such date, determined as provided in the TBCA as if Seagull Energy were a corporation for such purposes and on a basis consistent with the determination of Seagull Energy Corporation Earnings Attributable to Seagull Energy; provided that such excess shall be reduced by an amount, if any, sufficient to ensure that Seagull Energy would be able to pay its debts as they become due in the usual course of its business.

"Available ENSTAR Alaska Dividend Amount," on any date, shall mean the product of (x) the Outstanding Interest Fraction as of such date and (y) an amount equal to the excess of (i) the amount by which the total assets of the ENSTAR Alaska Group exceed the total debts of the ENSTAR Alaska Group, over (ii) the stated capital attributable to the ENSTAR Alaska Stock and any series of Preferred Stock attributed to the ENSTAR Alaska Group as of such date, determined as provided in the TBCA as

if the ENSTAR Alaska Group were a corporation for such purposes and on a basis consistent with the determination of Seagull Energy Corporation Earnings Attributable to the ENSTAR Alaska Group; provided that such excess shall be reduced by an amount, if any, sufficient to ensure that the ENSTAR Alaska Group would be able to pay its debts as they become due in the usual course of its business.

"Business Day" shall mean each weekday other than any day on which any relevant class of common stock of the Corporation is not traded on any national securities exchange or the National Association of Securities Dealers Automated Quotations National Market System or in the over-the-counter market.

"Convertible Securities" shall mean any securities of the Corporation that are convertible into or exercisable for or evidence the right to acquire any shares of any class or series of common stock of the Corporation, whether at such time or upon the occurrence of certain events, pursuant to antidilution provisions of such securities or otherwise.

"Disposition" shall mean the sale, transfer, assignment or other disposition (whether by merger, consolidation, sale or contribution of assets or stock or otherwise) of properties or assets, but not including any pledge, mortgage, deed of trust or trust indenture.

"Effective Date" shall mean the date on which the Articles of Amendment shall become effective.

"ENSTAR Alaska Group" shall mean, as of any date:

(i) the interest of the Corporation and its subsidiaries in (x) all of the businesses in which any of ENSTAR Natural Gas Company or Alaska Pipeline Company (or any of their predecessors or successors) (the "ENSTAR Alaska companies") is or has been engaged, directly or indirectly, and (y) all of the assets and liabilities of the ENSTAR Alaska companies;

(ii) all assets and liabilities of the Corporation or any of its subsidiaries to the extent attributed to any of the businesses of the ENSTAR Alaska companies, whether or not such assets or liabilities are or were assets and liabilities of the ENSTAR Alaska companies;

(iii) all assets and properties contributed or transferred to the ENSTAR Alaska Group from Seagull Energy; and

(iv) the interest of the Corporation or any of its subsidiaries in the businesses, assets and liabilities acquired by the Corporation or any of its subsidiaries for the ENSTAR Alaska Group, as determined by the Board of Directors;

provided that, (a) from and after any dividend, distribution or redemption with respect to any shares of ENSTAR Alaska Stock (other than a dividend or distribution payable in shares of ENSTAR Alaska Stock, or Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock), the ENSTAR Alaska Group shall no longer include an amount of assets or properties equal to the aggregate amount of such kind of assets or properties so paid in respect of such dividend, distribution or redemption with respect to outstanding shares of ENSTAR Alaska Stock multiplied by a fraction, the numerator of which is equal to the Number of Shares Issuable with Respect to the Retained Interest and the denominator of which is equal to the number of outstanding shares of ENSTAR Alaska Stock at such time, and (b) from and after any transfer of assets or properties from the ENSTAR Alaska Group to Seagull Energy, the ENSTAR Alaska Group shall no longer include the assets or properties so transferred.

"ENSTAR Alaska Group Subsidiary" shall have the meaning set forth in Section 3(b)(v).

"Exchange Date" shall mean any date fixed for an exchange of shares of ENSTAR Alaska Stock, as set forth in a notice to holders of ENSTAR Alaska Stock or of Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock pursuant to Section 3(c)(iv).

"Groups" shall mean Seagull Energy, the ENSTAR Alaska Group and any other business group of the Corporation in respect of which the Corporation issues a class or series of common stock of the Corporation.

"Market Capitalization" of any class or series of common stock of the Corporation on any day shall mean the product of (i) the Market Value of one share of such class or series of common stock of the Corporation on such day and (ii) the number of shares of such class or series of common stock of the Corporation outstanding on such day.

"Market Value" of a share of any class or series of capital stock of the Corporation on any Business Day shall mean the average of the high and low reported sales prices regular way of such share of such class or series on such Business Day or in case no such reported sale takes place on such Business Day the average of the reported closing bid and asked prices regular way of a share of such class or series on such Business Day, in either case on the New York Stock Exchange Composite Tape, or if the shares of such class or series are not listed or admitted to trading on such Exchange on such Business Day, on the principal national securities exchange in the United States on which the shares of such class or series are listed or admitted to trading, or if not listed or admitted to trading on any national securities exchange on such Business Day, on the National Association of Securities Dealers Automated Quotations National Market System, or if the shares of such class or series are not listed or admitted to trading on any national securities exchange or quoted on such National Market System on such Business Day, the average of the closing bid and asked prices of a share of such class or series in the over-the-counter market on such Business Day as furnished by any New York Stock Exchange member firm selected from time to time by the Corporation, or if such closing bid and asked prices are not made available by any such New York Stock Exchange member firm on such Business Day, the market value of a share of such class or series as determined by the Board of Directors; provided that, for purposes of determining the ratios set forth in Sections 3(b)(i), 3(b)(ii), 3(b)(iii), 4(a) and 5 hereof, as calculated over any period, (i) the "Market Value" of any share of any class or series of common stock of the Corporation on any day prior to the "ex" date or any similar date occurring during such period for any dividend or distribution (other than as contemplated by clause (ii)(B) hereof) paid or to be paid with respect to such class or series of common stock of the Corporation shall be reduced by the fair market value of the per share amount of such dividend or distribution and (ii) the "Market Value" of any share of any class or series of common stock of the Corporation on any day prior to (A) the effective date of any subdivision (by stock split or otherwise) or combination (by reverse stock split or otherwise) of outstanding shares of such class or series of common stock of the Corporation occurring during such period or (B) the "ex" date or any similar date occurring during such period for any dividend or distribution with respect to such class or series of common stock of the Corporation in shares of such class or series of common stock of the Corporation shall be appropriately adjusted to reflect such subdivision, combination, dividend or distribution. For the purposes of the foregoing clause (i) the Board of Directors shall determine the fair market value of any dividend or distribution.

"Net Proceeds" shall mean, as of any date with respect to any Disposition of any of the properties and assets of the ENSTAR Alaska Group, an amount, if any, equal to the gross proceeds of such Disposition after any payment of, or reasonable provision for, (i) any taxes payable by the Corporation in respect of such Disposition, (ii) any taxes payable by the Corporation in respect of any dividend or redemption pursuant to clause (A) or (B), respectively, of Section 3(b)(i) hereof, (iii) any transaction costs, including, without limitation, any legal, investment banking and accounting fees and expenses and (iv) any liabilities (contingent or otherwise) of, allocated to or related to the ENSTAR Alaska Group, including, without limitation, any liabilities for deferred taxes or any indemnity or guarantee obligations incurred in connection with the Disposition or any liabilities for future purchase price adjustments and any preferential amounts plus any accumulated and unpaid dividends in respect of preferred stock attributed to the ENSTAR Alaska Group. For purposes of this definition, any properties and assets of the ENSTAR Alaska Group remaining after such Disposition shall constitute "reasonable provision" for such amount of taxes, costs and liabilities (contingent or otherwise) as can be supported by such properties and assets. To the extent the proceeds of any Disposition include any securities or other property other than cash, the Board of Directors shall determine the value of such securities or property, including for the purpose of determining the cash equivalent thereof if the Board of Directors determines to pay a dividend or redemption price in cash as provided in Section 3(b)(i)(z) hereof. For purposes of this definition, the term "taxes payable by the Corporation in respect of a Disposition" shall be deemed to

be an amount equal to the sum of (x) the excess of the gross proceeds realized by the Corporation from such Disposition over the aggregate federal or state income tax basis, as applicable (the "realized gain," regardless of whether recognized for federal or state tax purposes) of the properties and assets so disposed of multiplied by the highest rate of tax applicable to corporations under section 11 of the Internal Revenue Code of 1986 as then in effect or the corresponding provision of any subsequently enacted federal tax law (the "federal tax rate") and (y) with respect to each state which would impose income or similar tax with respect to a taxable disposition of any of such properties or assets an amount equal to the realized gain with respect to such properties or assets multiplied by the product of the decimal which expresses the highest rate of such state tax applicable to corporations and the decimal which expresses one minus the federal tax rate.

"Number of Shares Issuable with Respect to the Retained Interest" shall initially be ; provided that such number from time to time shall be:

(i) adjusted as appropriate to reflect subdivisions (by stock split or otherwise) and combinations (by reverse stock split or otherwise) of ENSTAR Alaska Stock and dividends or distributions of shares of ENSTAR

Alaska Stock to holders thereof and other reclassifications of ENSTAR Alaska Stock;

(ii) decreased by (A) the number of shares of ENSTAR Alaska Stock issued or sold by the Corporation, the proceeds of which are attributed to Seagull Energy, (B) the number of shares of ENSTAR Alaska Stock issued upon conversion or exercise of Convertible Securities which are attributed to Seagull Energy, (C) the number of shares of ENSTAR Alaska Stock issued by the Corporation as a dividend or distribution or by reclassification or exchange to holders of Seagull Common Stock and (D) the number (rounded, if necessary, to the nearest whole number) equal to the fair value (as determined by the Board of Directors) of assets or properties transferred from the ENSTAR Alaska Group to Seagull Energy in consideration for a reduction in the Number of Shares Issuable with Respect to the Retained Interest divided by the Market Value of one share of ENSTAR Alaska Stock as of the date of such transfer; and

(iii) increased by (A) the number of outstanding shares of ENSTAR Alaska Stock repurchased by the Corporation, the consideration for which is attributed to Seagull Energy and (B) the number (rounded, if necessary, to the nearest whole number) equal to the fair value (as determined by the Board of Directors) of assets or properties contributed by Seagull Energy to the ENSTAR Alaska Group in consideration for an increase in the Number of Shares Issuable with Respect to the Retained Interest divided by the Market Value of one share of ENSTAR Alaska Stock as of the date of such contribution.

"Outstanding Interest Fraction," as of any date, is a fraction the numerator of which shall be the number of shares of ENSTAR Alaska Stock outstanding on such date and the denominator of which shall be the sum of the number of shares of ENSTAR Alaska Stock outstanding on such date and the Number of Shares Issuable with Respect to the Retained Interest on such date. A statement setting forth the Outstanding Interest Fraction shall be filed with the Secretary of the Corporation within 30 days after the end of each fiscal quarter of the Corporation.

"Redemption Date" shall mean any date fixed for a redemption of shares of ENSTAR Alaska Stock, as set forth in a notice to holders of ENSTAR Alaska Stock or of Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock pursuant to Section 3(c)(iii).

"Retained Interest Fraction," as of any date, shall mean a fraction the numerator of which shall be the Number of Shares Issuable with Respect to the Retained Interest on such date and the denominator of which shall be the sum of the number of shares of ENSTAR Alaska Stock outstanding on such date and the Number of Shares Issuable with Respect to the Retained Interest on such date.

"Seagull Energy" shall mean, as of any date:

(i) the interest of the Corporation or any of its subsidiaries in all of the businesses in which the Corporation or any of its subsidiaries (or any of their predecessors or successors) is or has been engaged, directly or indirectly, and the assets and liabilities of the Corporation or any of its subsidiaries other than any businesses, assets or liabilities of the ENSTAR Alaska Group;

(ii) a proportionate interest in the businesses, assets and liabilities of the ENSTAR Alaska Group as of such date equal to the Retained Interest Fraction;

(iii) from and after any dividend, distribution or redemption with respect to any shares of ENSTAR Alaska Stock (other than a dividend or distribution payable in shares of ENSTAR Alaska Stock, or Convertible Securities convertible into or exercisable for shares of ENSTAR Alaska Stock), an amount of assets or properties of the ENSTAR Alaska Group equal to the aggregate amount of such kind of assets or properties so paid in respect of such dividend, distribution or redemption with respect to outstanding shares of ENSTAR Alaska Stock multiplied by a fraction, the numerator of which is equal to the Number of Shares Issuable with Respect to the Retained Interest and the denominator of which is equal to the number of shares of ENSTAR Alaska Stock outstanding at such time; and

(iv) any assets or properties transferred from the ENSTAR Alaska Group to Seagull Energy;

provided that, from and after any contribution or transfer of assets or properties from Seagull Energy to the ENSTAR Alaska Group, Seagull Energy shall no longer include such assets or properties so contributed or transferred (other than pursuant to its interest in the ENSTAR Alaska Group pursuant to clause (ii) above).

"Seagull Energy Corporation Earnings Attributable to Seagull Energy," for any period, shall mean the net income or loss of Seagull Energy for such period (or for fiscal periods of the Corporation commencing prior to the Effective Date, the pro forma net income or loss of Seagull Energy for such period as if the Effective Date had been the first day of such fiscal period) determined in accordance with generally accepted accounting principles in effect at such time, reflecting income and expense of the Corporation allocated to Seagull Energy on a basis substantially consistent with allocations made with respect to the ENSTAR Alaska Group, including, without limitation, corporate administrative costs, net interest and other financial costs and income taxes.

"Seagull Energy Corporation Earnings Attributable to the ENSTAR Alaska Group," for any period, shall mean the net income or loss of the ENSTAR Alaska Group for such period (or for the fiscal periods of the Corporation commencing prior to the Effective Date, the pro forma net income or loss of the ENSTAR Alaska Group for such period as if the Effective Date had been the first day of such fiscal period) determined in accordance with generally accepted accounting principles in effect at such time, reflecting income and expense of the Corporation allocated to the ENSTAR Alaska Group on a basis substantially consistent with allocations made with respect to Seagull Energy, including, without limitation, corporate administrative costs, net interest and other financial costs and income taxes.

Section 9. Preferred Stock. The Preferred Stock may be divided into and issued from time to time in one or more series as may be fixed and determined by the Board of Directors. The relative rights and preferences of the Preferred Stock of each series shall be such as shall be stated in any resolution or resolutions adopted by the Board of Directors setting forth the designation of the series and fixing and determining the relative rights and preferences thereof, any such resolution or resolutions being herein called a "Directors' Resolution." The Board of Directors is hereby authorized to fix and determine such variations in the designations, preferences and relative, participating, optional and other special rights (including, without limitation, rights of conversion into any class or series of common stock of the Corporation or other securities, redemption provisions or sinking fund provisions) as between series and as between the Preferred Stock or any series thereof and any class or series of common stock of the Corporation, and the qualifications, limitations or restrictions of such rights, all as shall be stated in a Directors' Resolution, and the shares of Preferred Stock or any series thereof

may have full or limited voting powers, or be without voting powers, all as shall be stated in a Directors' Resolution."

ARTICLE THREE

The second amendment is an amendment to the Statement of Resolution Establishing Series of Shares of Series B Junior Participating Preferred Stock of Seagull Energy Corporation to provide that, upon the effectiveness of this Amendment, references to Common Stock in Sections [2, 6 and 7] thereof shall be deemed to be references to Seagull Common Stock, and references to Common Stock in Section [3] thereof shall be deemed to be references to all classes and series of common stock of the Corporation, including without limitation the Seagull Common Stock and the ENSTAR Alaska Stock.

ARTICLE FOUR

The number of shares of the corporation outstanding on the record date on which the amendment was adopted by the shareholders was ; and the number of shares entitled to vote thereon was . No shares were entitled to vote thereon as a class.

ARTICLE FIVE

The number of shares voted for such amendment was ; and the number of shares voted against such amendment was . The number of shares abstaining was .

ARTICLE SIX

The amendment does not effect a change in the amount of the stated capital of the corporation.

Dated: , 1994.

SEAGULL ENERGY CORPORATION
By:
[Name]
[Title]

STATE OF TEXAS	
COUNTY OF HARRIS	SS.:

Before me, a notary public, on this day personally appeared , known to me to be the person whose name is subscribed to the foregoing document and, being by me first duly sworn, declared that the statements therein contained are true and correct.

Given under my hand and seal of office this day of 1994.

(printed or stamped name)
Notary Public, State of Texas

(Notarial Seal)

My commission expires:

ANNEX IV

SEAGULL ENERGY CORPORATION

INDEX

SEAGULL ENERGY CORPORATION

UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS

The unaudited pro forma condensed balance sheet as of December 31, 1993 gives effect to (i) the acquisition (the "Seagull Canada Acquisition") of all the outstanding shares of stock of Novalta Resources Inc. ("Novalta"), financed initially under the Canadian Credit Agreement and the Revolver, defined herein, and (ii) the issuance and sale for cash of shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Stock Offering and the application of the estimated net proceeds therefrom of $140 million to repay amounts borrowed under the Revolver, as if both events had occurred on December 31, 1993. The unaudited pro forma condensed statement of earnings for the year ended December 31, 1993 gives effect to the pro forma transactions and events described in clauses (i) and (ii) above as if both events had occurred on January 1, 1993.

The following unaudited pro forma information has been included as required by the rules of the Securities and Exchange Commission and is provided for comparative purposes only. The unaudited pro forma information presented is based on the respective historical consolidated financial statements of Seagull Energy Corporation (the "Company") and Novalta and should be read in conjunction with such financial statements and the related notes thereto, as well as the

Seagull Energy unaudited pro forma condensed financial statements and the ENSTAR Alaska Group unaudited pro forma condensed financial statements. The historical consolidated financial statements of Novalta as presented do not reflect the effect of certain transactions between Novalta and NOVA Corporation of Alberta and its subsidiaries that were completed prior to the closing of the Seagull Canada Acquisition, such as the elimination of intercompany debt balances. The effect of such transactions are reflected in the conforming adjustments to the unaudited pro forma condensed financial statements. The unaudited pro forma information presented does not purport to be indicative of actual results, if the transactions had occurred on the dates or for the periods indicated, or of future results.

The financial statements of Novalta for the years ended December 31, 1993 and 1992 are incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K dated January 4, 1994, as amended.

SEAGULL ENERGY CORPORATION

UNAUDITED PRO FORMA CONDENSED STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1993

<TABLE>
<CAPTION>

	HISTORICAL			
	SEAGULL ENERGY CORPORATION	NOVALTA RESOURCES INC.(H)	CONFORMING ADJUSTMENTS	PRO FORMA COMBINED
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)			
<S>	<C>	<C>	<C>	<C>
Revenues	$ 377,165	$32,358	$ --	$ 409,523
Costs of Operations:				
Operating costs	184,620	12,973	399(A)	197,992
Depreciation, depletion and amortization	116,556	9,371	(9,371)(B) 15,216(C)	131,772
Operating Profit	75,989	10,014	(6,244)	79,759
General and Administrative Expense	11,666	--	--	11,666
Interest Expense	36,753	1,083	(1,083)(B) 2,595(D)	39,348
Interest Income and Other	(5,708)	(3,102)	--	(8,810)
Earnings Before Income Taxes	33,278	12,033	(7,756)	37,555
Income Taxes	6,080	4,650	(4,650)(B) 3,390(E)	9,470
Net Earnings	$ 27,198	$ 7,383	$(6,496)	$ 28,085
Earnings per Share:				
Earnings per share for Seagull Energy Corporation Common Stock	$ 0.76			
Weighted Average Number of Seagull Energy Corporation Common Shares Outstanding	35,790			
Net earnings applicable to Seagull Common Stock				$ 21,037
Earnings per share for Seagull Common Stock				$ 0.59
Weighted Average Number of Shares Outstanding of Seagull Common Stock			35,790(G)	35,790
Net earnings applicable to ENSTAR Alaska Stock				$ 7,048
Earnings per share for ENSTAR Alaska Stock				$ 0.94

Weighted Average Number of Shares Outstanding of ENSTAR Alaska Stock........................	7,500(F)	7,500

</TABLE>

See Accompanying Notes to Unaudited Condensed Statement of Earnings.

SEAGULL ENERGY CORPORATION

NOTES TO UNAUDITED PRO FORMA

CONDENSED STATEMENT OF EARNINGS

(A) To adjust general operating expenses to give effect to the Company's increased personnel, rent, consultation, professional and other expenses expected as a result of the Seagull Canada Acquisition.

(B) To eliminate depreciation, depletion and amortization, interest expense and income taxes of Novalta.

(C) To adjust depreciation, depletion and amortization to give effect to the Seagull Canada Acquisition.

(D) To adjust interest expense to give effect to the Seagull Canada Acquisition initially financed under the Canadian Credit Agreement and the Revolver, the reduction of the Revolver with the proceeds from the issuance and sale of the ENSTAR Alaska Stock pursuant to the ENSTAR Alaska Stock Offering and the amortization of loan acquisition costs relating to the Canadian Credit Agreement.

The pro forma interest expense adjustment was calculated as follows:

<TABLE>
<CAPTION>

<S>	(DOLLARS IN THOUSANDS) <C>	<C>
Pro forma change in outstanding balance -- Canadian Credit Agreement		
Seagull Canada Acquisition.......................................	$151,938	
Proceeds from sale of ENSTAR Alaska Stock.........................	(3,293)	
	148,645	
Estimated average interest rate....................................	4.45%	
Pro forma interest expense on Canadian Credit Agreement............		6,621
Pro forma change in outstanding balance -- Revolver		
Seagull Canada Acquisition.......................................	49,826	
Proceeds from sale of ENSTAR Alaska Stock.........................	(136,707)	
	(86,881)	
Estimated average interest rate....................................	4.86%	
Pro forma interest expense on the decreased Revolver...............		(4,219)
Pro forma amortization of loan acquisition costs relating to the Canadian Credit Agreement..		193
		$2,595

</TABLE>

(E) To adjust income taxes for the items discussed in Notes (A) through (D) above.

(F) To record the issuance and sale of 7,500,000 shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group pursuant to the ENSTAR Alaska Stock Offering.

(G) To reflect the amendment of the terms of the Seagull Common Stock to provide for the issuance of the ENSTAR Alaska Stock.

(H) Revenues, expenses and net income of Novalta were translated using the average conversion rate during 1993 of $0.7752 per Canadian dollar(C$). A reconciliation of the net income of Novalta as set forth in the historical financial statements to net earnings provided in the pro forma financial statements is as follows, in thousands except conversion rate:

<TABLE>

<S>	<C>
Net income per historical financial statements................	C$ 9,524
Times average conversion rate................................	US$ 0.7752/C$
Net earnings provided in the pro forma financial statements....	US$ 7,383

</TABLE>

SEAGULL ENERGY CORPORATION

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET
AS OF DECEMBER 31, 1993

ASSETS

<TABLE>
<CAPTION>

	HISTORICAL			
	SEAGULL ENERGY CORPORATION	NOVALTA RESOURCES INC.(F)	CONFORMING ADJUSTMENTS	PRO FORMA COMBINED
		(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>
Current Assets:				
Cash and cash equivalents................	$ 5,572	$ 415	$ --	$ 5,987
Accounts receivable, net.................	98,734	11,136	--	109,870
Other....................................	10,902	688	--	11,590
Total Current Assets................	115,208	12,239	--	127,447
Property, Plant and Equipment -- at cost.................................	1,278,701	166,067	(166,067)(A) 216,594(B)	1,495,295
Accumulated Depreciation, Depletion and Amortization..........................	345,512	69,038	(69,038)(A)	345,512
	933,189	97,029	119,565	1,149,783
Other Assets.............................	69,854	3,145	883(B) (8,458)(C)	65,424
Total Assets.............................	$ 1,118,251	$ 112,413	$ 111,990	$1,342,654
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable.........................	$ 84,904	$ 7,060	$ --	$ 91,964
Current maturities of long-term debt......	1,538	--	--	1,538
Other....................................	37,724	746	--	38,470
Total Current Liabilities...........	124,166	7,806	--	131,972
Long-Term Debt...........................	459,787	64,316	(64,316)(D) 193,306(C) (140,000)(E)	513,093
Other Noncurrent Liabilities.............	66,785	1,965	(602)(B)	68,148
Deferred Income Taxes....................	28,134	7,899	(7,899)(D) 21,928(B)	50,062
Shareholders' Equity				
Seagull Common Stock.....................	3,638			3,638
Novalta Resources Inc. shareholder's equity...............................		30,427	(30,427)(D)	--
ENSTAR Alaska Stock......................			750(E)	750
Additional paid-in capital...............	324,192		139,250(E)	463,442

Retained earnings	120,713			120,713
Less -- note receivable from ESOP	(6,029)			(6,029)
Less -- Seagull Common Stock held in Treasury	(3,135)			(3,135)
Total shareholders' equity	439,379	30,427	109,573	579,379
Total Liabilities and Shareholders' Equity	$ 1,118,251	$ 112,413	$ 111,990	$1,342,654

</TABLE>

See Accompanying Notes to Unaudited Pro Forma Condensed Balance Sheet.

SEAGULL ENERGY CORPORATION

NOTES TO UNAUDITED PRO FORMA
CONDENSED BALANCE SHEET

(A) To eliminate Novalta's historical cost of property, plant and equipment and accumulated depreciation, depletion and amortization.

(B) To adjust the assets acquired and liabilities assumed in the Seagull Canada Acquisition to reflect the allocation of the estimated purchase price. The adjusted cost of property, plant and equipment was calculated as follows:

<TABLE>
<CAPTION>

<S>	(DOLLARS IN THOUSANDS) <C>
Estimated purchase price	$200,455
Estimated transaction costs	1,309
Less -- other assets acquired:	
Current assets	(12,239)
Other assets	(4,028)
Plus -- liabilities assumed:	
Current liabilities	7,806
Deferred credits	1,363
Deferred income taxes	21,928
	$216,594

</TABLE>

The purchase price was determined pursuant to arm's length negotiations between the Company and Novacor Petrochemicals, based on the economic effective date of December 31, 1993. The purchase price was based to a large extent on the net present value of natural gas and oil reserves attributable to the properties acquired as a result of the Seagull Canada Acquisition.

(C) To record the financing of the Seagull Canada Acquisition, including approximately $193.3 million of borrowings under the Canadian Credit Agreement and the Revolver, a cash deposit of approximately $7.5 million paid in November 1993 and other costs in connection with the acquisition. See Note 6 to the consolidated financial statements of the Company included in this Annex.

(D) To eliminate the long-term debt, deferred income taxes and shareholder's equity of Novalta.

(E) To record the issuance and sale for cash of shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group pursuant to the ENSTAR Alaska Stock Offering and the corresponding decrease in long-term debt outstanding resulting from the application of the net proceeds therefrom. The Company, with assistance from its financial advisor, performed the analysis required to estimate the net proceeds from the proposed ENSTAR Alaska Stock Offering. This analysis consisted of a valuation and trading performance analysis of selected comparable natural gas utility companies. The valuation included a review of comparable dividend yields, dividend payout rates, dividend growth rates and the ability to generate cash flow in excess of capital requirements. The valuation analysis also involved applying an appropriate initial public offering discount and deducting the estimated costs relating to such an offering.

The following sets forth the historical and adjusted consolidated capitalization of the Company as of December 31, 1993. The table should be read in conjunction with the Company's consolidated financial statements and the notes related thereto included in this Annex.

	DECEMBER 31, 1993		
	HISTORICAL	PRO FORMA(1)	PRO FORMA ADJUSTED(2)
	(DOLLARS IN THOUSANDS)		
Debt:			
Borrowings under Seagull Energy's debt arrangements	$397,000	$ 590,306	$ 450,306
APC debt (including current maturities of $1,538,000 and unamortized debt discount of $1,366,000)	64,325	64,325	64,325
Total debt	461,325	654,631	514,631
Shareholders' equity	439,379	439,379	579,379
Total capitalization	$900,704	$1,094,010	$1,094,010
Total debt to total capitalization ratio	51.2%	59.8%	47.0%

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(1) Adjusted to give effect to approximately $193.3 million of borrowings under the Canadian Credit Agreement and Revolver that were incurred in connection with the Seagull Canada Acquisition.

(2) Adjusted to give effect to (i) the adjustment described in note (1) above and (ii) the issuance and sale for cash of shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group pursuant to the ENSTAR Alaska Stock Offering and the application of the estimated net proceeds therefrom of $140 million to repay a portion of the amounts borrowed under the Revolver.

(F) Assets and liabilities of Novalta were translated from Canadian dollars to U.S. dollars using the conversion rate in effect on January 4, 1994 of $0.7553 per Canadian dollar.

SEAGULL ENERGY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (UNAUDITED)

RESULTS OF OPERATIONS

CONSOLIDATED HIGHLIGHTS

				PERCENT CHANGE	
	1993	1992	1991	1992-'93	1991-'92

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

Revenues:					
Exploration and production	$227,437	$ 91,991	$ 81,099	+ 147	+ 13
Pipeline and marketing	42,484	37,240	37,823	+ 14	- 2
Alaska transmission and distribution	107,244	109,598	129,615	- 2	- 15
	$377,165	$238,829	$248,537	+ 58	- 4
Operating profit (loss):					
Exploration and production	$ 42,969	$ (1,613)	$ 1,275	+2,764	- 227
Pipeline and marketing	14,065	9,057	7,884	+ 55	+ 15
Alaska transmission and distribution	18,955	22,439	21,024	- 16	+ 7
	$ 75,989	$ 29,883	$ 30,183	+ 154	- 1
Earnings before cumulative effect of changes in accounting principles	$ 27,198	$ 4,415	$ 5,107	+ 516	- 14
Net earnings	$ 27,198	$ 6,688	$ 5,107	+ 307	+ 31
Net cash provided by operating activities before changes in operating assets and liabilities	$160,762	$ 81,368	$ 66,654	+ 98	+ 22
Net cash provided by operating activities	$119,761	$ 72,187	$ 69,773	+ 66	+ 3
Earnings per share:					
Earnings before cumulative effect of changes in accounting principles	$ 0.76	$ 0.17	$ 0.23	+ 347	- 26
Cumulative effect of changes in accounting principles	--	0.09	--	- 100	N/A
Net earnings	$ 0.76	$ 0.26	$ 0.23	+ 192	+ 13
Weighted average number of common shares outstanding (in thousands)	35,790	25,583	22,692	+ 40	+ 13

</TABLE>

Revenues and Operating Profit are discussed in the respective segment sections.

1993 Results Compared to 1992

Seagull Energy Corporation and Subsidiaries (the "Company") recorded a significant increase in net earnings for the year ended December 31, 1993 versus the prior year due to increases in operating profit, partially offset by increases in interest and general and administrative expenses. Net earnings for 1993 includes a pre-tax gain of approximately $3.8 million relating to the sales of non-strategic producing properties. The Company's 1993 net earnings also benefitted from a reduction in the Company's income tax provision due to utilization of approximately $4.8 million in Internal Revenue Code Section 29 tax credits, which more than offset a 1% increase in the federal corporate tax rate from 34% to 35%. In addition, net earnings for the prior year included a $4.6 million pre-tax settlement of litigation (the "Seismic Litigation Settlement") and the cumulative effect of two changes in accounting principles described below. See "Other (Income) Expense" and "Income Taxes" sections below.

Effective January 1, 1992, the Company adopted two Statements of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes, and SFAS No. 106, Employers' Accounting for

Postretirement Benefits Other Than Pensions. The cumulative effect of these accounting changes as of January 1, 1992 resulted in a net increase in net earnings of approximately $2.3 million, or $0.09 per share, as reflected in the Company's consolidated statement of earnings for the year ended December 31, 1992.

Net cash provided by operating activities before and after changes in operating assets and liabilities for 1993 increased substantially in comparison to 1992 primarily as a result of significant increases in the Company's natural gas production primarily due to the Company's acquisition of Arkla Exploration Company (the "Mid-South Acquisition") in December 1992.

On June 4, 1993, the Company effected, in the form of a 100 percent stock dividend, a two-for-one stock split (the "Stock Split") of all the issued shares of Seagull Common Stock. The weighted average number of common shares outstanding and per share amounts for all periods have been restated to reflect the Stock Split. All share amounts included in the consolidated balance sheets and consolidated statements of shareholders' equity as of dates prior to June 4, 1993 were not adjusted to reflect the Stock Split.

The increase in the weighted average number of common shares outstanding in 1993 over 1992 was due to the February 1993 sale of 5,060,000 shares (10,120,000 shares after the Stock Split) of Seagull Common Stock pursuant to an underwritten public offering.

1992 Results Compared to 1991

The Company's net earnings for 1992 increased from 1991 primarily due to the Seismic Litigation Settlement and the cumulative effect of two changes in accounting principles described above, partially offset by higher general and administrative expenses and a higher effective income tax rate. See "Other (Income) Expense" and "Income Taxes" sections below.

Net cash provided by operating activities before changes in operating assets and liabilities increased 22% in 1992 in comparison to 1991 primarily due to increases in cash flows generated by the Company's Exploration and Production ("E&P") segment and the Seismic Litigation Settlement. Net cash provided by operating activities was not materially different from the 1991 amount.

The weighted average number of common shares outstanding in 1992 reflects the full year effect of the December 1991 sale of 1,500,000 shares (3,000,000 shares after the Stock Split) of Seagull Common Stock pursuant to an underwritten public offering.

EXPLORATION AND PRODUCTION

	1993	1992	1991	PERCENT CHANGE 1992-'93	PERCENT CHANGE 1991-'92
	(DOLLARS IN THOUSANDS EXCEPT PER UNIT AMOUNTS)				
Revenues:					
Natural gas	$203,137	$70,689	$55,691	+ 187	+ 27
Oil and condensate	23,597	18,849	22,546	+ 25	- 16
Natural gas liquids	3,132	2,706	2,518	+ 16	+ 7
Other	(2,429)	(253)	344	- 860	- 174
	227,437	91,991	81,099	+ 147	+ 13
Lifting costs	53,243	26,230	24,018	+ 103	+ 9
General operating expense	10,408	4,614	3,933	+ 126	+ 17
Exploration charges	17,265	9,905	9,227	+ 74	+ 7
Depreciation, depletion and amortization	103,552	52,855	42,646	+ 96	+ 24
Operating profit (loss)	$ 42,969	$(1,613)	$ 1,275	+2,764	- 227
OPERATING DATA:					
Net daily production(1):					
Natural gas (MMcf)	279.5	104.2	90.2	+ 168	+ 16
Oil and condensate (Bbl)	3,868	2,769	3,043	+ 40	- 9
Natural gas liquids (Bbl)	773	725	618	+ 7	+ 17
Combined (MMcfe)(2)	307.4	125.2	112.1	+ 146	+ 12
Average sales prices:					
Natural gas ($ per Mcf)	1.99	1.85	1.69	+ 8	+ 9
Oil and condensate ($ per Bbl)	16.72	18.60	20.30	- 10	- 8
Natural gas liquids ($ per Bbl)	11.10	10.20	11.17	+ 9	- 9
Combined ($ per Mcfe)(2)	2.03	2.01	1.97	+ 1	+ 2
Lifting costs ($ per Mcfe)(2):					
Lease operating	0.25	0.33	0.37	- 24	- 11
Workovers	0.04	0.05	0.05	- 20	--
Production taxes	0.08	0.09	0.09	- 11	--
Transportation	0.07	0.06	0.04	+ 17	+ 50
Ad valorem taxes	0.03	0.04	0.04	- 25	--
Total	0.47	0.57	0.59	- 18	- 3

DD&A rate ($ per Mcfe)(2)	0.92	1.15	1.04	- 20	+ 11

</TABLE>

- ---------------

(1) Natural gas stated in million cubic feet ("MMcf") or thousand cubic feet ("Mcf"); oil and condensate and natural gas liquids stated in barrels ("Bbl").

(2) Mcfe and MMcfe represent the equivalent of one thousand cubic feet and one million cubic feet of natural gas, respectively. Oil and condensate and natural gas liquids are converted to gas at a ratio of one barrel of liquids per six Mcf of gas, based on relative energy content.

The increase in operating profit of the E&P segment for the year ended December 31, 1993 as compared to 1992 was due to a significant increase in revenues as a result of increased natural gas production and higher natural gas prices, which more than offset increases in depreciation, depletion and amortization ("DD&A") expense, exploration charges and lifting costs.

DD&A expense and lifting costs increased as a result of the significant increase in production. However, both DD&A expense and lifting costs per equivalent unit of production declined in 1993. Exploration charges also increased in 1993 due to higher dry hole costs as a result of increased exploratory activity. In 1993, the Company was successful on eight gross exploratory wells in 27 attempts, compared with three successes out of 15 wells drilled during 1992.

The increase in natural gas production was primarily due to contributions from properties acquired in connection with the Mid-South Acquisition. On December 31, 1992, the Company acquired the outstanding capital stock of Arkla Exploration Company from Arkla, Inc. ("Arkla"), which more than doubled the Company's proved natural gas reserves as of such date. In addition, because of the improvement in natural gas prices, the Company had substantially no price-related curtailments of gas production in 1993 compared with significant curtailments in prior years. In response to the sustained growth in demand for and shrinking industry deliverability of natural gas, particularly from the offshore Gulf Coast, the Company continues to boost its deliverability through accelerated exploration and exploitative activities. The Company's deliverability increased significantly in the fourth quarter of 1993 primarily due to production flowing for the first time from three newly installed Company operated production facilities offshore Texas and Louisiana.

Although revenues for the E&P segment were much higher for the year ended December 31, 1992 compared with 1991 due to an increase in production and higher natural gas prices, these increases were more than offset by increased DD&A expense, exploration charges and lifting costs. The higher DD&A charge was due both to the increase in natural gas production and a higher DD&A rate per unit of production. Exploration charges increased primarily due to higher dry hole costs. Total lifting costs increased due to the increase in production; however, lifting costs per unit of production declined slightly.

The increase in natural gas production in 1992 was primarily due to the full period effect of production from certain gas and oil assets (the "Mid-Continent Assets"), purchased from Mesa Limited Partnership, a predecessor of Mesa, Inc., in March 1991, and to production flowing for the first time from certain of the Company's discoveries. In addition, the improvement in prices and growing demand for natural gas prompted the Company to increase production to near maximum deliverability in late 1992 and for the 1992-93 winter season. The Company's development activities were also accelerated in the fourth quarter of 1992 to boost deliverability further for 1993.

The E&P segment is the Company's primary growth area. That growth has been achieved over the past six years primarily through acquisitions: Houston Oil & Minerals Corporation ("HO&M") in 1988; the assets of Houston Oil Trust in 1989; Wacker Oil Inc. ("Wacker") in 1990; the Mid-Continent Assets in 1991 and Seagull Mid-South Inc., formerly Arkla Exploration Company, in 1992. In addition, on January 4, 1994, the Company acquired all of the outstanding shares of stock of Novalta and an intercompany note in the Seagull Canada Acquisition, which added 257.4 billion cubic feet ("Bcf") of natural gas and 2.8 million barrels ("MMbbl") of oil, condensate and natural gas liquids to the Company's net proved reserves as of such date. See Notes 2 and 17 of Notes to Consolidated Financial Statements beginning on page IV-23 of this Annex.

In 1993, a four-company exploration group including the Company was awarded four production licenses in United Kingdom waters. The awards gave the Company a 10% interest in three licenses in the Irish Sea totaling 398,319 acres and a 20% interest in a fourth license in the North Sea which totals 60,785 acres. Seismic studies and other evaluation activities on the licensed blocks have been ongoing since mid-1993. The first two of eight planned exploratory wells are scheduled during the latter part of 1994. During the first quarter of 1994, the Company increased its interests in these licenses to 20% and 30%, respectively. The Company anticipates that its share of exploration-related costs will approximate $13 million over the next five years as the program is currently structured.

Finally, the future results of this segment will be affected by the market prices of natural gas and oil. The availability of a ready market for oil, gas and liquid products in the future will depend on numerous factors beyond the control of the Company, including weather, production of other domestic crude oil, natural gas and liquid products, imports, marketing of competitive fuels, proximity and capacity of oil and gas pipelines and other transportation facilities, any oversupply of oil, gas and liquid products, the regulatory environment, and other domestic and political events, none of which can be predicted with certainty. As in the past, the Company would expect to curtail gas production during times of inferior prices. However, due to the sustained improvements in natural gas prices and demand throughout 1993 and various field operating considerations, the Company does not anticipate curtailing gas sales in the coming year to the significant extent of curtailments in years prior to 1993.

PIPELINE AND MARKETING

<TABLE>
<CAPTION>

				PERCENT CHANGE	
	1993	1992	1991	1992-'93	1991-'92
		(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING PROFIT:					
Pipelines..................................	$ 8,561	$5,671	$3,331	+ 51	+ 70
Gas marketing..............................	2,862	784	9	+265	N/A
Gas processing.............................	518	2,157	3,093	- 76	- 30
Operating and construction services.........	2,124	445	1,451	+377	- 69
	$14,065	$9,057	$7,884	+ 55	+ 15
OPERATING DATA:					
Average daily volumes (MMcf):					
Gas gathering............................	311	196	193	+ 59	+ 2
Partnership systems (net)................	117	102	91	+ 15	+ 12
Gas marketing............................	446	290	250	+ 54	+ 16
Gas processing(*):					
Average daily inlet volumes (MMcf)........	273	243	247	+ 12	- 2
Average daily net production (Bbl)........	3,305	3,198	3,453	+ 3	- 7

</TABLE>

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(*) 1993 data includes contributions from two small onshore Texas plants for the first time.

In the pipeline and marketing segment, operating profit increased in 1993 over 1992 due primarily to improvements in the pipelines and gas marketing areas and as a result of profits recognized from a pipeline construction project. These contributions more than offset a decline in operating profit in the gas processing area.

Operating profit in the pipelines area, which includes the Company's interests in two partnership systems, improved due primarily to increased volumes transported through four new gas gathering systems, two acquired in June 1992 and two acquired as part of the Mid-South Acquisition in December 1992. An increase in volumes delivered by the Company's partnership systems also contributed to the improvement.

In the gas marketing area, operating profit improved in 1993 due to a 54% increase in sales volumes primarily as a result of increases in the E&P segment's natural gas production discussed earlier and a 13% increase in margins.

The Company recognized operating profit in 1993 on an 8.7 mile, 16-inch gas pipeline that the Company constructed for an international exploration company from a platform to a gathering pipeline offshore Louisiana. The project was completed in early 1994.

Operating profit in the gas processing area declined in 1993 primarily due to increases in natural gas costs and significant declines in prices received for extracted products.

Operating profit in the pipeline and marketing segment increased in 1992 as compared to 1991 due to improvements in the pipelines and gas marketing areas which more than offset declines in the construction and gas processing areas.

Operating profit in the pipelines area improved primarily due to increased volumes delivered by the Company's partnership systems. Volumes transported through the two gas gathering systems acquired in June 1992 also contributed to the improvement.

In the gas marketing area, operating profit improved due to increased sales volumes and higher margins. Operating profit from gas processing declined 30% during 1992 as a result of lower average natural gas liquids prices coupled with higher average natural gas prices. In addition, net natural gas liquids production decreased because one significant producer elected to recover ethane in 1992. The absence of construction profits comparable to those recognized in 1991 also had a negative impact on 1992 operating profit.

Historically, the Company has not been engaged in pipeline construction projects on a regularly recurring basis. The Company had no other construction projects in 1993 and none are currently pending; however, the Company is currently conducting marketing efforts in order to generate new projects.

ALASKA TRANSMISSION AND DISTRIBUTION

<TABLE>
<CAPTION>

	1993	1992	1991	PERCENT CHANGE 1992-'93	1991-'92
	(DOLLARS IN THOUSANDS EXCEPT PER UNIT AMOUNTS)				
<S>	<C>	<C>	<C>	<C>	<C>
Revenues	$107,244	$109,598	$129,615	- 2	- 15
Cost of gas sold	59,898	59,999	81,935	--	- 27
Operations and maintenance expense	20,880	19,976	19,678	+ 5	+ 2
Depreciation, depletion and amortization	7,511	7,184	6,978	+ 5	+ 3
Operating profit	$ 18,955	$ 22,439	$ 21,024	- 16	+ 7
OPERATING DATA:					
Degree days (*)	9,382	10,653	10,178	- 12	+ 5
Volumes (Bcf):					
Gas Sold	28.9	30.9	35.3	- 6	- 12
Gas Transported	11.3	10.2	4.3	+ 11	+ 137
Combined	40.2	41.1	39.6	- 2	+ 4
Margins ($ per Mcf):					
Gas Sold	1.49	1.47	1.32	+ 1	+ 11
Gas Transported	0.36	0.40	0.27	- 10	+ 48
Combined	1.17	1.20	1.20	- 2	--
Year-end customers	88,200	86,400	84,800	+ 2	+ 2

</TABLE>

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(*) A measure of weather severity calculated by subtracting the mean temperature for each day from 65 degrees Fahrenheit. More degree days equate to colder weather.

Operating profit of the Alaska transmission and distribution segment (ENSTAR Natural Gas Company, a division of the Company, and Alaska Pipeline Company, a wholly owned subsidiary (collectively referred to herein as "ENSTAR Alaska")) for the year ended December 31, 1993 declined from 1992 primarily due to unusually warm weather in the utility's market area.

ENSTAR Alaska's gas sales revenues and the associated cost of gas sold both declined for the year ended December 31, 1992 from the 1991 period. In the fourth quarter of 1991, one large utility customer began purchasing gas directly from gas producers. However, ENSTAR Alaska currently transports the utility's gas supplies for a transportation fee that approximates the price at which ENSTAR Alaska sold gas to the utility previously, less the cost of that gas. Accordingly, operating profit for the Alaska transmission and distribution segment was not materially affected by these factors in 1992. However, operating profit for 1992 improved over 1991 as a result of higher non-power customer demand due to an increase in customers and colder temperatures.

Future operating profit for this segment will be affected by weather, regulatory action and customer growth in ENSTAR Alaska's service area. The Company expects customer growth to continue to be relatively modest. During the 1993 summer construction season, approximately 55 miles of new distribution pipeline were installed to connect some 1,800 new customers.

OTHER (INCOME) EXPENSE

<TABLE>
<CAPTION>

				PERCENT CHANGE	
	1993	1992	1991	1992-'93	1991-'92
	(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
General and administrative......................	$11,666	$10,099	$ 8,427	+ 16	+ 20
Interest expense................................	36,753	17,574	17,875	+109	- 2
Interest income and other.......................	(5,708)	(4,705)	(1,426)	+ 21	+230
	$42,711	$22,968	$24,876	+ 86	- 8

</TABLE>

General and administrative expenses increased for the year ended December 31, 1993 in comparison to 1992 due to costs associated with three compensation plans, one for outside directors, one for key managers, and the other for all Company employees, that are tied directly to the price of the Seagull Common Stock. The closing price of Seagull Common Stock increased approximately 63% from $15.563 (adjusted for Stock Split) at December 31, 1992 to $25.375 at December 31, 1993. Also, increases in other payroll related expenses contributed to the increase in general and administrative expenses in 1993. These increases were partially offset by a decline in costs related to potential acquisitions which were not consummated.

On December 31, 1992, the Company incurred additional debt to finance the Mid-South Acquisition. In addition, a large portion of the Company's outstanding floating rate debt was refinanced in July 1993 with longer term debt bearing interest at fixed rates which were somewhat higher than the floating rates in effect for the debt being replaced. As a result of these transactions, the Company's interest expense and overall average interest rate increased for 1993.

Interest income and other for 1993 includes a pre-tax gain of approximately $3.8 million relating to sales of non-strategic oil and gas producing properties. Net proceeds from the sales totaled approximately $13.0 million, resulting in an after-tax gain of approximately $2.8 million, or $0.08 per share. The parcels sold had proven reserves estimated at approximately 19 Bcf of natural gas equivalents.

General and administrative expenses increased for the year ended December 31, 1992 in comparison to 1991 as a result of increases in payroll related expenses and a charge of approximately $1.2 million for costs related to a potential acquisition which was not consummated.

During the first quarter of 1992, the Company incurred approximately $400,000 in severance expenses (included in general and administrative expenses and operations and maintenance costs) when the Company reduced its non-Alaskan workforce by more than 10%. The workforce reduction was primarily a result of the depressed state of natural gas demand and prices in early 1992, coupled with a decrease in planned capital spending for 1992. The Company's workforce temporarily increased by approximately 240 employees as a result of the Mid-South Acquisition on December 31, 1992. The Company has retained a sizeable group of these employees. All severance expenses incurred in connection with any workforce reductions in the Mid-South area during 1993 were paid by Arkla. No additional workforce reductions are currently planned.

Interest expense declined approximately 15% for the year ended December 31, 1992 in comparison to 1991 as a result of a decrease in the level of debt outstanding during the year as well as a decline in the overall average interest rate. This decline, however, was substantially offset by a fourth quarter 1992 charge to interest expense resulting from the expensing of $2.3 million in unamortized debt acquisition costs relating to the repayment of the Company's then existing revolving credit line in connection with the Mid-South Acquisition.

Interest income and other for the year ended December 31, 1992 includes $4.6 million relating to the Seismic Litigation Settlement resulting from a claim made by the Company that certain of the seismic data acquired by it in connection with its acquisition of HO&M was actually delivered to other purchasers. In accordance with the settlement agreement, the Company received a cash payment in July 1992 of $2.6 million and will receive up to $5 million in pipeline business accommodations through December 31, 1995. If less than $3 million of business accommodations are realized, the Company will receive a cash payment in early 1996 equal to the difference between $3 million and the sum of the business accommodations realized. The

$4.6 million in 1992 income includes the $2.6 million cash payment plus the present value of the $3 million guaranteed minimum payment for business accommodations less certain expenses.

INCOME TAXES

The Company's effective tax rate of 18.3% for the year ended December 31, 1993 was substantially lower than the statutory federal tax rate of 35% primarily because the Company utilized approximately $4.8 million in credits allowed under Section 29 of the Internal Revenue Code of 1986, as amended, to reduce its 1993 regular income tax liability. The Section 29 (Tight Sands) credits are allowed for production of fuels derived from nonconventional sources that are sold to nonrelated parties.

The effect of utilizing the Section 29 credits discussed above more than offset the effect of an increase in the federal corporate tax rate from 34% to 35% called for in recently enacted tax legislation. The effect of this rate change was an increase in the Company's 1993 provision for federal income taxes of approximately $1.3 million.

The provision for income taxes for 1993 and 1992 is not comparable to 1991 due to the Company's adoption of SFAS No. 109 effective January 1, 1992. This SFAS requires the use of the "liability method," which bases the amount of current and future taxes payable on events recognized in the consolidated financial statements and under existing tax laws. The Company recognized the cumulative effect of this change in accounting principle in the line item entitled "Cumulative Effect of Changes in Accounting Principles" in the accompanying consolidated statement of earnings for the year ended December 31, 1992. Accordingly, periods prior to January 1, 1992 were not restated to reflect this change.

LIQUIDITY AND CAPITAL RESOURCES

Capital expenditures for 1993 were substantially higher than those for 1992 due to significant increases in the Company's exploitative activities, primarily resulting from the large number of prospects acquired in connection with the Mid-South Acquisition, and the Company's exploratory activities in response to improvements in prices received and demand for natural gas. The Company's E&P activities and related capital expenditures had been dramatically reduced in 1992 as a result of unacceptable natural gas prices early in the year.

Capital expenditures for 1993, 1992 and 1991 were as follows:

<TABLE>
<CAPTION>

	1993	1992	1991	PERCENT CHANGE 1992-'93	PERCENT CHANGE 1991-'92
	(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
CAPITAL EXPENDITURES:					
Exploration and production:					
Lease acquisitions................	$ 7,396	$ 5,396	$ 4,446	+ 37	+ 21
Exploration.......................	26,824	8,378	15,053	+220	- 44
Development.......................	63,598	18,341	38,960	+247	- 53
	97,818	32,115	58,459	+205	- 45
Pipeline and marketing..............	2,115	1,622	634	+ 30	+156
Alaska transmission and distribution......................	10,094	9,024	10,492	+ 12	- 14
Corporate...........................	2,015	890	2,124	+126	- 58
	$112,042	$ 43,651	$ 71,709	+157	- 39

ACQUISITIONS, NET OF CASH ACQUIRED:					
Exploration and production...........	$ 29,470	$391,531	$201,767	- 92	+ 94
Pipeline and marketing..............	--	10,357	--	N/A	N/A
	$ 29,470	$401,888	$201,767	- 93	+ 99

</TABLE>

In October 1993, the Company purchased an interest in a producing natural gas field in East Texas for approximately $26.6 million, effective September 1, 1993. The interest purchased contained proved reserves estimated at approximately 28.3 Bcf of natural gas and approximately 143,000 Bbl of condensate, or the equivalent of 29.2 Bcf of natural gas as of the October 1993 closing date.

Plans for 1994 call for capital expenditures of approximately $173 million, including about $160 million in exploration and production. The Company anticipates spending approximately $100 million for development, $10 million for lease acquisitions and $50 million will be devoted to exploration.

The growth in the E&P segment over the past six years has been accomplished primarily through acquisitions financed initially by bank borrowings; however, since August 1990, the Company has reduced borrowings under existing bank facilities by $520 million with net proceeds received from three separate Seagull Common Stock offerings and the July 1993 sale of Senior and Senior Subordinated Notes discussed below, all in underwritten public offerings. See Notes 6 and 9 of Notes to Consolidated Financial Statements beginning on page IV-23 of this Annex.

In connection with the Mid-South Acquisition, the Company entered into a credit agreement (the "Credit Agreement") with a group of major U.S. and international banks (the "Banks"). The Credit Agreement provided for a $150 million term loan, which was repaid in full in February 1993 with the net proceeds of approximately $164 million from the sale of 5,060,000 shares (10,120,000 shares after the Stock Split) of Seagull Common Stock and a $475 million revolving credit line. See Notes 2, 6 and 9 of Notes to Consolidated Financial Statements beginning on page IV-23 of this Annex.

In June 1993, the Company amended and restated the Credit Agreement converting the facility into a single revolving credit facility (the "Revolver") with a total commitment of $475 million and a final maturity of December 31, 1999.

Under the terms of the Revolver, the commitments thereunder begin to decline on March 31, 1996 in equal quarterly reductions of $27.5 million and a final reduction of $62.5 million on December 31, 1999. The amount of senior indebtedness available to the Company under the provisions of the Revolver is subject to a borrowing base (the "Borrowing Base") based upon the proved reserves of the Company's E&P segment and the financial performance of the Company's other business segments. The Borrowing Base is generally determined annually, but may be redetermined, at the option of either the Company or the Banks, one additional time each year and will be redetermined upon the sale of certain assets included in the Borrowing Base.

As of January 4, 1994, immediately following the Seagull Canada Acquisition, the available commitment under the Revolver is subject to a $610 million Borrowing Base and is determined after consideration of outstanding borrowings under the Company's other senior debt facilities. As of February 28, 1994, borrowings outstanding under the Revolver were $188.5 million, leaving immediately available unused commitments of approximately $141.1 million, net of outstanding letters of credit of $2.2 million, $100 million of borrowings outstanding under the Senior Notes discussed below, the nominated maximum borrowing availability of $160 million under the Canadian Credit Agreement discussed below, and $18.2 million in borrowings outstanding under the Company's money market facilities.

In connection with the Seagull Canada Acquisition, Seagull Energy Canada Ltd. ("Seagull Canada"), the indirect wholly owned subsidiary of the Company which acquired Novalta, entered into a new $175 million reducing revolving credit facility (the "Canadian Credit Agreement") with a group of 10 Canadian affiliates of major U.S. and international banks. The Canadian Credit Agreement provides for dual currency borrowings in U.S. and Canadian dollars with a nominated maximum borrowing availability of $160 million, which may be increased or decreased by the Company at any time pursuant to provisions of the Canadian

Credit Agreement, up to a maximum commitment of $175 million. The Canadian Credit Agreement matures on December 31, 1999 and commitments thereunder begin to decline on March 31, 1996 in equal quarterly reductions of $10,937,500. As of January 4, 1994, immediately following the Seagull Canada Acquisition, approximately $152 million in borrowings were outstanding under this facility.

In July 1993, the Company sold $100 million of senior notes (the "Senior Notes") and $150 million of senior subordinated notes (the "Senior Subordinated Notes") (collectively the "Notes"). The Senior Notes bear interest at 7 7/8% per annum, are not redeemable prior to maturity or subject to any sinking fund and mature on August 1, 2003. The Senior Subordinated Notes bear interest at 8 5/8% per annum, are not subject to any sinking fund and mature on August 1, 2005. On or after August 1, 2000, the Senior Subordinated Notes are redeemable at the option of the Company, in whole or in part, at redemption prices declining from 102.59% in 2000 to 100.00% in 2003 and thereafter. The Notes were issued at par and interest is paid semi-annually. Net proceeds from the offering, totaling approximately $245.0 million, were used to repay borrowings outstanding under the Revolver.

In addition to the facilities discussed above, the Company has money market facilities with two major U.S. banks with a combined maximum commitment of $70 million. These lines of credit bear interest at rates made available by the banks at their discretion and may be canceled at either the Company's or the banks' discretion. The lines are subject to annual renewal.

Management believes that the Company's capital resources will be sufficient to finance current and forecasted operations. However, the Company continues to actively pursue potential acquisitions and, depending upon the size and terms of any such acquisition, additional financing may be required.

To date, compliance with applicable environmental and safety regulations by the Company has not required any significant capital expenditures or materially affected its business or earnings. The Company believes it is in substantial compliance with environmental and safety regulations and foresees no material expenditures in the future; however, the Company is unable to predict the impact that compliance with future regulations may have on capital expenditures, earnings and competitive position.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Seagull Energy Corporation:

We have audited the accompanying consolidated balance sheets of Seagull Energy Corporation and Subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1993. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seagull Energy Corporation and Subsidiaries as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in Notes 11 and 13 to the consolidated financial statements, respectively, the Company adopted the provisions of the Financial Accounting Standards Board Statements of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, and No. 109, Accounting for Income Taxes, in 1992.

KPMG PEAT MARWICK

Houston, Texas
January 31, 1994, except as to

the last three paragraphs of
Note 17, Subsequent Events,
which are as of March 11, 1994.

SEAGULL ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS

	YEAR ENDED DECEMBER 31, 1993	1992	1991
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)		
Revenues:			
Exploration and production	$227,437	$ 91,991	$ 81,099
Pipeline and marketing	42,484	37,240	37,823
Alaska transmission and distribution	107,244	109,598	129,615
	377,165	238,829	248,537
Costs of Operations:			
Alaska transmission and distribution cost of gas sold	59,898	59,999	81,935
Cost of other gas sold	2,660	3,888	5,913
Operations and maintenance	104,797	71,923	68,377
Exploration charges	17,265	9,905	9,227
Depreciation, depletion and amortization	116,556	63,231	52,902
	301,176	208,946	218,354
Operating Profit	75,989	29,883	30,183
Other (Income) Expense:			
General and administrative	11,666	10,099	8,427
Interest expense	36,753	17,574	17,875
Interest income and other	(5,708)	(4,705)	(1,426)
	42,711	22,968	24,876
Earnings Before Income Taxes and Cumulative Effect of Changes in Accounting Principles	33,278	6,915	5,307
Income Taxes	6,080	2,500	200
Earnings Before Cumulative Effect of Changes in Accounting Principles	27,198	4,415	5,107
Cumulative Effect of Changes in Accounting Principles	--	2,273	--
Net Earnings	$ 27,198	$ 6,688	$ 5,107
Earnings Per Share:			
Earnings before cumulative effect of changes in accounting principles	$ 0.76	$ 0.17	$ 0.23
Cumulative effect of changes in accounting principles	--	0.09	--
Net Earnings	$ 0.76	$ 0.26	$ 0.23
Weighted Average Number of Common Shares Outstanding (in thousands)	35,790	25,583	22,692

See Accompanying Notes to Consolidated Financial Statements.

SEAGULL ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

DECEMBER 31,

	1993	1992
	(DOLLARS IN THOUSANDS)	
Current Assets:		
Cash and cash equivalents	$ 5,572	$ 3,882
Accounts receivable, net	98,734	89,823
Inventories	4,382	4,153
Prepaid expenses and other	6,520	926
Total Current Assets	115,208	98,784
Property, Plant and Equipment -- at cost (successful efforts method for gas and oil properties)	1,278,701	1,191,575
Accumulated Depreciation, Depletion and Amortization	345,512	253,773
	933,189	937,802
Other Assets	69,854	66,378
Total Assets	$1,118,251	$1,102,964
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 84,904	$ 99,520
Accrued expenses	30,134	12,713
Prepaid gas and oil sales	7,590	27,933
Current maturities of long-term debt	1,538	3,743
Total Current Liabilities	124,166	143,909
Long-Term Debt	459,787	608,011
Other Noncurrent Liabilities	66,785	80,928
Deferred Income Taxes	28,134	26,443
Shareholders' Equity:		
Common Stock, $.10 par value; authorized 100,000,000 shares (1993) and 40,000,000 shares (1992); issued 36,378,659 shares (1993) and 12,977,257 shares (1992)	3,638	1,298
Additional paid-in capital	324,192	158,503
Retained earnings	120,713	93,515
Less -- note receivable from employee stock ownership plan	(6,029)	(6,508)
Less -- 326,812 shares (1993) and 163,406 shares (1992) of Common Stock held in Treasury, at cost	(3,135)	(3,135)
Total Shareholders' Equity	439,379	243,673
Commitments and Contingencies		
Total Liabilities and Shareholders' Equity	$1,118,251	$1,102,964

</TABLE>

See Accompanying Notes to Consolidated Financial Statements.

SEAGULL ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Operating Activities:			
Net earnings	$ 27,198	$ 6,688	$ 5,107
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Cumulative effect of changes in accounting principles	--	(2,273)	--
Depreciation, depletion and amortization	119,544	65,238	54,811
Amortization of loan acquisition costs	4,261	2,927	745
Deferred income taxes	1,050	2,305	438
Dry hole expense	10,534	5,232	4,195
Gain on sales of property, plant and equipment	(3,929)	(177)	(46)
Distributions in excess of earnings from partnerships	1,506	872	888
Other	598	556	516
	160,762	81,368	66,654

Changes in operating assets and liabilities, net of acquisitions:			
Decrease (Increase) in accounts receivable, net....	(7,029)	5,039	(1,764)
Decrease (Increase) in inventories, prepaid expenses and other..............................	757	(457)	(1,089)
Increase (Decrease) in accounts payable...........	(16,292)	(11,334)	7,781
Decrease in prepaid gas and oil sales.............	(27,933)	--	--
Increase (Decrease) in accrued expenses and other...	9,496	(2,429)	(1,809)
	---------	---------	---------
Net Cash Provided By Operating Activities........	119,761	72,187	69,773
Investing Activities:			
Capital expenditures................................	(112,042)	(43,651)	(71,709)
Acquisitions, net of cash acquired..................	(29,470)	(401,888)	(201,767)
Proceeds from sales of property, plant and equipment.......................................	13,428	1,347	1,394
	---------	---------	---------
Net Cash Used In Investing Activities...........	(128,084)	(444,192)	(272,082)
Financing Activities:			
Proceeds from revolving lines of credit and other borrowings.......................................	599,490	756,500	365,900
Principal payments on revolving lines of credit and other borrowings.................................	(750,039)	(369,877)	(198,205)
Fees paid to acquire financing.......................	(6,535)	(18,282)	(3,201)
Proceeds from sales of common stock..................	166,140	794	37,571
Purchase of treasury stock...........................	--	(210)	--
Other..	957	765	1,272
	---------	---------	---------
Net Cash Provided By Financing Activities........	10,013	369,690	203,337
	---------	---------	---------
Increase (Decrease) In Cash And Cash Equivalents..................................	1,690	(2,315)	1,028
Cash And Cash Equivalents At Beginning Of Year..........	3,882	6,197	5,169
	---------	---------	---------
Cash And Cash Equivalents At End Of Year................	$ 5,572	$ 3,882	$ 6,197
	---------	---------	---------
	---------	---------	---------

</TABLE>

See Accompanying Notes to Consolidated Financial Statements.

SEAGULL ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<TABLE>
<CAPTION>

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	NOTE RECEIVABLE FROM ESOP	TREASURY STOCK	TOTAL
	(DOLLARS IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
January 1, 1991....................	$1,137	$ 119,924	$ 81,720	$(7,340)	$ (2,925)	$192,516
Net earnings.....................	--	--	5,107	--	--	5,107
Issuance of common stock, 1,500,000 shares.............	150	36,586	--	--	--	36,736
Exercise of employee stock options, 60,304 shares........	6	829	--	--	--	835
Repayment of Note Receivable by ESOP..........................	--	--	--	396	--	396
Other...........................	--	207	--	--	--	207
	------	----------	--------	---------	--------	--------
December 31, 1991..................	1,293	157,546	86,827	(6,944)	(2,925)	235,797
Net earnings.....................	--	--	6,688	--	--	6,688
Purchase of treasury stock, 9,438 shares.......................	--	--	--	--	(210)	(210)
Exercise of employee stock options, 50,235 shares........	5	789	--	--	--	794
Repayment of Note Receivable by ESOP..........................	--	--	--	436	--	436
Other...........................	--	168	--	--	--	168
	------	----------	--------	---------	--------	--------
December 31, 1992..................	1,298	158,503	93,515	(6,508)	(3,135)	243,673
Net earnings.....................	--	--	27,198	--	--	27,198
Issuance of common stock, 5,060,000 shares.............	506	163,131	--	--	--	163,637
Two-for-one stock split..........	1,807	(1,807)	--	--	--	--
Exercise of employee stock options, 271,645 shares.......	27	2,476	--	--	--	2,503
Repayment of Note Receivable by						

ESOP	--	--	--	479	--	479
Other	--	1,889	--	--	--	1,889
December 31, 1993	$3,638	$ 324,192	$120,713	$(6,029)	$ (3,135)	$439,379

</TABLE>

See Accompanying Notes to Consolidated Financial Statements.

SEAGULL ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

</TABLE>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation. The accompanying consolidated financial statements include the accounts of Seagull Energy Corporation and Subsidiaries (the "Company"), all of which are wholly owned. All significant intercompany transactions have been eliminated.

The results of operations of Seagull Mid-South Inc. ("Seagull Mid-South"), formerly Arkla Exploration Company ("Arkla Exploration"), have been included with those of the Company since December 31, 1992, and the results of operations of certain gas and oil assets (the "Mid-Continent Assets") purchased from Mesa Limited Partnership, a predecessor of Mesa, Inc. ("Mesa"), have been included with those of the Company since March 8, 1991, the respective acquisition dates (see Note 2).

Partnerships in which the Company holds a 50% interest or less are accounted for using the equity method.

Regulation. The Company operates in Alaska through ENSTAR Natural Gas Company ("ENG"), a division of the Company, and Alaska Pipeline Company ("APC"), a wholly owned subsidiary (collectively referred to herein as "ENSTAR Alaska"). ENSTAR Alaska is subject to regulation by the Alaska Public Utilities Commission ("APUC"), which has jurisdiction over, among other things, rates, accounting procedures and standards of service.

Cash Equivalents. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Supplemental Disclosures of Cash Flow Information.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Cash paid during the year for:			

Interest, net of amount capitalized........................	$ 26,753	$ 19,079	$ 16,114
Income taxes...	$ 7,140	$ 878	$ 3,748

</TABLE>

Inventories. Materials and supplies are valued at the lower of average cost or market value (net realizable value). Inventories of hydrocarbon products are valued on a first-in, first-out (FIFO) basis at the lower of cost or market value.

Gas and Oil Properties. The Company uses the successful efforts method of accounting for its gas and oil operations. The costs of unproved leaseholds are capitalized pending the results of exploration efforts. Unproved leaseholds with significant acquisition costs are assessed periodically, on a property-by-property basis, and a loss is recognized to the extent, if any, that the cost of the property has been impaired. Unproved leaseholds whose acquisition costs are not individually significant are aggregated, and the portion of such costs estimated to ultimately prove nonproductive, based on experience, is amortized over an average holding period. As unproved leaseholds are determined to be productive, the related costs are transferred to proved leaseholds. Exploratory dry holes and geological and geophysical charges are expensed. Depletion of proved leaseholds and amortization and depreciation of the costs of all development and successful exploratory drilling are provided by the unit-of-production method based upon estimates of proved gas and oil reserves on a field-by-field basis. Estimated costs (net of salvage value) of dismantling and abandoning gas and oil production facilities are computed and included in depreciation and depletion using the unit-of-production method. The total estimated future dismantlement and abandonment cost being amortized as of December 31, 1993 was approximately $23.2 million. On a world-wide basis, should the net capitalized costs exceed the estimated future undiscounted after tax net cash flows from proved gas and oil reserves, such excess costs would be charged to expense.

Other Property, Plant and Equipment. Depreciation of gas gathering pipeline facilities is computed principally using the unit-of-production method based on the estimated proved reserves to be transported through the pipeline facility. Depreciation of the utility plant, gas processing plants and other property is computed using the straight-line method over their estimated useful lives, which vary from 3 to 33 years. Gain or loss on sale or disposition of non-utility property is credited or charged to interest income and other.

Utility plant facilities are subject to APUC regulation. When utility properties are disposed of or otherwise retired, the original cost of the property, plus cost of retirement, less salvage value, is charged to accumulated depreciation.

Maintenance, repairs and renewals are charged to operations and maintenance expense except that renewals which extend the life of the property are capitalized.

Treasury Stock. The Company follows the cost method of accounting for treasury stock transactions.

Revenue Recognition. The Company records revenue following the entitlement method of accounting for production gas imbalances.

The Company constructs pipeline systems for third parties and recognizes profits on construction under the percentage-of-completion method.

ENSTAR Alaska's operating revenues are based on rates authorized by the APUC which are applied to customers' consumption of natural gas. ENSTAR Alaska records unbilled revenue, including amounts to be billed under a purchased gas adjustment clause, at the end of each accounting period.

General and Administrative Expense. General and administrative expenses represent various overhead costs of corporate departments. All overhead expenses directly related to the operations of the Company's business segments are included in operations and maintenance costs and exploration charges.

Interest Rate Swap Agreements. The Company has entered into interest rate swap agreements to manage the impact of changes in interest rates. The differential interest to be paid or received is accrued as interest rates change and is recognized over the life of the agreements as a component of interest expense.

SEAGULL ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Income Taxes. Effective January 1, 1992, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. This SFAS requires the use of the liability method under which deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date.

Prior to January 1, 1992, the Company used the deferral method of accounting for income taxes, under which deferred taxes were provided for all material timing differences arising from the recognition of certain items of income and expense in different accounting periods for tax and financial accounting purposes using the tax rate applicable for the year of the calculation. Under the deferral method, deferred taxes were not adjusted for subsequent changes in tax rates.

Earnings Per Share. The weighted average number of common shares outstanding for the computation of earnings per share for the year ended December 31, 1993 gives effect to the assumed exercise of dilutive stock options as of the beginning of the year. The effect of dilutive stock options is insignificant on the earnings per share computations for the years ended December 31, 1992 and 1991.

On June 4, 1993, the Company effected, in the form of a 100 percent stock dividend, a two-for-one stock split (the "Stock Split") of all the issued shares of the Company's common stock ("Seagull Common Stock"). The weighted average number of common shares outstanding and per share amounts for all periods have been restated to reflect the Stock Split. All share amounts included in the consolidated balance sheets and consolidated statements of shareholders' equity as of dates prior to June 4, 1993 were not adjusted to reflect the Stock Split.

Changes in Financial Presentation. Certain reclassifications have been made in the 1992 and 1991 financial statements to conform to the presentation used in 1993.

2. ACQUISITIONS

Seagull Mid-South Inc. On December 31, 1992, the Company purchased all of the outstanding capital stock of Arkla Exploration from Arkla, Inc. ("Arkla") for approximately $397 million in cash, subject to certain customary post-closing adjustments (the "Mid-South Acquisition"). The purchase price was adjusted for, among other things, certain title defects and an adjustment relating to the net aggregate gas imbalances attributable to Arkla Exploration's interest in the properties it owned. The final adjusted purchase price was approximately $393 million. The acquisition was accounted for as a purchase.

Seagull Mid-South's assets (the "Mid-South Properties") consist almost exclusively of natural gas and oil reserves and developed and undeveloped lease acreage concentrated principally in a small number of fields located in Arkansas, Louisiana, Mississippi, Oklahoma and Texas. Arkla Exploration entered into prepaid gas and oil sales contracts prior to its acquisition by the Company. As of December 31, 1992, Seagull Mid-South was obligated to deliver for no future consideration approximately 13 billion cubic feet ("Bcf") of gas and approximately one million barrels ("MMbbl") of oil and condensate pursuant to these contracts over periods expiring January 31, 1994 and June 30, 1995, respectively. As of December 31, 1993, approximately 620 million cubic feet ("MMcf") of gas and 529,000 barrels ("Bbl") of oil and condensate remain to be delivered under these contracts.

Mid-Continent Assets. On March 8, 1991, the Company purchased the Mid-Continent Assets from Mesa for approximately $199 million in cash after certain adjustments. In addition, the Company and Mesa entered into a contingent gas price payment agreement at the closing pursuant to which the Company would generally pay an additional $450,000 (up to a maximum of $25 million) for each $.01 that the weighted average wellhead price, as defined, of natural gas sold from the Mid-Continent Assets exceeds $1.80 per thousand cubic feet ("Mcf") for the three year period ending December 31, 1993. The estimated weighted average wellhead price, as defined, of natural gas sold for the three year period ended December 31, 1993 was $1.76 per Mcf. Based upon this estimated price, the Company does not anticipate that any payment will be required under the contingent gas price payment agreement. The Mid-Continent Assets include gas and oil interests generally located in Western Oklahoma and the Texas Panhandle and certain related assets. The acquisition was accounted for as a purchase.

See Note 17 for information concerning the Company's acquisition of Novalta Resources Inc. ("Novalta") (the "Seagull Canada Acquisition") in January 1994.

3. PROPERTY, PLANT AND EQUIPMENT

The major classes of the Company's property, plant and equipment are shown below:

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Gas and oil properties	$ 972,460	$ 888,178
Pipeline facilities	63,019	72,413
Gas processing plants	15,808	12,301
Utility plant	216,883	208,419
Equipment and other	10,531	10,264
	$1,278,701	$1,191,575

Interest cost capitalized as property, plant and equipment amounted to approximately $0.9 million in 1993 and 1992 and $1.7 million in 1991. Total depreciation, depletion and amortization related to property, plant and equipment amounted to approximately $119.5 million, $65.2 million and $54.8 million in 1993, 1992 and 1991, respectively.

4. SUPPLEMENTAL GAS AND OIL PRODUCING ACTIVITIES (UNAUDITED)

CAPITALIZED COSTS RELATING TO GAS AND OIL PRODUCING ACTIVITIES

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Proved properties	$956,604	$876,419
Unproved properties	15,856	11,759
	972,460	888,178
Accumulated depreciation, depletion and amortization	224,451	137,201
	$748,009	$750,977

COSTS INCURRED IN GAS AND OIL PROPERTY ACQUISITION, EXPLORATION AND DEVELOPMENT ACTIVITIES

<TABLE>

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Acquisition of properties:			
Proved	$ 22,568	$455,970	$199,499
Unproved	7,750	3,078	6,500
Exploration costs	26,824	8,378	15,053
Development costs	63,598	18,341	38,960
	$120,740	$485,767	$260,012

RESULTS OF OPERATIONS FOR GAS AND OIL PRODUCING ACTIVITIES

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Revenues	$227,437	$91,991	$81,099
Lifting costs:			
Lease operating expense	28,806	15,334	14,946
Workover expense	4,249	2,449	2,058
Production taxes	9,133	4,045	3,531
Transportation expenses	7,764	2,757	1,827
Ad valorem taxes	3,291	1,645	1,656
	53,243	26,230	24,018
General operating expense	10,408	4,614	3,933
Exploration charges	17,265	9,905	9,227
Depreciation, depletion and amortization	103,552	52,855	42,646
Operating profit (loss)	42,969	(1,613)	1,275
Income tax expense (benefit)(*)	7,851	(584)	48
Results of operations from producing activities	$ 35,118	$(1,029)	$ 1,227

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(*) Income tax expense is calculated by applying the current effective tax rate to operating profit.

SEAGULL ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

RESERVE QUANTITY INFORMATION

	YEAR ENDED DECEMBER 31,					
	1993		1992		1991	
	GAS (MMCF)	OIL (MBBL)(1)	GAS (MMCF)	OIL (MBBL)(1)	GAS (MMCF)	OIL (MBBL)(1)
Proved developed and undeveloped reserves:						
Beginning of year	884,327	18,149	335,121	11,014	127,709	5,791
Purchases of reserves in place	34,350	198	573,526	6,691	167,098	4,639
Sales of reserves in place	(9,587)	(1,554)	(181)	(24)	(506)	(52)
Revisions of previous estimates	24,924	(1,281)	(5,503)	1,548	7,675	982
Extensions and discoveries	83,158	972	19,501	199	66,051	990
Production	(102,025)	(1,694)	(38,137)	(1,279)	(32,906)	(1,336)

End of year(2)	915,147	14,790	884,327	18,149	335,121	11,014
Proved developed reserves:						
Beginning of year	675,861	11,552	265,987	7,213	106,369	3,901
End of year	693,610	9,362	675,861	11,552	265,987	7,213

</TABLE>

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(1) "Mbbl" represents one thousand barrels of oil.

(2) At December 31, 1993 and 1992, includes approximately 620 MMcf and 13 Bcf of gas, respectively, and 529 Mbbl and one MMbbl of oil, respectively, related to prepaid gas and oil sales.

Proved reserves attributable to the properties obtained on January 4, 1994 in connection with the Seagull Canada Acquisition (see Note 17) were as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 1993	
	GAS (MMCF)	OIL (MBBL)
<S>	<C>	<C>
Proved developed and undeveloped reserves	257,382	2,783
Proved developed reserves	236,945	2,529

</TABLE>

The Company's standardized measure of discounted future net cash flows and changes therein as of December 31, 1993, 1992 and 1991 are provided based on the present value of future net revenues from proved gas and oil reserves (all located in the United States prior to 1994) estimated by independent petroleum engineers in accordance with guidelines established by the Securities and Exchange Commission. These estimates were computed by applying appropriate current prices for gas and oil to estimated future production of proved gas and oil reserves over the economic lives of the reserves and assuming continuation of existing economic conditions. Year end 1993 calculations were made utilizing average prices for natural gas and oil, condensate and natural gas liquids that existed at December 31, 1993 of $2.33 per Mcf and $12.13 per Bbl, respectively. Income taxes are computed by applying the statutory federal income tax rate to the net cash inflows relating to proved gas and oil reserves less the tax bases of the properties involved and giving effect to any net operating loss carryforwards, tax credits and allowances relating to such properties. The reserve volumes provided by the independent petroleum engineers are estimates only and should not be construed as being exact quantities. These reserves may or may not be recovered and may increase or decrease as a result of future operations of the Company and changes in market conditions.

SEAGULL ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1993	1992
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Future cash inflows(*)	$2,318,243	$2,168,259
Future development costs	(234,494)	(206,574)
Future production costs	(564,915)	(522,686)
Future net cash flows before income taxes	1,518,834	1,438,999
10% annual discount	(625,504)	(604,461)

Discounted future net cash flows before income taxes	893,330	834,538
Discounted income taxes	(165,682)	(140,090)
Standardized measure of discounted future net cash flows(*)	$ 727,648	$ 694,448

</TABLE>

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(*) At December 31, 1993 and 1992, future cash inflows include approximately $10.3 million and $38.3 million, respectively, for prepaid gas and oil sales made by Arkla Exploration prior to its acquisition by the Company. In addition, the standardized measure of discounted future net cash flows includes approximately $6.2 million and $23.7 million, respectively, relating to these prepaid sales. As discussed in Note 2, Seagull Mid-South was obligated, as of December 31, 1992, under prepaid gas and oil sales contracts to deliver for no future consideration approximately 13 Bcf of gas and approximately one MMbbl of oil and condensate over periods expiring January 31, 1994 and June 30, 1995, respectively. As of December 31, 1993, 620 MMcf of gas and 529 Mbbl of oil and condensate remain to be delivered under these contracts.

The standardized measure of discounted future net cash flows relating to the properties obtained on January 4, 1994 in connection with the Seagull Canada Acquisition (see Note 17) is as follows:

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

<TABLE>
<CAPTION>

	DECEMBER 31, 1993
	(DOLLARS IN THOUSANDS)
<S>	<C>
Future cash inflows	$ 493,067
Future development costs	(22,113)
Future production costs	(121,425)
Future net cash flows before income taxes	349,529
10% annual discount	(160,085)
Discounted future net cash flows before income taxes	189,444
Discounted income taxes	(62,149)
Standardized measure of discounted future net cash flows	$ 127,295

</TABLE>

SEAGULL ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

PRINCIPAL SOURCES OF CHANGE IN THE STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Standardized measure of discounted future net cash flows, beginning of year	$ 694,448	$289,881	$158,757
Purchases of reserves in place	28,871	486,048	166,477
Sales of reserves in place	(13,679)	(259)	(776)
Revisions of previous quantity estimates less related costs	16,660	(4,155)	11,457
Extensions and discoveries less related costs	87,345	13,760	56,308
Net changes in prices and production costs	28,393	15,790	(48,457)
Development costs incurred during period and changes in estimated future development costs	22,248	8,595	13,245
Sales of gas and oil produced during period, net of lifting costs	(174,194)	(65,761)	(57,081)
Accretion of discount	83,454	35,407	20,181
Net change in income taxes	(25,591)	(75,900)	(21,137)

Other	(20,307)	(8,958)	(9,093)
	33,200	404,567	131,124
Standardized measure of discounted future net cash flows, end of year	$ 727,648	$694,448	$289,881

</TABLE>

5. OTHER NONCURRENT ASSETS

Other assets include the following:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1993	1992
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Natural gas imbalances	$31,271	$35,418
Debt acquisition costs	19,007	17,305
Investments in partnerships	7,377	8,883
Acquisition costs -- Seagull Canada Acquisition	7,745	--
Other	4,454	4,772
	$69,854	$66,378

</TABLE>

Natural Gas Imbalances. The Company records revenue following the entitlement method of accounting for production imbalances, in which any excess amount received above the Company's share is treated as a liability. If less than the Company's entitlement is received, the underproduction is recorded as an asset. The Company records revenue from gas marketing sales net of the cost of gas and third-party delivery fees, with any resulting transportation imbalances recorded as a current receivable or payable.

The Company's natural gas imbalance assets and liabilities were as follows:

<TABLE>
<CAPTION>

	DECEMBER 31,			
	1993		1992	
	AMOUNT	VOLUMES	AMOUNT	VOLUMES
	(DOLLARS IN THOUSANDS AND VOLUMES IN BCF)			
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Current	$ 5,808	3.6	$ 2,686	1.8
Noncurrent	31,271	20.9	35,418	23.8
	$37,079	24.5	$38,104	25.6
LIABILITIES:				
Current	$ 7,546	4.5	$ 5,552	3.7
Noncurrent	31,693	20.7	39,011	25.7
	$39,239	25.2	$44,563	29.4

</TABLE>

Debt Acquisition Costs. Debt acquisition costs represent financing costs incurred in connection with the execution of various facilities entered into or securities issued by the Company. These costs are capitalized and amortized to interest expense over the life of the related debt. As discussed in Note 6, the Company has a $475 million revolving credit line which matures in 1999. Financing costs initially incurred in 1992 of approximately $16.7 million were capitalized in connection with this facility and will be amortized to interest expense over periods ending December 31, 1999. Approximately $5.0 million in financing costs incurred were capitalized in connection with the Company's July 1993 issuance of $250 million in senior and senior subordinated notes, and will be amortized to interest expense over periods ending August 1, 2005 (see Note 6).

Investments in Partnerships.

Seagull Shoreline System. The Company, through one of its wholly owned subsidiaries, serves as operator and at December 31, 1993 held approximately a 19% interest in the Seagull Shoreline System ("SSS"), a partnership that owns an offshore gas pipeline. At December 31, 1993, the Company's investment in SSS amounted to $2.3 million.

Cavallo Pipeline Company. A wholly owned subsidiary of the Company owns a 50% interest in, and operates, Cavallo Pipeline Company ("Cavallo"). The Cavallo system consists of an offshore pipeline system. At December 31, 1993, the Company's investment in Cavallo amounted to approximately $5.1 million.

Acquisition Costs -- Seagull Canada Acquisition. Acquisition costs represent costs incurred in connection with the Seagull Canada Acquisition, including a deposit of approximately $7.5 million paid in November 1993 which was applied as part of the cash purchase price paid in January 1994 (see Note 17).

6. LONG-TERM DEBT

Long-term debt for 1993 and 1992 was as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Seagull Energy Corporation:		
Money market facilities, variable rates (3.875%-4.75% at December 31, 1993) due in 1994	$ 70,000	$ --
Term Loan, variable rates (8% at December 31, 1992) due in 1993-1995	--	150,000
Revolving credit, variable rates (6% and 8% at December 31, 1993 and 1992) due in 1996-1999	77,000	391,000
Senior notes, 7.875%, due August 1, 2003	100,000	--
Senior subordinated notes, 8.625%, due August 1, 2005	150,000	--
Alaska Pipeline Company:		
Unsecured industrial development bonds: 7.75%-8.00% due in 1993-2008	12,915	13,100
Other unsecured indebtedness:		
9.95%-12.80% notes, due in 1993-2000	2,750	9,107
8.15%-8.81% notes, due in 1997-2009	50,000	50,000
Other debt	26	33
	462,691	613,240
Less: Current maturities	1,538	3,743
Unamortized debt discount	1,366	1,486
Total long-term debt	$459,787	$608,011

</TABLE>

Money Market Facilities. The Company has money market facilities with two major U.S. banks with a combined maximum commitment of $70 million. These lines of credit bear interest at rates made available by the banks at their discretion and may be canceled at either the Company's or the banks' discretion. The lines are subject to annual renewal. In connection with the Seagull Canada Acquisition (see Note 17), borrowings outstanding under the Company's money market facilities were reduced to $10 million in January 1994 and the remaining $60 million was refinanced with borrowings under the Revolver (defined below).

Seagull Energy Corporation Revolving Credit. During 1993, the Company amended and restated its credit agreement with a group of major U.S. and international banks (the "Banks") converting the facility into a single revolving credit facility (the "Revolver") with a total commitment of $475 million and a final maturity of December 31, 1999. The facility was also amended to, among other things, release as security all of the following: (i) a pledge of the stock of all direct or indirect subsidiaries of the Company whose shares had been pledged; (ii) a mortgage on all gas and oil properties of the Company and its subsidiaries; and (iii) guaranties from each of the Company's subsidiaries pledging stock or mortgaging properties as described above. Under the terms of the Revolver, the commitments thereunder begin to decline on March 31, 1996 in equal quarterly reductions of $27.5 million and a final reduction of $62.5 million on December 31, 1999.

The Revolver is an unsecured credit facility that contains restrictive provisions regarding the incurrence of additional debt, the making of investments outside existing lines of business, the maintenance of certain financial ratios (based upon the Company's consolidated financial condition and results of operations), the incurrence of additional liens, the declaration or payment of dividends (other than dividends payable on up to $100 million of preferred stock or dividends payable solely in the form of additional shares of the Company's common stock) and the repurchase or redemption of capital stock. Under the most restrictive of these provisions, approximately $9.1 million was available for payment of cash dividends on Seagull Common Stock

or to repurchase Seagull Common Stock as of December 31, 1993. As of January 4, 1994, immediately following the Seagull Canada Acquisition, the Company's consolidated Debt to Capitalization Ratio, as defined under the Revolver, increased to 60.2%. In the event the Company's consolidated Debt to Capitalization Ratio is in excess of 60% as of March 31, 1994, the Company would not be able to pay any cash dividends on or repurchase any Seagull Common Stock under these provisions. No cash dividends have been paid on Seagull Common Stock since the Company became an independent entity in 1981. However, in connection with the consummation of the ENSTAR Alaska Stock Offering (see Note 17), the Revolver will be required to be amended to allow for the payment of cash dividends on the ENSTAR Alaska Stock.

The Revolver bears interest, at the Company's option, at a rate equal to (i) either one, two, three or six month Adjusted LIBOR, plus a margin (the "LIBOR Margin") or (ii) the Reference Rate, plus a margin (the "Prime Margin"). The "Reference Rate" is the greater of (i) 0.5% per annum above the daily federal funds rate or (ii) the prime rate of the agent bank. The LIBOR Margin ranges from 0.625% to 2.5% per annum, depending upon the Company's credit rating and consolidated Debt to Capitalization Ratio (as defined under the Revolver), and the Prime Margin ranges from 0% to 1.5% per annum, depending upon the same factors.

Under provisions included in the Revolver, the amount of senior indebtedness available to the Company is subject to a borrowing base (the "Borrowing Base"), based upon the proved reserves of the Company's exploration and production segment and the financial performance of the Company's other business segments. The Borrowing Base is generally determined annually, but may be redetermined, at the option of either the Company or the Banks, one additional time each year, and will be redetermined upon the sale of certain assets included in the Borrowing Base. If the Borrowing Base is redetermined in such a manner that the amount outstanding under the Revolver (or any other permitted senior debt facility) exceeds the new Borrowing Base, then the Company must repay the Revolver or such other indebtedness in an amount necessary to cure the deficiency. If such deficiency has not been cured within 30 days, such deficiency must be cured in three equal quarterly installments.

As of January 4, 1994, immediately following the Seagull Canada Acquisition, the available commitment under the Revolver is subject to a $610 million Borrowing Base and is determined after consideration of outstanding borrowings under the Company's other senior debt facilities. On that date, borrowings outstanding under the Revolver were $188.5 million, leaving immediately available unused commitments of approximately $149.3 million, net of outstanding letters of credit of $2.2 million, $100 million of borrowings outstanding under the Senior Notes (defined below), the nominated maximum borrowing availability of $160 million under the Canadian Credit Agreement (defined below), and $10 million in borrowings outstanding under the Company's money market facilities.

Canadian Credit Agreement. In connection with the Seagull Canada Acquisition (see Note 17), Seagull Energy Canada Ltd. ("Seagull Canada"), the indirect wholly owned subsidiary of the Company which acquired Novalta, entered into a new $175 million reducing revolving credit facility (the "Canadian Credit Agreement") with a group of 10 Canadian affiliates of major U.S. and international banks. The Canadian Credit Agreement provides for dual currency borrowings in U.S. and Canadian dollars with a nominated maximum borrowing availability of $160 million, which may be increased or decreased by the Company at any time pursuant to provisions of the Canadian Credit Agreement, up to a maximum commitment of $175 million. The Canadian Credit Agreement matures on December 31, 1999 and commitments thereunder begin to decline on March 31, 1996 in equal quarterly reductions of $10,937,500. As of January 4, 1994, immediately following the Seagull Canada Acquisition, approximately $152 million in borrowings were outstanding under this facility, which are currently denominated in Canadian dollars.

Borrowings outstanding in Canadian dollars bear interest, at Seagull Canada's option, at a rate equal to (i) either one, two, three or six month Bankers' Acceptance Rate plus the LIBOR Margin or (ii) the Paying Agent's prime rate plus the Prime Margin. Borrowings outstanding under the Canadian Credit Agreement

funded in U.S. dollars bear interest, at Seagull Canada's option, in a manner similar to borrowings outstanding under the Revolver as described above. The Canadian Credit Agreement is an unsecured credit facility guaranteed by the Company and contains restrictive provisions similar to those included in the Revolver.

Senior and Senior Subordinated Notes. In July 1993, the Company sold $100 million of senior notes (the "Senior Notes") and $150 million of senior subordinated notes (the "Senior Subordinated Notes") (collectively the "Notes") in an underwritten public offering. The Senior Notes bear interest at 7 7/8% per annum, are not redeemable prior to maturity or subject to any sinking fund and mature on August 1, 2003. The Senior Subordinated Notes bear interest at 8 5/8% per annum, are not subject to any sinking fund and mature on August 1, 2005. On or after August 1, 2000, the Senior Subordinated Notes are redeemable at the option of the Company, in whole or in part, at redemption prices declining from 102.59% in 2000 to 100.00% in 2003 and thereafter (expressed as a percentage of principal amount), plus accrued interest to the redemption date. The Notes were issued at par and interest is paid semiannually.

The Notes represent unsecured obligations of the Company. The Senior Notes rank pari passu with senior indebtedness of the Company while the Senior Subordinated Notes are subordinate in right of payment to all existing and future senior indebtedness of the Company. The Notes contain conditions and restrictive provisions including, among other things, restrictions on additional indebtedness by the Company and by its subsidiaries, as well as restrictions on the incurrence of secured debt and entering into sale and leaseback transactions. Net proceeds from the offering, totaling approximately $245.0 million, were used to repay borrowings outstanding under the Revolver.

Interest Rate Swap Agreements. The Company enters into interest rate swap agreements to manage the impact of changes in interest rates. During 1993, the following interest rate swap agreements were in effect:

NOTIONAL AMOUNT (DOLLARS IN THOUSANDS)	EFFECTIVE DATE	MATURITY DATE	INTEREST RATE RECEIVED	INTEREST RATE PAID
$15,000	9/11/92	9/11/93	Floating	5.52%
40,000	9/11/92	9/11/95	Floating	6.76%
20,000	9/16/92	9/16/94	Floating	6.265%
25,000	9/11/92	9/11/94	Floating	6.265%
50,000	8/2/93	7/31/98	5.635%	Floating
50,000	8/2/93	7/31/97	5.43%	Floating
50,000	8/2/93	7/31/96	5.199%	Floating

While notional amounts are used to express the volume of the interest rate swap transactions discussed above, the amount potentially subject to credit risk, in the event of nonperformance by the counterparties, is significantly smaller. For the year ended December 31, 1993, interest expense included approximately $1.8 million net expense relating to these agreements.

Alaska Pipeline Company. All long-term debt of ENSTAR Alaska is issued by

APC. The majority of the capital requirements of ENG are met by loans from APC pursuant to intercompany notes secured by a mortgage on the properties, rights and franchises (other than certain excepted properties) of ENG. The senior unsecured notes of APC provide for restrictions on dividends, additional borrowings and purchases, redemptions or retirements of shares of capital stock, other than in stock of APC. Under the most restrictive provisions of these financing arrangements, approximately $14.2 million was available for the making of restricted investments, restricted stock payments and restricted subordinated debt payments as of December 31, 1993.

In July 1992, APC issued three new series of APC senior unsecured notes totaling $50 million to a group of institutional investors. The notes have interest rates ranging from 8.15% to 8.81% and have final maturities ranging from 2001 to 2009. The proceeds were used to retire APC's then existing $40 million unsecured credit agreement, to meet sinking fund requirements on other APC debt and for working capital purposes. The Company has not guaranteed payment of the new senior unsecured notes of APC.

APC has a $5 million revolving line of credit, none of which was utilized during 1993. This is a one year line of credit which has historically been renewed annually and is used for seasonal working capital requirements.

Annual Maturities. At December 31, 1993, the Company's aggregate annual maturities of long-term debt are as follows:

YEAR ENDING DECEMBER 31,	(DOLLARS IN THOUSANDS)
1994	$ 1,538
1995	$ 1,550
1996	$ 1,564
1997	$ 7,577
1998	$ 9,097
Thereafter	$441,365

For purposes of the above table, the required payments related to the money market facilities are considered to be funded with amounts available under the Revolver.

7. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities include the following:

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Natural gas imbalances	$31,693	$39,011
Refundable customer advances for construction	11,623	10,379
Prepaid gas and oil sales	2,732	10,322
Contingent consideration -- Wacker	--	3,104
Other	20,737	18,112
	$66,785	$80,928

Natural Gas Imbalances. Revenues for natural gas production received and sold by the Company in excess of the Company's ownership percentage of total gas production (see Note 5).

Refundable Customer Advances For Construction. Customer deposits received by ENSTAR Alaska for construction of main extensions refundable either wholly or in part over a period not to exceed 10 years.

Prepaid Gas and Oil Sales. Prepayments received pursuant to prepaid gas and oil sales contracts Arkla Exploration entered into prior to its acquisition by the Company (see Notes 2 and 4).

Contingent Consideration -- Wacker. A portion of the adjusted purchase price of Wacker Oil Inc. ("Wacker") withheld pending resolution of issues that developed with respect to two of its producing gas wells prior to the closing of the acquisition of Wacker by the Company in 1990. The disposition of the contingent consideration was settled through arbitration on December 2, 1993 pursuant to provisions of the agreements executed in connection with the acquisition. The arbitration resulted in a payment to the seller of $1 million of

the funds withheld at closing. This amount was paid in December 1993, and the remaining unpaid contingent consideration was accounted for as a reduction to the purchase price.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments are summarized as follows:

<TABLE>
<CAPTION>

	DECEMBER 31,			
	1993		1992	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
	(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Assets:				
Cash and cash equivalents.....................	$ 5,572	$ 5,572	$ 3,882	$ 3,882
Liabilities:				
Customer deposits............................	(1,672)	(1,571)	(1,809)	(1,701)
Refundable customer advances for construction..............................	(11,983)	(9,858)	(10,812)	(8,314)
Long-term debt:				
Seagull Energy Corporation:				
Term Loan...............................	--	--	(150,000)	(150,000)
Revolver and money market facilities.....	(147,000)	(147,000)	(391,000)	(391,000)
Senior Notes............................	(100,000)	(99,500)	--	--
Senior Subordinated Notes................	(150,000)	(149,250)	--	--
Alaska Pipeline Company, including current maturities..............................	(64,325)	(75,800)	(70,754)	(75,667)
Interest rate swap agreements:				
In a receivable position......................	--	1,986	--	--
In a payable position.........................	--	(2,709)	--	(3,161)

</TABLE>

Cash and Cash Equivalents. The carrying amount approximates fair value because of the short maturity of these instruments.

Customer Deposits And Refundable Customer Advances For Construction. The fair value is based on discounted cash flow analyses utilizing a discount rate of 6% with monthly payments ratably over the estimated period of deposit or advance refunding.

Long-Term Debt.

Seagull Energy Corporation. The carrying amount of borrowings outstanding under the Company's Term Loan, Revolver and money market facilities approximates fair value because these instruments bear interest at rates tied to current market rates.

The fair value of the Company's Senior and Senior Subordinated Notes is estimated based on quoted market prices for the same issues.

Alaska Pipeline Company. The fair value of APC's long-term debt is estimated based on quoted market prices for the same or similar issues.

Interest Rate Swap Agreements. The fair values are obtained from the financial institutions that are counterparties to the transactions. These values represent the estimated amount the Company would pay or receive to terminate the agreements, taking into consideration current interest rates and the current creditworthiness of the counterparties. The Company's interest rate swap agreements are off balance sheet

transactions and, accordingly, there are no respective carrying amounts for these transactions included in the accompanying consolidated balance sheets as of December 31, 1993 and 1992.

9. SHAREHOLDERS' EQUITY

Seagull Common Stock. In February 1993, the Company sold 5,060,000 shares (10,120,000 shares after the Stock Split) of Seagull Common Stock in an underwritten public offering. Net proceeds from the offering, totaling approximately $163.6 million, were used to repay the Company's then existing term loan in full, with the remaining $13.6 million being used to repay borrowings outstanding under the Revolver.

In December 1991, the Company sold 1,500,000 shares (3,000,000 shares after the Stock Split) of Seagull Common Stock in an underwritten public offering. Net proceeds from the offering, totaling approximately $37 million, were used to repay borrowings outstanding under the Company's then existing revolving credit line.

See Note 6 for information concerning restrictions imposed by the Revolver on the Company's future purchases of Common Stock.

Preferred Stock. The Company is authorized to issue 5,000,000 shares of preferred stock, par value $1.00 per share, in one or more series. There were no shares issued or outstanding as of December 31, 1993, 1992 and 1991.

Preferred Share Purchase Rights. In 1989, the Company adopted a Share Purchase Rights Plan to protect the Company's shareholders from coercive or unfair takeover tactics. Under the Plan, each outstanding share and each share of Seagull Common Stock subsequently issued has attached to it one Right, exercisable at $32.75 (adjusted for Stock Split), subject to certain adjustments. Generally, in the event a person or group acquires 20% or more of the outstanding Seagull Common Stock other than pursuant to a cash tender offer for all shares of such Seagull Common Stock (provided that the tender offer increases the acquiring person's or group's ownership to at least 85% of the outstanding Seagull Common Stock), or in the event the Company is acquired in a merger or other business combination or 50% or more of the Company's consolidated assets or earning power is sold, each Right entitles the holder to purchase shares of Seagull Common Stock of the Company or of the acquiring company, having a value of twice the exercise price. The Rights, under certain circumstances, are redeemable at the option of the Company's Board of Directors at a price of $0.01 per Right, within 10 days (subject to extension) following the day on which the acquiring person or group exceeds the 20% threshold. The Rights expire on March 22, 1999.

10. STOCK OPTION PLANS

The Company currently has six stock option plans: the 1981 Stock Option Plan; the 1983 Stock Option Plan; the 1986 Stock Option Plan; the 1990 Stock Option Plan; the 1993 Stock Option Plan and the 1993 Nonemployee Directors' Stock Option Plan. Twenty percent of (i) all options granted through December 31, 1992, (ii) 100,000 options granted in May 1993, and (iii) all options granted under the 1993 Nonemployee Directors' Stock Option Plan become exercisable on a cumulative basis in each of the first five years and expire 10 years after the date of grant. Beginning in 1993, 40% of all other options granted become exercisable after three years and 20% become exercisable on a cumulative basis in each of the next three years, and the options expire 10 years after the date of grant. The options are granted at the quoted market value of Seagull Common Stock on the date of grant. Accordingly, no compensation expense is recognized in the Company's results of operations relating to these options.

Information relating to stock options is summarized as follows (adjusted for Stock Split):

	1993		1992		1991	
	SHARES	OPTION PRICE PER SHARE	SHARES	OPTION PRICE PER SHARE	SHARES	OPTION PRICE PER SHARE
Balance outstanding --						
Beginning of year	1,862,872		1,366,736		1,513,344	
Granted	615,000	$26.38	711,000	$11.94	--	--
Exercised(*)	(304,952)	$ 6.31-$14.88	(100,664)	$ 3.25-$14.88	(120,608)	$ 5.56-$10.81
Cancelled	(13,028)		(114,200)		(26,000)	
Balance outstanding --						
End of year(*)	2,159,892	$ 6.31-$26.38	1,862,872	$ 6.31-$14.88	1,366,736	$ 3.25-$14.88
Options exercisable --						
End of year	763,892		764,736		726,168	
Options available for grant --						
End of year	1,430,060		242,104		858,904	

- ------------

(*) The dollar amounts given in the "Option Price Per Share" columns represent ranges of values.

11. EMPLOYEE BENEFIT PLANS

Retirement Plans. Effective January 1, 1986, the Company adopted an unfunded retirement plan which provides for supplemental benefits to certain officers and key employees. As of December 31, 1993, only one person was designated to participate in such plan. Total expenses of the plan were approximately $0.2 million for 1993 and 1992 and $0.3 million for 1991. The retirement plan's costs are included in general and administrative expenses.

ENSTAR Alaska has two defined benefit retirement plans which cover salaried employees (the "Salaried Retirement Plan") and operating employees (the "Operating Unit Plan"). Clerical unit personnel, which constitute approximately 25% of total ENSTAR Alaska personnel, are not covered under a retirement plan. Determination of benefits for the salaried employees is based upon a combination of years of service and final monthly compensation. Benefits for operating employees are based solely on years of service. ENSTAR Alaska's policy is to fund the minimum contributions required by applicable regulations. The net pension costs are included in operations and maintenance costs.

The following table sets forth the ENSTAR Alaska plans' funded status and the amounts recognized in the consolidated financial statements at December 31, 1993 and 1992:

	1993		1992	
	SALARIED EMPLOYEES	OPERATING EMPLOYEES	SALARIED EMPLOYEES	OPERATING EMPLOYEES
	(DOLLARS IN THOUSANDS)			
Actuarial present value of benefit obligations:				

Vested benefit obligation	$(4,756)	$(2,753)	$(4,196)	$(2,449)
Accumulated benefit obligation	$(4,866)	$(2,773)	$(4,285)	$(2,465)
Projected benefit obligation for services rendered to date	$(5,921)	$(2,773)	$(5,778)	$(2,465)
Plan assets at fair value, primarily listed stocks and corporate and U.S. bonds	4,094	2,790	3,721	2,467
Plan assets in excess of (less than) projected benefit obligation	(1,827)	17	(2,057)	2
Unrecognized prior service cost	90	19	245	21
Unrecognized net loss	417	632	618	585
Unrecognized net obligation (asset) arising out of the initial application of SFAS No. 87, amortized over 15 years (salaried) and 18 years (operating)	748	(101)	842	(111)
Additional minimum liability	(200)	--	(212)	--
Prepaid (accrued) pension cost	$ (772)	$ 567	$ (564)	$ 497
Net pension cost includes the following components:				
Service cost -- benefits earned during the period	$ 232	$ 110	$ 195	$ 84
Interest cost on projected benefit obligation	413	190	386	162
Actual return on plan assets	(333)	(224)	(185)	(197)
Net amortization and deferral	147	40	22	18
Net periodic pension cost	$ 459	$ 116	$ 418	$ 67

</TABLE>

The assumed weighted average discount rate for both ENSTAR Alaska plans was 7.25% for 1993 and 1992, and the rate of increase in future compensation for the Salaried Retirement Plan used in determining the projected benefit obligation was 5% and 5.5% for 1993 and 1992, respectively. The expected long-term rate of return on plan assets for both ENSTAR Alaska plans was 8%.

Profit Sharing Plans. ENSTAR Alaska has profit sharing plans for salaried employees and union employees. Annual contributions for each plan are determined by the Company's Board of Directors pursuant to formulae which contain minimum contribution requirements. Profit sharing expense was approximately $0.3 million for each of the years 1993, 1992 and 1991, and is included in operations and maintenance costs.

Thrift Plans. The Seagull Thrift Plan and the ENSTAR Natural Gas Company Thrift Plan (collectively, the "Thrift Plans") are qualified employee savings plans in accordance with the provisions of Section 401(k) of the Internal Revenue Code of 1986. Company contributions to the Thrift Plans were approximately $1.3 million, $0.9 million and $0.8 million for the years 1993, 1992 and 1991, respectively. The Thrift Plans' costs are included in operations and maintenance costs and general and administrative expenses.

Employee Stock Ownership Plan. On November 15, 1989, the Company formed the Seagull Employee Stock Ownership Plan (the "ESOP") for the benefit of the non-Alaskan employees of the Company. The ESOP borrowed from the Company $7.7 million at an interest rate of 10% per annum to be repaid in 12 equal annual installments of principal and interest. The ESOP used the borrowed funds and the 1989 contributions

from the Company to purchase 948,150 shares (adjusted for Stock Split) of Seagull Common Stock at $8.438 per share (adjusted for Stock Split) from the Company's treasury. The purchase price was based upon the closing price of the Seagull Common Stock on the New York Stock Exchange on the date the ESOP was formed.

The promissory note has been and will be funded entirely by contributions from the Company. Company contributions of approximately $0.5 million in 1993 and $0.4 million in 1992 and 1991 are included in operations and maintenance costs and general and administrative expenses.

Postretirement Benefits Other Than Pensions. ENSTAR Alaska has a postretirement medical plan which covers all of its salaried employees.

Determination of benefits is based upon the combined age of the retiree and years of service at retirement. Prior to January 1, 1992, ENSTAR Alaska accounted for these obligations on a "pay-as-you-go" basis.

Effective January 1, 1992, the Company adopted SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. This SFAS changes the accounting treatment for such benefits from a pay-as-you-go basis to a method where the expected costs for these benefits are accrued during the years the plan participants render service. The Company recognized the cumulative effect of this change in accounting principle in the line item entitled "Cumulative Effect of Changes in Accounting Principles" in the accompanying consolidated statement of earnings for the year ended December 31, 1992. Accordingly, periods prior to January 1, 1992 were not restated to reflect this change.

The cumulative effect of this accounting change as of January 1, 1992, resulted in a reduction in earnings of $0.7 million, (after income taxes of $0.4 million), or $0.03 per share. The effect of this change on earnings before the cumulative effect for the year ended December 31, 1992, and the pro forma effect of retroactive application of this accounting change on earnings for the year ended December 31, 1991 were not material.

12. INTEREST INCOME AND OTHER

Interest income and other includes the following:

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Interest income	$ 454	$ 413	$ 493
Seismic Litigation Settlement	--	4,606	--
Gain on sales of property, plant and equipment	4,175	177	46
Other	1,079	(491)	887
	$5,708	$4,705	$1,426

Seismic Litigation Settlement. Interest income and other for the year ended December 31, 1992 includes $4.6 million relating to the Seismic Litigation Settlement resulting from a claim made by the Company that certain of the seismic data acquired by it in connection with its 1988 acquisition of Houston Oil & Minerals Corporation ("HO&M") was actually delivered to other purchasers. In accordance with the settlement agreement, the Company received a cash payment in July 1992 of $2.6 million and will receive up to $5 million in pipeline business accommodations through December 31, 1995. If less than $3 million of business accommodations are realized, the Company will receive a cash payment in early 1996 equal to the difference between $3 million and the sum of the business accommodations realized. The $4.6 million in 1992 income includes the $2.6 million cash payment plus the present value of the $3 million guaranteed minimum payment for business accommodations less certain expenses.

Gain on Sales of Property, Plant and Equipment. Interest income and other for the year ended December 31, 1993 includes a pre-tax gain of approximately $3.8 million relating to sales of non-strategic oil

and gas producing properties. Net proceeds from the sales totaled approximately $13.0 million, resulting in an after-tax gain of $2.8 million, or $0.08 per share. The parcels sold had proven reserves estimated at approximately 19 Bcf of natural gas equivalents.

13. INCOME TAXES

Total income tax expense for the years ended December 31, 1993 and 1992 was allocated as follows:

	1993	1992

(DOLLARS IN THOUSANDS)

<S> <C> <C>

Income tax provision before cumulative effect of changes in accounting principles	$6,080	$ 2,500
Adjustments for certain changes in accounting principles	--	(3,473)
Additional paid-in capital for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(1,966)	(214)
	$4,114	$(1,187)

</TABLE>

The provision for income taxes for each of the years ended December 31, 1993, 1992 and 1991 was as follows:

<TABLE>
<CAPTION>

	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Current:			
Federal	$3,667	$ 131	$ 285
State	1,363	64	(523)
Total current	5,030	195	(238)
Deferred:			
Federal	1,128	(212)	(485)
State	(78)	2,517	923
Total deferred	1,050	2,305	438
Income tax provision before cumulative effect of changes in accounting principles	$6,080	$2,500	$ 200

</TABLE>

The provision for income taxes before cumulative effect of changes in accounting principles for the years ended December 31, 1993 and 1992 is not comparable to 1991 due to the Company's adoption of SFAS No. 109, Accounting for Income Taxes, effective January 1, 1992. The Company recognized the cumulative effect of this change in accounting principle in the line item entitled "Cumulative Effect of Changes in Accounting Principles" in the accompanying consolidated statement of earnings for the year ended December 31, 1992. Accordingly, periods prior to January 1, 1992 were not restated to reflect this change. The cumulative effect of this accounting change as of January 1, 1992 resulted in an increase in earnings of approximately $3.0 million, or $0.12 per share. The effect of this change on earnings before income taxes for the year ended December 31, 1992 was not material.

The provision for income taxes before cumulative effect of changes in accounting principles for each of the years ended December 31, 1993, 1992 and 1991 was different than the amount computed using the federal statutory rate (35% for 1993, 34% for 1992 and 1991) for the following reasons:

<TABLE>
<CAPTION>

	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Amount computed using the statutory rate	$11,647	$ 2,351	$ 1,804
Increase (Reduction) in taxes resulting from:			
Utilization of Internal Revenue Code Section 29 (Tight Sands) credits	(4,773)	--	--
Excess of tax basis over book basis of acquired assets	--	--	(2,093)
State income taxes, net	835	1,703	264
Increase (Decrease) in deferred tax asset valuation allowance	(859)	1,119	--
Adjustments to beginning-of-the-year tax bases per the 1992 and 1991 tax returns	(657)	(1,828)	--
Increase in the beginning-of-the-year balance of the deferred tax liabilities due to the increase in the			

corporate federal income tax rate	960	--	--
Other	(1,073)	(845)	225
Income tax provision before cumulative effect of changes in accounting principles	$ 6,080	$ 2,500	$ 200

The significant components of deferred income tax expense attributable to income from continuing operations for the years ended December 31, 1993 and 1992 are as follows:

	1993	1992
	(DOLLARS IN THOUSANDS)	
Deferred tax expense (exclusive of the effects of other components listed below)	$ 949	$1,186
Increase (Decrease) in deferred tax asset valuation allowance	(859)	1,119
Increase in the beginning-of-the-year balance of the deferred tax liabilities due to the increase in the corporate federal income tax rate	960	--
	$1,050	$2,305

As discussed in Note 1, under SFAS No. 109 deferred income taxes have been provided for all temporary differences between the carrying amounts of assets and liabilities for financial accounting and tax purposes. In 1991, prior to the adoption of SFAS No. 109, deferred income taxes were provided based on timing differences in certain items of income and expense recognized for income tax purposes in periods different from the periods for financial accounting purposes.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax liabilities and deferred tax assets as of December 31, 1993 and 1992 were as follows:

	1993	1992
	(DOLLARS IN THOUSANDS)	
Deferred tax liabilities:		
Property, plant and equipment, due to differences in depreciation, depletion and amortization	$ 45,296	$ 38,619
Investments in partnership, due to difference in depreciation	606	1,307
Other	509	546
Deferred tax liabilities	46,411	40,472
Deferred tax assets:		
Minimum tax credit carryforwards	(12,221)	(9,065)
Investment tax credit carryforwards	(2,771)	(3,334)
Deferred compensation/retirement related items accrued for financial reporting purposes	(3,269)	(2,263)
Contingent consideration related to acquisitions/dispositions	(604)	(1,975)
Other	(3,134)	(1,332)
Deferred tax assets	(21,999)	(17,969)
Less -- valuation allowance	1,943	2,802
Net deferred tax assets	(20,056)	(15,167)
Net deferred tax liabilities	$ 26,355	$ 25,305

For federal income tax purposes, as of December 31, 1993, the Company has unused investment tax credits of approximately $2.8 million which will expire in the years 1998 through 2000, and unused minimum tax credits of approximately $12.2 million which are available over an indefinite period.

During 1991, the tax effects of timing differences were as follows:

	YEAR ENDED DECEMBER 31, 1991
	(DOLLARS IN THOUSANDS)
Net operating loss offsetting deferred taxes for financial accounting purposes	$ (7,778)
Depreciation, depletion and partnership earnings	(1,890)
Gas and oil property costs capitalized for financial accounting purposes	12,180
Minimum tax credit carryforward for tax purposes	(1,462)
Other	(612)
Total deferred tax provision	$ 438

14. BUSINESS SEGMENTS

Information on the Company's operations by business segment is as follows for the year ended December 31:

	199 3	1992	1991
	(DOLLARS IN THOUSANDS)		
REVENUES(*):			
Exploration and production	$ 227,437	$ 91,991	$ 81,099
Pipeline and marketing	42,484	37,240	37,823
Alaska transmission and distribution	107,244	109,598	129,615
	$ 377,165	$ 238,829	$248,537
OPERATING PROFIT:			
Exploration and production	$ 42,969	$ (1,613)	$ 1,275
Pipeline and marketing	14,065	9,057	7,884
Alaska transmission and distribution	18,955	22,439	21,024
	75,989	29,883	30,183
General and administrative expense	(11,666)	(10,099)	(8,427)
Interest expense	(36,753)	(17,574)	(17,875)
Interest income and other	5,708	4,705	1,426
Earnings before income taxes	$ 33,278	$ 6,915	$ 5,307
OPERATIONS AND MAINTENANCE EXPENSE:			
Exploration and production	$ 63,651	$ 30,844	$ 27,951
Pipeline and marketing	20,266	21,103	20,748
Alaska transmission and distribution	20,880	19,976	19,678
	$ 104,797	$ 71,923	$ 68,377
DEPRECIATION, DEPLETION AND AMORTIZATION:			
Exploration and production	$ 103,552	$ 52,855	$ 42,646
Pipeline and marketing	5,493	3,192	3,278
Alaska transmission and distribution	7,511	7,184	6,978
	$ 116,556	$ 63,231	$ 52,902

IDENTIFIABLE ASSETS:			
Exploration and production	$ 816,812	$ 831,222	$371,208
Pipeline and marketing	70,675	65,378	49,611
Alaska transmission and distribution	185,701	186,519	189,059
Corporate	45,063	19,845	8,674
	$1,118,251	$1,102,964	$618,552
CAPITAL EXPENDITURES:			
Exploration and production	$ 97,818	$ 32,115	$ 58,459
Pipeline and marketing	2,115	1,622	634
Alaska transmission and distribution	10,094	9,024	10,492
Corporate	2,015	890	2,124
	$ 112,042	$ 43,651	$ 71,709
ACQUISITIONS, NET OF CASH ACQUIRED:			
Exploration and production	$ 29,470	$ 391,531	$201,767
Pipeline and marketing	--	10,357	--
	$ 29,470	$ 401,888	$201,767

</TABLE>

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(*) Intersegment revenues are recorded at market prices.

SEAGULL ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

15. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data is as follows:

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	REVENUES		OPERATING PROFIT		NET EARNINGS (LOSS)		EARNINGS (LOSS) PER SHARE(1)	
	1993	1992	1993	1992	1993	1992	1993	1992
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
March 31,	$103,192	$ 67,533	$19,421	$ 6,854	$ 3,853	$2,942(2)	$0.12	$0.12(2)
June 30,	86,973	49,216	15,201	4,902	3,624	2,603(3)	0.10	0.10(3)
September 30,	81,790	48,898	17,077	2,547	7,273(5)	(2,310)	0.20(5)	(0.09)
December 31,	105,210	73,182	24,290	15,580	12,448	3,453(4)	0.34	0.13(4)
Total	$377,165	$238,829	$75,989	$29,883	$27,198	$6,688	$0.76	$0.26

</TABLE>

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(1) Adjusted for the two-for-one stock split of the Seagull Common Stock effected June 4, 1993. (See Notes 1 and 9).

(2) Includes the cumulative effect of two changes in accounting principles in the first quarter of 1992 representing an increase in earnings of approximately $2.3 million, or $0.09 per share. (See Notes 1, 11 and 13).

(3) Includes an after-tax gain in the second quarter of 1992 of approximately $2.9 million, or $0.12 per share, relating to the Seismic Litigation Settlement. (See Note 12).

(4) Includes two charges in the fourth quarter of 1992 resulting from the expensing of $2.3 million in unamortized loan acquisition costs relating to the repayment of the Company's then existing revolving credit line and $1.2 million in costs related to a potential acquisition which was not consummated. The effect of these charges on net earnings was a reduction of approximately $1.5 million and $0.8 million, respectively, or $0.06 and $0.03 per share, respectively.

(5) Includes an after-tax gain in the third quarter of 1993 of approximately $2.7 million, or $0.08 per share, relating to sales of non-strategic oil

and gas producing properties. (See Note 12).

16. COMMITMENTS AND CONTINGENCIES

Lease Commitments. The Company leases certain office space and equipment under operating lease arrangements which contain renewal options and escalation clauses. Future minimum rental payments under these leases are $2.8 million and $2.4 million in 1994 and 1995, respectively, range between $1.6 million and $2.4 million in each of the years 1996-1998, and total $10.4 million for all subsequent years. Total rental expense under operating leases for 1993, 1992 and 1991 was approximately $1.7 million, $1.8 million and $1.7 million, respectively.

Concentrations of Credit Risk. The Company operates in all phases of the natural gas industry with sales to resellers such as pipeline companies and local distribution companies as well as to end-users such as commercial businesses, industrial concerns and residential consumers. While certain of these customers are affected by periodic downturns in the economy in general or in their specific segment of the natural gas industry, the Company believes that its level of credit-related losses due to such economic fluctuations has been immaterial and will continue to be immaterial to the Company's results of operations in the long term.

Litigation. The Company is a party to ongoing litigation in the normal course of business or other litigation with respect to which the Company is indemnified pursuant to various purchase agreements or other contractual arrangements. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. While the outcome of lawsuits or other proceedings against the Company cannot be predicted with certainty, management believes that the effect on its financial condition and results of operations, if any, will not be material.

17. SUBSEQUENT EVENTS

Seagull Canada Acquisition. In January 1994, an indirect wholly owned subsidiary of the Company acquired all of the outstanding shares of stock of Novalta and an intercompany note (the "Note") from Novalta to its parent, Novacor Petrochemicals Ltd. ("Novacor Petrochemicals") for a purchase price of approximately $203 million in cash, subject to customary postclosing adjustments described below (the "Seagull Canada Acquisition"). The economic effective date of the Seagull Canada Acquisition was December 31, 1993 (the "Effective Date"). The purchase price was adjusted for, among other things, working capital and capital expenditures for 1993 in excess of a specified threshold pursuant to the provisions of the Sale Agreement, dated November 19, 1993, between the Company and Novacor Petrochemicals. Effective as of the January 1994 Closing Date, Novalta was amalgamated with Seagull Canada, the indirect subsidiary of the Company that acquired Novalta. As a result of the amalgamation, the Note was extinguished. The acquisition was accounted for as a purchase.

Seagull Canada's assets (the "Seagull Canada Properties") consist primarily of natural gas and oil reserves and developed and undeveloped lease acreage concentrated principally in a small number of fields located in Alberta, Canada. According to reserve estimates prepared as of December 31, 1993 by an independent petroleum engineering firm, the Seagull Canada Properties had proved reserves totaling 257.4 Bcf of natural gas and 2.8 MMbbl of oil, condensate and natural gas liquids. Approximately 80 percent of these reserves and 75 percent of Seagull Canada's total producing wells are concentrated in 16 of 95 total fields. As of December 31, 1993, the Seagull Canada Properties consisted of lease acreage holdings including approximately 200,000 net developed acres and approximately 250,000 net undeveloped acres.

In connection with the Seagull Canada Acquisition, the Company entered into the Canadian Credit Agreement (see Note 6).

The following table presents the unaudited pro forma results of the combined operations of the Company and Novalta for the year ended December 31, 1993 as though the acquisition of Novalta had occurred on January 1, 1993, financed primarily with borrowings under the Canadian Credit Agreement as well as borrowings under the Revolver (see Note 6).

The results presented give effect to depreciation, depletion and amortization of assets recognized in recording the purchase, interest on debt incurred to effect the purchase and the related income tax effects of these items. The unaudited pro forma information presented does not purport to be indicative of actual results if the combination had been in effect on the date or for the period indicated, or of future results.

	YEAR ENDED DECEMBER 31, 1993	
	ACTUAL	PRO FORMA (UNAUDITED)
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	
Revenues	$377,165	$ 409,523
Net earnings	$ 27,198	$ 22,162
Earnings per share	$ 0.76	$ 0.62

The following table sets forth the pro forma consolidated total assets and pro forma capitalization of the Company as of December 31, 1993 as though the acquisition of Novalta had occurred on December 31, 1993, financed primarily with borrowings under the Canadian Credit Agreement as well as borrowings under the Revolver (see Note 6).

	DECEMBER 31, 1993	
	ACTUAL	PRO FORMA (UNAUDITED)
	(DOLLARS IN THOUSANDS)	
Total assets	$1,118,251	$1,342,654
Long-term portion of debt	$ 459,787	$ 653,093
Shareholders' equity	439,379	439,379
Total capitalization	$ 899,166	$1,092,472
Long-term portion of debt to total capitalization	51.1%	59.8%

ENSTAR Alaska Stock Proposal. In March 1994, the Board of Directors approved, subject to shareholder approval, a plan (the "ENSTAR Alaska Stock Proposal") to create and issue a new class of common stock of the Company intended to reflect separately the performance of ENSTAR Alaska (the "ENSTAR Alaska Stock"). As part of the ENSTAR Alaska Stock Proposal, and following the issuance of the ENSTAR Alaska Stock, currently outstanding Seagull Common Stock will reflect separately the performance of the Company's exploration and production and pipeline and marketing segments. In addition, certain terms of the Seagull Common Stock will be amended to allow for the creation and issuance of the ENSTAR Alaska Stock.

The Company currently expects that, shortly after shareholder approval of the ENSTAR Alaska Stock Proposal and subject to prevailing market and other conditions, it will make a public offering (the "ENSTAR Alaska Stock Offering") for cash of shares of ENSTAR Alaska Stock. Net proceeds from the ENSTAR Alaska Stock Offering would be used to repay amounts borrowed under the Revolver, none of which is attributable to ENSTAR Alaska.

The ENSTAR Alaska Stock Proposal will be submitted to shareholders at the Company's Annual Meeting of Shareholders in June 1994.

ANNEX V

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EXPLANATORY NOTE REGARDING FINANCIAL INFORMATION

Notwithstanding the allocation of assets and liabilities (including contingent liabilities), shareholders' equity and items of income and expense between Seagull Energy and the ENSTAR Alaska Group for the purpose of preparing their respective financial statements, the change in the equity structure of the Company contemplated by the ENSTAR Alska Stock Proposal would not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. The Company and its subsidiaries would each continue to be responsible for their respective liabilities. Holders of Seagull Common Stock and ENSTAR Alaska Stock will be common shareholders of the Company and would continue to be subject to all of the risks associated with an investment in the Company and all of its businesses and liabilities.

Financial effects arising from either Seagull Energy or the ENSTAR Alaska Group that affect the Company's consolidated results of operations or financial condition could affect the results of operations or financial position of the other business group or the market price of both classes of common stock of the Company. In addition, any net losses of Seagull Energy or the ENSTAR Alaska Group and dividends or distributions on, or repurchases of, either class of common stock of the Company will reduce the assets of the Company legally available for payment of dividends on both classes of common stock of the Company. Accordingly, the Company's consolidated financial information should be read in conjunction with Seagull Energy's and the ENSTAR Alaska Group's combined financial information.

DESCRIPTION OF BUSINESS

EXPLORATION AND PRODUCTION

Seagull Energy's exploration and production ("E&P") segment is Seagull Energy's primary growth area and is comprised of the following material direct and indirect wholly owned subsidiaries of Seagull Energy: Seagull Energy E&P Inc.; HO&M; Wacker Oil Inc; Seagull Midcon Inc.; Seagull Mid-South Inc., formerly Arkla Exploration Company; and Seagull Energy Canada Ltd., formerly Novalta Resources Inc.

On January 4, 1994, an indirect wholly owned subsidiary of Seagull Energy acquired all of the outstanding shares of stock of Novalta Resources Inc. ("Novalta") from Novacor Petrochemicals Ltd. (the "Seagull Canada Acquisition"). Effective as of the January 4, 1994 Closing Date, Novalta was amalgamated with Seagull Energy Canada Ltd., the indirect subsidiary of Seagull Energy that acquired Novalta. The resulting amalgamated company was named Seagull Energy Canada Ltd. ("Seagull Canada").

Seagull Canada's assets (the "Seagull Canada Properties") consist primarily of natural gas and oil reserves and developed and undeveloped lease acreage concentrated principally in a small number of fields located in Alberta, Canada. According to reserve estimates prepared as of December 31, 1993 by the independent petroleum engineering firm, DeGolyer and MacNaughton, the Seagull Canada Properties had proved reserves totaling 257.4 billion cubic feet ("Bcf") of natural gas and 2.8 million barrels ("Bbl") of oil, condensate and natural gas liquids. Approximately 80% of these reserves and 75% of Seagull Canada's total producing wells are concentrated in 16 of 95 total fields.

In 1993, a four-company exploration group including Seagull Energy was awarded four production licenses in United Kingdom waters. The awards gave Seagull Energy a 10% interest in three licenses in the Irish Sea totaling 398,319 acres and a 20% interest in a fourth license in the North Sea which totals 60,785 acres. Seismic studies and other evaluation activities on the licensed blocks have been ongoing since mid-1993. The first two of eight planned exploratory wells are scheduled during the latter part of 1994. During the first quarter of 1994, Seagull Energy increased its interests in these licenses to 20% and 30%, respectively. Seagull Energy anticipates that its share of exploration-related costs will approximate $13 million over the next five years as the program is currently structured.

Seagull Energy also has an active ongoing exploration program that has resulted in numerous natural gas discoveries since 1988 in the Gulf of Mexico, primarily in shallow waters off the central Texas Gulf Coast. Seagull Energy has in the past financed its gas and oil exploration and development activities through internally generated funds, bank borrowings and participation by industry partners on a prospect-by-prospect basis. Seagull Energy believes that its gas and oil exploration and development activities in the foreseeable future will be financed by internally generated funds. In 1994, Seagull Energy expects E&P capital expenditures to total approximately $160 million. Of this amount, about $50 million will be devoted to exploration, primarily in the Gulf of Mexico, $100 million to development and $10 million to leasehold acquisition. Of the expected development capital expenditures, about $34 million is targeted for the Mid-South Region, $31 million for the Gulf of Mexico, $20 million for the Mid-Continent Region and $15 million for Western Canada. By comparison, 1993 capital expenditures for E&P activities totaled $98 million.

Revenues from the sale of gas and liquids accounted for 60%, 38% and 32% of the Company's consolidated revenues for 1993, 1992 and 1991, respectively. As used in this Annex V, liquids means oil, condensate and natural gas liquids, unless otherwise indicated or the context otherwise suggests. Gas production in 1993 increased primarily as a result of contributions attributable to properties in the Mid-South Region acquired in December 1992. Production of gas and liquids for 1993 averaged 279.5 million cubic feet ("MMcf") per day ("MMcf/d") and 4,641 Bbl per day ("Bbl/d"), respectively, compared to 104.2 MMcf/d and 3,494 Bbl/d, respectively, in 1992.

Seagull Energy's principal gas and oil properties include the following:

<TABLE>
<CAPTION>

		AT DECEMBER 31, 1993		AVERAGE NET DAILY PRODUCTION FOR THE YEAR ENDED DECEMBER 31, 1993	
FIELD/PROVINCE	STATE	NUMBER OF GROSS WELLS	PROVED RESERVES (BCFE)(1)	NATURAL GAS (MMCF)	LIQUIDS (BBL)
<S>	<C>	<C>	<C>	<C>	<C>
UNITED STATES					
Mid-South Region:					

Arklatex Area:					
Carthage.........................	Texas	242	194	27.4	631
Waskom...........................	Texas	77	66	17.6	129
Ruston...........................	Louisiana	48	47	10.0	109
Sligo............................	Louisiana	73	16	4.4	32
Arkoma Basin:					
Cecil............................	Arkansas	223	73	26.6	--
Aetna............................	Arkansas	151	35	12.4	--
Wilburton........................	Oklahoma	69	25	11.4	--
Other..		332	145	49.0	962
Mid-Continent Region:					
Panhandle West.....................	Texas	61	59	12.7	2
Panhandle Gray.....................	Texas	119	31	0.3	677
Watonga-Chickasha..................	Oklahoma...	221	40	11.4	73
Strong City........................	Oklahoma...	96	35	11.4	99
Other..		340	78	17.5	325
Offshore Texas.....................................		46	92	55.9	197
Offshore Louisiana.................................		13	49	6.2	367
Gulf Coast Onshore.................................		29	19	5.3	1,038
		2,140	1,004	279.5	4,641
CANADA (2)					
Alberta..		648	272	49.9	797
Saskatchewan.......................................		10	2	--	334
		658	274	49.9	1,131

</TABLE>

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(1) The equivalent of one billion cubic feet ("Bcfe") of natural gas. Liquids are converted to gas at a ratio of one barrel of liquids per six Mcf ("Mcf" represents one thousand cubic feet) of gas, based on relative energy content.

(2) The Seagull Canada Properties were acquired on January 4, 1994 in connection with the Seagull Canada Acquisition. Average net daily production amounts assume the Seagull Canada Acquisition occurred on December 31, 1992.

For additional information relating to Seagull Energy's gas and oil reserves, based substantially upon reports of Netherland, Sewell & Associates, Inc. (for the years ended December 31, 1993 and 1992), DeGolyer and MacNaughton (for the years ended December 31, 1993, 1992 and 1991), Ryder Scott Company (for the years ended December 31, 1993, 1992 and 1991), and K&A Energy Consultants, Inc. and R. A. Lenser & Associates, Inc. (for the year ended December 31, 1991), independent petroleum engineers (collectively the "Engineers"), see Note 4 of Notes to Consolidated Financial Statements beginning on page IV-23 of Annex IV. The Engineers provided the estimates of "proved developed and undeveloped reserves" and "proved developed reserves" at the beginning and end of each of the three years included in Note 4. Under "Standardized Measure of Discounted Future Net Cash Flows" in Note 4, the Engineers

provided all information except "discounted income taxes" and "standardized measure of discounted future net cash flows." All information in Note 4 not provided by the Engineers was supplied by Seagull Energy. As required, Seagull Energy also files estimates of gas and oil reserve data with various governmental regulatory authorities and agencies. The basis for reporting reserves to these authorities and agencies, in some cases, may not be comparable. However, the difference in estimates does not exceed five percent.

The future results of this segment will be affected by the market prices of natural gas and liquids. The availability of a ready market for gas and liquids products in the future will depend on numerous factors beyond the control of Seagull Energy, including weather, production of other domestic natural gas and liquids products, imports, marketing of competitive fuels, proximity and capacity of gas and liquids pipelines and other transportation facilities, any oversupply of gas and liquids products, the regulatory environment and other domestic and political events, none of which can be predicted with certainty. As in the past, Seagull Energy would expect to curtail gas production during times of inferior prices. However, due to the sustained improvements in natural gas prices and demand throughout 1993 and various field operating considerations, Seagull Energy does not anticipate curtailing gas sales in the coming year to the significant extent of curtailments in years prior to 1993.

Gas and Oil Drilling Activities

Seagull Energy's gas and oil exploratory and developmental drilling activities are as follows for the periods indicated. Totals shown in each category include wells completed as productive wells and wells abandoned as dry holes. A well is considered productive for purposes of the following table if it justifies the installation of permanent equipment for the production of gas or oil. A well is deemed to be a dry hole if it is determined to be incapable of commercial production. The term "gross wells" means the total number of wells in which Seagull Energy owns an interest, while the term "net wells" means the sum of the fractional working interests Seagull Energy owns in gross wells.

	YEAR ENDED DECEMBER 31,					
	1993		1992		1991	
	GROSS	NET	GROSS	NET	GROSS	NET
Exploratory Drilling:						
Productive Wells	8	5.19	3	1.28	8	2.86
Dry Holes	19	9.20	12	5.51	10	6.38
Development Drilling:						
Productive Wells	100	54.62	24	16.11	24	16.23
Dry Holes	22	13.71	2	0.73	6	3.87

From January 1, 1994 to February 28, 1994, Seagull Energy has drilled 1 gross (0.66 net) successful exploratory well and 1 gross (1.0 net) dry exploratory well. In addition, Seagull Energy has drilled 12 gross (7.70 net) successful development wells. Seagull Energy is currently drilling 1 gross (0.50 net) exploratory well and 21 gross (15.46 net) development wells. As of the beginning of 1994, Seagull Energy had an inventory of approximately 90 exploratory prospects, including at least 20 in Canada.

Production

The following table summarizes Seagull Energy's production, average sales prices and lifting costs for the periods indicated:

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Net Production:			
Gas (MMcf)	102,025	38,137	32,906
Oil and condensate (Mbbl) (1)	1,412	1,014	1,111
Natural gas liquids (Mbbl)	282	265	225
Combined (MMcfe)	112,188	45,809	40,922
Average sales price (2):			
Gas (per Mcf)	$ 1.99	$ 1.85	$ 1.69
Oil and condensate (per Bbl)	$ 16.72	$18.60	$20.30
Natural gas liquids (per Bbl)	$ 11.10	$10.20	$11.17
Combined (per Mcfe) (3)	$ 2.03	$ 2.01	$ 1.97
Average lifting costs of gas and liquids (per Mcfe) (4)	$ 0.47	$ 0.57	$ 0.59

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(1) Thousands of Bbl ("Mbbl").

(2) Before deduction of production, severance, and other taxes.

(3) The equivalent of one thousand cubic feet ("Mcfe") of natural gas.

(4) Lifting costs represent costs incurred to operate and maintain wells and related equipment and facilities. These costs include, among other things, repairs and maintenance, workover expenses, labor, materials, supplies, property taxes, insurance, severance taxes and transportation costs.

The following table sets forth information regarding the number of productive wells in which Seagull Energy held a working interest at December 31, 1993. Productive wells are either producing wells or wells capable of commercial production although currently shut in. One or more completions in the same borehole are counted as one well.

	GROSS(2)	NET(2)
Oil	305	159.52
Gas (1)	1,840	896.31
Total	2,145	1,055.83

- ---------------

(1) Includes 314 gross (152.36 net) gas wells with multiple completions.

(2) Excludes 643 gross (346.10 net) gas wells and 15 gross (10.40 net) oil wells acquired January 4, 1994 in connection with the Seagull Canada Acquisition.

For additional information relating to gas and oil producing activities, see Note 4 of Notes to Consolidated Financial Statements beginning on page IV-23 of Annex IV.

Productive and Undeveloped Gas and Oil Acreage

As of December 31, 1993, Seagull Energy owned working interests in the following developed and undeveloped gas and oil acreage in the United States:

	DEVELOPED(1)		UNDEVELOPED(1)	
	GROSS	NET(2)	GROSS	NET(2)
Onshore:				
Oklahoma	393,005	127,711	119,645	49,169
Arkansas	348,363	96,946	86,011	57,793
Texas	183,988	82,981	36,008	13,724
Louisiana	53,717	25,672	9,986	8,364
Mississippi	24,355	11,139	28,582	13,518
Other	8,779	6,450	9,837	7,477
Bays and State Waters	1,045	792	8,398	6,970
Federal Offshore:				
Texas	133,624	57,624	119,685	73,956
Louisiana	39,658	15,758	84,259	54,821
Total	1,186,534	425,073	502,411	285,792

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(1) Excludes 396,800 gross (195,985 net) developed acres and 451,510 gross (244,010 net) undeveloped acres acquired January 4, 1994 in connection with the Seagull Canada Acquisition.

(2) When describing acreage on drilling locations, the term "net" refers to the total acres on drilling locations in which Seagull Energy has a working interest, multiplied by the percentage working interest owned by Seagull Energy.

Additionally, as of December 31, 1993, Seagull Energy owned mineral and/or royalty interests in 375,488 gross (45,547 net) developed and 158,447 gross (28,040 net) undeveloped gas and oil acreage.

Seagull Energy also currently owns interests in production licenses covering 459,104 gross (97,899 net) undeveloped acres in United Kingdom waters (see discussion above regarding interests in production licenses acquired in United Kingdom waters).

Competition

Seagull Energy's competitors in gas and oil exploration, development, production and marketing include major oil companies, as well as numerous independent oil and gas companies, individuals and drilling programs. Some of these competitors have financial and personnel resources substantially in excess of those available to Seagull Energy and, therefore, Seagull Energy may be placed at a competitive disadvantage. Seagull Energy's success in discovering reserves will depend on its ability to select suitable prospects for future exploration in today's competitive environment.

Markets

Seagull Energy believes there currently exists a very delicate balance between supply and demand in the marketplace. Extreme fluctuations in weather conditions may cause a real or perceived imbalance at any given time, in any given area of the United States or Canada. Although markets project their usage well in advance of actual purchases based on historical data and weather forecasting, the projections may be adjusted for unexpected weather conditions, creating a temporary increase or decrease in demand. These unexpected demand fluctuations, combined with conservation and competition from alternative fuels, continue to cause radical swings in gas prices. Monthly pricing indices often do not follow the trends of prior years and, with each passing month, average price projections continue to be adjusted and revised.

Regulation

United States

Aspects of the production, sale and transportation of natural gas and crude oil in federal Outer Continental Shelf waters are regulated pursuant to various federal statutes, including the Outer Continental Shelf Lands Act ("OCSLA"). The interstate transportation of natural gas is regulated under the Natural Gas Act ("NGA") or the Natural Gas Policy Act of 1978 ("NGPA"). Until January 1, 1993, certain first sales (generally, wellhead or producing field sales) of natural gas remained price regulated under the NGPA. Effective January 1, 1993, all price-regulation of first sales of natural gas was eliminated by the Natural Gas Wellhead Decontrol Act of 1989.

Operations conducted by Seagull Energy on federal gas and oil leases must comply with numerous statutory and regulatory restrictions. Additionally, certain operations must be conducted pursuant to appropriate permits issued by government agencies, such as the Bureau of Land Management and the Minerals Management Service of the Department of Interior and, in regard to certain federal leases, prior approval of drill site locations must be obtained from the Environmental Protection Agency.

In all states in which Seagull Energy engages in gas and oil exploration and production, its activities are subject to regulation. These regulations generally require permits for the drilling and spacing of wells, the prevention of waste of gas and oil reserves, the prevention and cleanup of pollution and other matters. Government agencies in various states regulate, among other things, the amount and rate of gas and oil production. The states of Texas and Oklahoma have recently revised their regulations regarding proration of production. These kinds of regulations by state agencies may affect determinations of deliverability under certain of Seagull Energy's gas purchase contracts and thereby affect the purchasers' volumetric purchase obligations. In addition to the proration changes, Oklahoma has promulgated regulations pursuant to Senate Bill 168, which governs sharing of gas markets among working interest owners and disbursement of royalty proceeds.

Over the past several years, the Federal Energy Regulatory Commission (the "FERC") has issued certain orders that have brought sweeping changes to the fundamental regulatory structure governing interstate sales and transportation of natural gas. Collectively, these orders have changed the gas pricing structure and altered the traditional relationship among producers, pipelines and end-use markets. Most pipelines are in the process of transforming themselves from their strictly-merchant role to a combination of merchant and open-access transporter. Producers frequently contract directly with end-users or other gas buyers and, if the transporting pipeline is open-access, transportation services can be arranged by either the buyer, the seller or a broker on a first-come, first-serve basis. These FERC orders therefore provide Seagull Energy with greater marketing options.

Canada

Seagull Canada has exploration and development operations in Alberta and Saskatchewan. The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government in Canada.

Natural Gas Pricing. Prior to deregulation of natural gas markets, prices in Canada were legislated by the government having jurisdiction. In the current deregulated environment, the price of natural gas is determined by negotiation between buyers and sellers. Exports of natural gas require approvals similar to those required for exports of oil, as described below.

Crude Oil Pricing. Since June 1, 1985, producers of oil have been entitled to negotiate sales contracts directly with oil purchasers. Oil exporters are entitled to export oil pursuant to contracts, the terms of which do not exceed one year in the case of light crude and two years in the case of heavy crude, provided that an order approving the export has been obtained from the Natural Energy Board ("NEB"). Any export to be made pursuant to a contract of a longer duration requires the exporter to obtain a license from the NEB, and the issuance of such a license requires the approval of the Governor General in Council.

Provincial Royalties and Incentives. The royalty regime is a significant factor in the profitability of oil and gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee. Crown royalties are determined by government regulation and are generally calculated as a percentage of the value of the gross production; the rate of royalties payable depends in part on well productivity and field discovery date. From time to time the governments of Canada, Alberta and Saskatchewan have established incentive programs which have included royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and gas exploration.

In November 1991, the Government of Alberta announced temporary royalty incentives for oil, exploration and development. The relief program provides for: (i) a two year royalty holiday for oil exploration wells drilled between November 1, 1991 and March 31, 1992 and a one year royalty holiday for exploratory wells drilled between April 1, 1992 and March 31, 1993 and an extra one year royalty holiday for exploratory wells drilled in the foothills and northern regions of the Province, with a cap of $1 million per well; (ii) a one year royalty holiday on development oil wells drilled between November 1, 1991 and March 31, 1993 with a cap of $400,000 per well; (iii) a five year royalty holiday for reactivated oil wells which obtained a well license prior to July 30, 1993 and which have been continuously inactive since August 31, 1990, with a 25,000 barrel cap which was raised to 50,000 barrels pursuant to the October 13, 1992 announcement; and (iv) new oil royalty rates for reactivated wells.

On October 13, 1992, the Government of Alberta announced major changes to its royalty structure and permanent incentives for exploring and developing oil and gas reserves. The regulations incorporating these changes were adopted on January 20, 1993. The significant changes announced include the following: (i) new oil discovered after September 30, 1992 will have a permanent one year oil royalty holiday, subject to a maximum of $1 million and a reduced royalty rate thereafter; (ii) reduction of royalties on existing production of oil and gas; (iii) incentives by way of royalty holidays and reduced royalties on reactivated and horizontal wells; (iv) introduction of separate par pricing for light, medium and heavy oil; and (v) modification of the royalty formula structure to provide for sensitivity to price fluctuations.

The Government of Alberta recently announced a plan to simplify the natural gas royalty scheme. The regulations are not yet available and it is anticipated the new scheme will take effect some time in 1994.

A price and productivity sensitive royalty structure for crude oil and natural gas in the Province of Saskatchewan has been in effect since 1987. The royalty structure provides for royalty holidays for certain categories of wells drilled in the Province of Saskatchewan and royalties which vary with the price of a particular commodity.

Environmental Matters

Seagull Energy, as an owner and operator of oil and gas properties, is subject to various federal, state, local and foreign country laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations, subject the lessee to liability for pollution damages, require suspension or cessation of operations in affected areas and impose restrictions on the injection of liquids into subsurface aquifers that may contaminate groundwater.

Seagull Canada's oil and gas operations are largely regulated by the Energy Resources Conservation Board ("ERCB") for the province of Alberta and the Energy and Mines Board for the province of Saskatchewan ("SEM"). These bodies enforce legislation which regulates all aspects of exploration, development and production, including the licensing of wells, pipelines and facilities. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances produced in association with certain oil and gas industry operations. In addition, legislation requires that well and facility sites must be abandoned and reclaimed to the satisfaction of provincial authorities, typically to pre-disturbance quality. A breach of such legislation may result in the imposition of fines and penalties.

Environmental legislation in Alberta has recently undergone a major revision to update and consolidate the various acts applicable into the Environmental Protection and Enhancement Act, which was proclaimed

on April 21, 1993 and took effect on September 1, 1993. The Act imposes stricter environmental standards requiring more stringent compliance and significantly increased penalties.

Seagull Energy has made and will continue to make expenditures in its efforts to comply with these requirements, which it believes are necessary business costs in the oil and gas industry. Although environmental requirements do have a substantial impact upon the energy industry, generally these requirements do not appear to affect Seagull Energy any differently or to any greater or lesser extent than other companies in the industry.

Seagull Energy maintains insurance coverages which it believes are customary in the industry, although it is not fully insured against all environmental risks. Seagull Energy is not aware of any environmental claims existing as of December 31, 1993, which would have a material impact upon Seagull Energy's financial position or results of operations. Seagull Energy does not believe that compliance with federal, state, local or foreign country provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, will have a material adverse effect upon the capital expenditures, earnings or competitive position of Seagull Energy or the Company's subsidiaries, but there is no assurance that changes in or additions to laws or regulations regarding the protection of the environment will not have such an impact. Seagull Energy has established policies that provide for continuing compliance with environmental laws and regulations, as well as operational procedures designed to limit the environmental impact on its field facilities.

Gulf Coast Vacuum Site. On March 19, 1993, Franks Petroleum, Inc. ("Franks") submitted a claim to Seagull Mid-South Inc., a subsidiary of the Company ("Seagull Mid-South"), for a portion of Franks' costs incurred in connection with the Gulf Coast Vacuum Services Superfund Site (the "GCV Site") in Vermillion Parish, Louisiana. The United States Environmental Protection Agency Region 6 (the "EPA") currently is seeking the cleanup of the GCV Site under the authority of the federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA").

Franks previously has been identified as a potentially responsible party at the GCV Site as a result of Franks' arrangements with the former operator of the GCV Site to transport wastes from various oil and gas leases owned or operated by Franks in trucks owned by the GCV Site operator. Franks' claim against Seagull Mid-South asserts that some of the wastes hauled by the GCV Site operator on behalf of Franks came from a gas well owned by Seagull Mid-South.

On February 9, 1993, the EPA also sent a notice to Houston Oil & Minerals Corporation, a subsidiary of the Company ("HO&M"), indicating that HO&M may be a potentially responsible party at the GCV Site. Based upon the Company's investigation of this claim, the Company believes that the basis for HO&M's alleged liability is a series of transactions between HO&M and the operator of the GCV Site that occurred during 1979 and 1980, long before Seagull acquired HO&M.

The EPA's cleanup cost estimate of the GCV Site is in the range of $17 million, although other unofficial estimates indicate the cost may be higher. Under certain circumstances, liability under CERCLA is joint and several, although parties whose liability is joint and several have contribution rights against each other under CERCLA. Nevertheless, if Seagull Mid-South and/or HO&M is found to be a responsible party at the GCV Site, the Company believes that its liability is unlikely to be material to its financial condition or its results of operations because of the large number of potentially responsible parties at the GCV Site and the relative amount of contamination, if any, that may have been caused at the GCV Site by the disposal of wastes arising from the wells identified in the claims.

PIPELINE AND MARKETING

Seagull Energy is involved in the pipeline transportation of natural gas, hydrocarbon products and petrochemicals in Texas, Louisiana and Mississippi. In addition, Seagull Energy is engaged in pipeline engineering, design, construction and operation, natural gas processing, third-party natural gas marketing and the marketing of Seagull Energy's natural gas and liquids production. Revenue from the pipeline and

marketing segment accounted for 11%, 16% and 15% of the Company's consolidated revenues for 1993, 1992 and 1991, respectively.

Gas Pipelines

Seagull Energy owns and operates short and medium length gathering pipelines that carry gas from producing fields to other pipelines which are owned by utility companies, large gas transmission companies, or others, and to industrial customers (referred to herein collectively as "Gas Purchasers"). Seagull Energy owns and operates 22 onshore and offshore natural gas gathering systems having an aggregate length of approximately 431 miles. Seagull Energy's gas pipelines, which do not form an interconnected system, are principally located in Texas, Louisiana and offshore along the Texas coast. In addition, Seagull Energy owns partial interests in and operates two other offshore gas pipelines.

Seagull Energy transports gas under arrangements where customers are charged a fee for gas carried through Seagull Energy's pipelines. Seagull Energy also delivers gas through its pipelines pursuant to contracts whereby it purchases and resells gas. In the case of purchase and sales contracts, the margin between Seagull Energy's cost of gas and its resale revenues constitutes, in effect, a transportation fee.

Natural gas producers prefer flexibility in commitment of gas reserves both as to term and pricing. Some of the wells connected to Seagull Energy's pipelines are not dedicated to those pipelines. It is probable that most gas wells currently connected to the Seagull Energy gas gathering systems will remain connected from year to year with deliverability of reserves declining until depleted. It is no longer practical for a major pipeline company to consider gas reserves to be firmly committed to its facilities. Several systems are located in good prospective gas development areas where some new gas wells have been drilled, and more development may occur. In areas of active drilling, it is likely that new wells and additional gas volumes can be added to the systems.

The following table shows the volumes of gas transported for the periods shown:

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Volumes (MMcf):			
Sales Contracts	1,419	2,290	3,734
Transportation Fee Arrangements	112,081	69,660	66,602
Total	113,500	71,950	70,336

Hydrocarbon Products and Petrochemical Pipelines

Seagull Energy owns and/or operates pipelines for the transportation of liquid hydrocarbon products and petrochemicals. Seagull Energy operates seven such pipelines, four of which it owns and all of which are located in Texas and Louisiana.

Gas Marketing

Seagull Energy actively provides marketing services geared toward matching gas supplies available in the major producing areas with attractive markets available in the Midwest, Northeast, Mid-Atlantic, Appalachian and Texas/Louisiana Gulf Coast areas. The matching process includes arranging transportation on a network of open-access pipelines on a firm or interruptible basis.

Marketing profit margins are often small due to competition, and results can vary significantly from month to month. Large amounts of working capital are involved for relatively small net margins, which makes working capital management critical. Seagull Energy has policies and procedures in place that are designed to minimize any potential risk of loss from these transactions. These policies and procedures are reviewed and updated periodically by Seagull Energy's management.

Pipeline Operations and Construction

Seagull Energy operates certain pipelines owned by other companies. In some cases the operating agreements provide for reimbursement of expenses incurred in connection with operation plus a profit margin. In other cases Seagull Energy receives a negotiated annual fee.

Seagull Energy also builds pipelines for other companies for which it receives construction fees that are fixed, cost plus or a combination of both. Seagull Energy recognized operating profit in 1993 on an 8.7 mile, 16-inch gas pipeline that Seagull Energy constructed for an international exploration company from a platform to a gathering pipeline offshore Louisiana. The project was completed in early 1994.

Historically, Seagull Energy has not been engaged in pipeline construction projects on a regularly recurring basis. Seagull Energy had no other new construction projects in 1993 and none are currently pending; however, Seagull Energy is currently conducting marketing efforts in order to generate new projects.

Gas Processing

Seagull Energy owns interests in a number of gas processing plants. The largest of the plants is located in Matagorda County, Texas (the "Matagorda

Plant"), and has been in operation since March 1981. Seagull Energy owns a 65% undivided interest in and operates the Matagorda Plant, and the other 35% interest is owned by a subsidiary of Enron Corp.

The Matagorda Plant processes natural gas, producing a full-range demethanized raw mix products stream. The actual throughput at the Matagorda Plant varies depending upon gas sales demand and production-related mechanical factors. For the year ended December 31, 1993, throughput averaged approximately 244 MMcf/d, which is close to the maximum design capacity of 250 MMcf/d but is slightly lower than the prior year. Throughput volumes are expected to remain at the same level for the foreseeable future. Profitability will depend largely on the relative prices of products and natural gas.

Competition

Seagull Energy actively competes with numerous other companies for the construction and operation of short and medium length pipelines. Seagull Energy's competitors include oil companies, other pipeline companies, natural gas gatherers and petrochemical transporters, many of which have financial resources, staffs and facilities substantially larger than those of Seagull Energy. In addition, many of Seagull Energy's Gas Purchasers are also competitors or potential competitors in the sense that they have extensive pipeline building capabilities and experience and generally operate large pipeline systems of their own. Seagull Energy believes that its ability to compete will depend primarily on its ability to complete pipeline projects quickly and cost effectively, and to operate pipelines efficiently.

Seagull Energy's gas marketing activities are in competition with numerous other companies offering the same services. Some of these competitors are affiliates of companies with extensive pipeline systems that are used for transportation from producers to end-users. Seagull Energy believes its ability to compete depends upon building strong relationships with producers and end-users by consistently purchasing and supplying gas at competitive prices.

Regulation

Government regulation has a significant effect on various segments of Seagull Energy's pipeline operations. Its pipeline systems are regulated by state regulatory commissions with respect to safety, location and other matters. See "-- Exploration and Production -- Environmental Matters" above.

The FERC has jurisdiction over, among other things, the construction and operation of pipelines and related facilities used in the transportation, storage and sale of natural gas in interstate commerce. The FERC also has jurisdiction over the rates and charges levied by companies subject to the NGA for the transportation of natural gas in interstate commerce and for the sale of natural gas for resale in interstate commerce. At

Seagull Energy's request, FERC has decertified Seagull Energy's former interstate facility and it is no longer subject to NGA jurisdiction.

Sales of natural gas by the Company's marketing subsidiary were generally not regulated by the FERC prior to January 1, 1993, and will not be subject to any FERC regulation on or after that date. Transportation and sales for resale of gas in interstate commerce by Seagull Energy's intrastate pipelines are regulated by the FERC pursuant to Section 311 of the NGPA. Section 311 permits intrastate pipelines to engage in certain transactions with interstate pipelines and their customers without being regulated as interstate pipelines under the NGA, thus allowing more flexibility in operations between intrastate and interstate gas pipeline companies. The FERC has revised its Section 311 regulations to allow intrastate pipelines to transport gas destined for interstate commerce under new self-implementing blanket certificates. Seagull Energy currently offers these services on several of its intrastate pipelines.

In April 1992, the FERC issued its Order No. 636 (and related orders), which basically requires interstate pipelines to "unbundle" or separate their transportation services from their merchant sales of gas. This permits end-users of gas to contract directly with producers to purchase gas and to contract separately with pipelines for transportation services. As the interstate pipelines began operating under Order No. 636 during 1993, new opportunities were created throughout the industry. While it remains difficult to predict the ultimate impact Order No. 636 will have on Seagull Energy, new opportunities to market and transport natural gas are being explored by Seagull Energy. The extensive regulatory proceedings required under this order have not directly affected Seagull Energy's pipelines significantly to date.

With regard to pipeline design, construction, operation and maintenance, state regulatory commissions generally have the authority to take all steps necessary to ensure compliance by intrastate pipeline and gathering companies with applicable safety regulations. The FERC also regulates certain aspects of intrastate pipeline construction related to Section 311 transportation or storage services. Seagull Energy is also subject to safety regulations imposed by the Office of Pipeline Safety of the Department of Transportation (the "DOT"), promulgated pursuant to the Natural Gas Pipeline Safety Act of 1968 and enforced by the Railroad Commission of Texas (the "Railroad Commission").

Pursuant to regulations regarding drug abuse enacted by the DOT and adopted by the Railroad Commission, Seagull Energy has implemented a drug abuse program that strives for a safe and drug-free workplace for its employees.

SEAGULL ENERGY
(WITHOUT ENSTAR ALASKA GROUP)

UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS

The unaudited pro forma condensed balance sheet as of December 31, 1993 gives effect to (i) the Seagull Canada Acquisition, financed initially under the Canadian Credit Agreement and the Revolver, defined herein and (ii) the issuance and sale for cash of shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Stock Offering and the application of the estimated net proceeds therefrom of $140 million to repay amounts borrowed under the Revolver, as if both events had occurred on December 31, 1993. The unaudited pro forma condensed statement of earnings for the year ended December 31, 1993 gives effect to the pro forma transactions and events described in clauses (i) and (ii) above as if both events had occurred on January 1, 1993.

The following unaudited pro forma information has been included as required by the rules of the Securities and Exchange Commission and is provided for comparative purposes only. The unaudited pro forma information presented is based on the respective historical financial statements of Seagull Energy and Novalta and should be read in conjunction with such financial statements, as well as the Company's consolidated financial statements and the related notes thereto and the Company's unaudited pro forma condensed financial statements. The historical consolidated financial statements of Novalta as presented do not reflect the effect of certain transactions between Novalta and NOVA Corporation of Alberta and its subsidiaries that were completed prior to the closing of the Seagull Canada Acquisition, such as the elimination of intercompany debt balances. The effect of such transactions are reflected in the conforming adjustments to the unaudited pro forma condensed financial statements. The unaudited pro forma information presented does not purport to be indicative of actual results, if the transactions had occurred on the dates or for the periods indicated, or of future results.

The financial statements of Novalta for the years ended December 31, 1993 and 1992 are incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K dated January 4, 1994, as amended.

SEAGULL ENERGY
(WITHOUT ENSTAR ALASKA GROUP)

UNAUDITED PRO FORMA CONDENSED STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1993

<TABLE>
<CAPTION>

	HISTORICAL			
	SEAGULL	NOVALTA RESOURCES	CONFORMING	PRO FORMA

	ENERGY	INC.(G)	ADJUSTMENTS	COMBINED
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)			
Revenues	$269,921	$32,358	$ --	$ 302,279
Costs of Operations:				
Operating costs	103,842	12,973	399(A)	117,214
Depreciation, depletion and amortization	109,045	9,371	(9,371)(B) 15,216 (C)	124,261
Operating Profit	57,034	10,014	(6,244)	60,804
General and Administrative Expense	11,666	--	--	11,666
Interest Expense	30,455	1,083	(1,083)(B) 2,595 (D)	33,050
Interest Income and Other	(5,469)	(3,102)	--	(8,571)
Earnings Before Income Taxes	20,382	12,033	(7,756)	24,659
Income Taxes	232	4,650	(4,650)(B) 3,390 (E)	(3,622)
Net Earnings	$ 20,150	$ 7,383	$(6,496)	$ 21,037
Earnings Per Share				$ 0.59
Weighted Average Number of Common Shares Outstanding			35,790(F)	35,790

</TABLE>

See Accompanying Notes to Unaudited Pro Forma Condensed Statement of Earnings.

SEAGULL ENERGY
(WITHOUT ENSTAR ALASKA GROUP)

NOTES TO UNAUDITED PRO FORMA

CONDENSED STATEMENT OF EARNINGS

(A) To adjust general operating expenses to give effect to Seagull Energy's increased personnel, rent, consultation, professional and other expenses expected as a result of the Seagull Canada Acquisition.

(B) To eliminate depreciation, depletion and amortization, interest expense and income taxes of Novalta.

(C) To adjust depreciation, depletion and amortization to give effect to the Seagull Canada Acquisition.

(D) To adjust interest expense to give effect to the Seagull Canada Acquisition initially financed under the Canadian Credit Agreement and the Revolver, the reduction of the Revolver with the proceeds from the issuance and sale of the ENSTAR Alaska Stock and the amortization of loan acquisition costs relating to the Canadian Credit Agreement. The pro forma interest expense adjustment was calculated as follows:

<TABLE>
<CAPTION>

	(DOLLARS IN THOUSANDS)	
Pro forma change in outstanding balance -- Canadian Credit Agreement		
Seagull Canada Acquisition	$151,938	
Proceeds from sale of ENSTAR Alaska Stock	(3,293)	
	148,645	
Estimated average interest rate	4.45%	
Pro forma interest expense on Canadian Credit Agreement		6,621
Pro forma change in outstanding balance -- Revolver		
Seagull Canada Acquisition	49,826	
Proceeds from sale of ENSTAR Alaska Stock	(136,707)	
	(86,881)	

Estimated average interest rate	4.86%	
Pro forma interest expense on the decreased Revolver		(4,219)
Pro forma amortization of loan acquisition costs relating to the Canadian Credit Agreement		193
		$2,595

</TABLE>

(E) To adjust income taxes for the items discussed in Notes (A) through (D) above.

(F) To reflect the issuance and sale of the ENSTAR Alaska Stock and the amendment of the terms of the Seagull Common Stock to provide for the issuance of the ENSTAR Alaska Stock.

(G) Revenues, expenses and net income of Novalta were translated using the average conversion rate during 1993 of $0.7752 per Canadian dollar (C$). A reconciliation of the net income of Novalta as set forth in the historical financial statements to net earnings provided in the pro forma financial statements is as follows, in thousands except conversion rate:

<TABLE>

<S>	<C>
Net income per historical financial statements	C$ 9,524
Times average conversion rate	US$0.7752/C$
Net earnings provided in the pro forma financial statements	US$ 7,383

</TABLE>

SEAGULL ENERGY
(WITHOUT ENSTAR ALASKA GROUP)

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET
AS OF DECEMBER 31, 1993

<TABLE>
<CAPTION>

	HISTORICAL			
	SEAGULL ENERGY	NOVALTA RESOURCES INC.(F)	CONFORMING ADJUSTMENTS	PRO FORMA COMBINED
		(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 4,949	$ 415	$ --	$ 5,364
Accounts receivable, net	81,021	11,136	--	92,157
Other	6,841	688	--	7,529
Total Current Assets	92,811	12,239	--	105,050
Property, Plant and Equipment -- at cost	1,061,818	166,067	(166,067)(A) 216,594(B)	1,278,412
Accumulated Depreciation, Depletion and Amortization	290,633	69,038	(69,038)(A)	290,633
	771,185	97,029	119,565	987,779
Other assets	68,554	3,145	883(B) (8,458)(C)	64,124
Total Assets	$ 932,550	$112,413	$ 111,990	$1,156,953
LIABILITIES AND EQUITY				
Current Liabilities:				
Accounts payable	$ 71,084	$ 7,060	$ --	$ 78,144
Other	31,059	746	--	31,805

Total Current Liabilities....	102,143	7,806	--	109,949
Long-Term Debt.........................	397,000	64,316	(64,316)(D) 193,306(C) (140,000)(E)	450,306
Other Noncurrent Liabilities...........	53,024	1,965	(602)(B)	54,387
Deferred Income Taxes..................	366	7,899	21,928(B) (7,899)(D)	22,294
Common Equity..........................	380,017	30,427	(30,427)(D) 140,000(E)	520,017(G)
Total Liabilities and Equity...........	$ 932,550	$112,413	$ 111,990	$1,156,953

</TABLE>

See Accompanying Notes to Unaudited Pro Forma Condensed Balance Sheet.

SEAGULL ENERGY
(WITHOUT ENSTAR ALASKA GROUP)

NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

(A) To eliminate Novalta's historical cost of property, plant and equipment and accumulated depreciation, depletion and amortization.

(B) To adjust the assets acquired and liabilities assumed in the Seagull Canada Acquisition to reflect the allocation of the estimated purchase price. The adjusted cost of property, plant and equipment was calculated as follows:

<TABLE>
<CAPTION>

<S>	(DOLLARS IN THOUSANDS) <C>
Estimated purchase price..	$200,455
Estimated transaction costs.....................................	1,309
Less -- other assets acquired:	
Current assets..	(12,239)
Other assets..	(4,028)
Plus -- liabilities assumed:	
Current liabilities.....................................	7,806
Deferred credits..	1,363
Deferred income taxes...................................	21,928
	$216,594

</TABLE>

The purchase price was determined pursuant to arm's length negotiations between the Company and Novacor Petrochemicals, based on the economic effective date of December 31, 1993. The purchase price was based to a large extent on the net present value of natural gas and oil reserves attributable to the properties acquired as a result of the Seagull Canada Acquisition.

(C) To record the financing of the Seagull Canada Acquisition, including approximately $193.3 million of borrowings under the Canadian Credit Agreement and the Revolver, a cash deposit of approximately $7.5 million paid in November 1993 and other costs related to the Seagull Canada Acquisition. See Note 7 to the combined financial statements of Seagull Energy included in this Annex.

(D) To eliminate the long-term debt, deferred income taxes and shareholder's equity of Novalta.

(E) To record the estimated net proceeds of $140 million from the issuance and sale for cash of shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group and the corresponding decrease in long-term debt outstanding under the Revolver. The Company, with assistance from its financial advisor, performed the analysis required to estimate the net proceeds from the proposed ENSTAR Alaska Stock Offering. This analysis consisted of a valuation and trading performance analysis of selected comparable natural gas utility companies. The valuation included a review of comparable dividend yields, dividend payout rates, dividend growth rates and the ability to generate cash flow in excess of capital requirements. The valuation analysis also involved applying an appropriate initial public offering discount and deducting the estimated costs relating to such an offering.

(F) Assets and liabilities of Novalta were translated from Canadian dollars to U.S. dollars using the conversion rate in effect on January 4, 1994 of $0.7553 per Canadian dollar.

The following table sets forth the historical and adjusted combined capitalization of Seagull Energy as of December 31, 1993. The table should be read in conjunction with Seagull Energy's combined financial statements and the notes related thereto included in this Annex.

	DECEMBER 31, 1993		
	HISTORICAL	PRO FORMA(1)	PRO FORMA ADJUSTED(2)
	(DOLLARS IN THOUSANDS)		
Total debt	$397,000	$590,306	$450,306
Common equity	380,017	380,017	520,017
Total capitalization	$777,017	$970,323	$970,323
Total debt to total capitalization ratio	51.1%	60.8%	46.4%

- ---------------

(1) Adjusted to give effect to approximately $193.3 million of borrowings under the Canadian Credit Agreement and Revolver that were incurred in connection with the Seagull Canada Acquisition.

(2) Adjusted to give effect to (i) the adjustment described in note (1) above and (ii) the issuance and sale of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group and the application of the estimated net proceeds therefrom of $140 million to repay a portion of the amounts borrowed under the Revolver.

(G) Based on the assumptions described above, the Available Seagull Energy Dividend Amount as of December 31, 1993, assuming no Retained Interest, would be $516,411,000. For a description of the Available Seagull Energy Dividend Amount, see "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Description of Seagull Common Stock and ENSTAR Alaska Stock -- Dividends."

SEAGULL ENERGY (WITHOUT ENSTAR ALASKA GROUP)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (UNAUDITED)

BASIS OF PRESENTATION

On March 11, 1994, Seagull Energy Corporation (the "Company") announced that it would seek shareholder approval of a comprehensive plan (the "ENSTAR Alaska Stock Proposal") that upon implementation would result in (i) the creation of a new class of common stock (the "ENSTAR Alaska Stock") intended to reflect separately the performance of the Company's natural gas transmission and distribution operations in South-Central Alaska (the "ENSTAR Alaska Group") and (ii) the amendment of certain terms of the existing class of common stock (the

"Seagull Common Stock") to allow for the issuance of the ENSTAR Alaska Stock. This capital structure has not been reflected in the accompanying combined financial statements.

Because the ENSTAR Alaska Stock is intended to reflect separately the performance of the ENSTAR Alaska Group, the Seagull Common Stock will reflect the performance of the Company's remaining two business segments ("Seagull Energy") that consist of (i) natural gas exploration, development and production, which is the Company's primary business focus, and (ii) pipeline and marketing operations. The ENSTAR Alaska Stock Proposal will be submitted to the Company's shareholders for their consideration and approval.

The financial statements for Seagull Energy and for the ENSTAR Alaska Group comprise all of the accounts included in the corresponding consolidated financial statements of the Company. The Seagull Energy financial statements have been prepared based upon methods that management believes to be reasonable and appropriate and reflect the combined historical financial position, results of operations and cash flows of Seagull Energy. Consistent with the Articles of Amendment to the Articles of Incorporation and relevant policies, such business group financial statements could also include contingent liabilities that are not separately identified with the operations of Seagull Energy.

For additional information with respect to the ENSTAR Alaska Stock Proposal, see "Basis of Presentation" included in Note 1 of notes to the accompanying combined financial statements of Seagull Energy beginning on page V-29 of this Annex V.

RESULTS OF OPERATIONS

COMBINED HIGHLIGHTS

<TABLE>
<CAPTION>

	1993	1992	1991	PERCENT CHANGE 1992-'93	PERCENT CHANGE 1991-'92
	(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Exploration and production................	$227,437	$ 91,991	$ 81,099	+ 147	+ 13
Pipeline and marketing....................	42,484	37,240	37,823	+ 14	- 2
	$269,921	$129,231	$118,922	+ 109	+ 9
Operating profit (loss):					
Exploration and production................	$ 42,969	$ (1,613)	$ 1,275	+2,764	-227
Pipeline and marketing....................	14,065	9,057	7,884	+ 55	+ 15
	$ 57,034	$ 7,444	$ 9,159	+ 666	- 19
Earnings (Loss) before cumulative effect of change in accounting principles...........	$ 20,150	$ (6,041)	$ (4,519)	+ 434	- 34
Net earnings (loss).........................	$ 20,150	$ (5,351)	$ (4,519)	+ 477	- 18
Net cash provided by operating activities before changes in operating assets and liabilities...............................	$141,466	$ 60,012	$ 46,488	+ 136	+ 29
Net cash provided by operating activities....	$ 95,158	$ 61,662	$ 41,916	+ 54	+ 47

</TABLE>

For discussions regarding revenues and operating profit of the Exploration and Production and Pipeline and Marketing segments, reference is made to "Results of Operations" included in Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company beginning on page IV-8 of Annex IV.

1993 Results Compared to 1992

Seagull Energy recorded a significant increase in net earnings for the year ended December 31, 1993 versus the prior year due to increases in operating profit, partially offset by increases in interest and general and administrative expenses. Net earnings for 1993 includes a pre-tax gain of approximately $3.8

million relating to the sales of non-strategic producing properties. Net earnings of Seagull Energy also benefitted from a reduction in income taxes due to utilization of approximately $4.8 million in Internal Revenue Code Section 29 tax credits, which more than offset a 1% increase in the federal corporate tax rate from 34% to 35%. In addition, net earnings for the prior year included a $4.6 million pre-tax settlement of litigation (the "Seismic Litigation Settlement") and the cumulative effect of a change in accounting principles described below. See "Other (Income) Expense" and "Income Taxes" sections below.

Effective January 1, 1992, Seagull Energy adopted Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. The cumulative effect of this accounting change as of January 1, 1992 resulted in a reduction to the net loss of approximately $0.7 million as reflected in Seagull Energy's combined statement of earnings for the year ended December 31, 1992.

Net cash provided by operating activities before and after changes in operating assets and liabilities for 1993 increased substantially in comparison to 1992 primarily as a result of significant increases in the exploration and production ("E&P") segment's natural gas production primarily due to its acquisition of Arkla Exploration Company (the "Mid-South Acquisition") from Arkla, Inc. ("Arkla") in December 1992.

1992 Results Compared to 1991

Net earnings for 1992 increased from 1991 primarily due to the Seismic Litigation Settlement and the cumulative effect of a change in accounting principles described above, partially offset by higher general and

administrative expenses and a higher effective income tax rate. See "Other (Income) Expense" and "Income Taxes" sections below.

Net cash provided by operating activities before and after changes in operating assets and liabilities for 1992 increased in comparison to 1991 primarily due to increases in cash flows generated by the E&P segment and the Seismic Litigation Settlement.

OTHER (INCOME) EXPENSE

<TABLE>
<CAPTION>

				PERCENT CHANGE	
	1993	1992	1991	1992-'93	1991-'92
	(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
General and administrative....................	$13,591	$12,043	$10,352	+ 13	+ 16
Management fees received from the ENSTAR Alaska Group.......................................	(1,925)	(1,944)	(1,925)	- 1	+ 1
Interest expense..............................	30,455	11,500	11,920	+165	- 4
Interest income and other.....................	(5,469)	(4,412)	(1,059)	+ 24	+317
	$36,652	$17,187	$19,288	+113	- 11

</TABLE>

General and administrative expenses increased for the year ended December 31, 1993 in comparison to 1992 due to costs associated with three compensation plans, one for outside directors, one for key managers, and the other for all Seagull Energy employees, that are tied directly to the price of Seagull Common Stock. The closing price of Seagull Common Stock increased approximately 63% from $15.563 (adjusted for Stock Split) at December 31, 1992 to $25.375 at December 31, 1993. Also, increases in other payroll related expenses contributed to the increase in general and administrative expenses in 1993. These increases were partially offset by a decline in costs related to potential acquisitions which were not consummated.

On December 31, 1992, Seagull Energy incurred additional debt to finance the Mid-South Acquisition. In addition, a large portion of its outstanding floating rate debt was refinanced in July 1993 with longer term debt bearing interest at fixed rates which were somewhat higher than the floating rates in effect for the debt being replaced. As a result of these transactions, Seagull Energy's interest expense and overall average interest rate increased for 1993.

Interest income and other for 1993 includes a pre-tax gain of approximately

$3.8 million relating to sales of non-strategic oil and gas producing properties. Net proceeds from the sales totaled approximately $13.0 million, resulting in an after-tax gain of approximately $2.8 million, or $0.08 per share. The parcels sold had proven reserves estimated at approximately 19 billion cubic feet ("Bcf") of natural gas equivalents.

General and administrative expenses increased for the year ended December 31, 1992 in comparison to 1991 as a result of increases in payroll related expenses and a charge of approximately $1.2 million for costs related to a potential acquisition which was not consummated.

During the first quarter of 1992, Seagull Energy incurred approximately $400,000 in severance expenses (included in general and administrative expenses and operations and maintenance costs) when it reduced its workforce by more than 10%. The workforce reduction was primarily a result of the depressed state of natural gas demand and prices in early 1992, coupled with a decrease in planned capital spending for 1992. Seagull Energy's workforce temporarily increased by approximately 240 employees as a result of the Mid-South Acquisition on December 31, 1992. Seagull Energy has retained a sizeable group of these employees. All severance expenses incurred in connection with any workforce reductions in the Mid-South area during 1993 were paid by Arkla. No additional workforce reductions are currently planned.

Interest expense declined approximately 15% for the year ended December 31, 1992 in comparison to 1991 as a result of a decrease in the level of debt outstanding during the year as well as a decline in the overall average interest rate. This decline, however, was substantially offset by a fourth quarter 1992 charge to interest expense resulting from the expensing of $2.3 million in unamortized debt acquisition costs relating to the

repayment of Seagull Energy's then existing revolving credit line in connection with the Mid-South Acquisition.

Interest income and other for the year ended December 31, 1992 includes $4.6 million relating to the Seismic Litigation Settlement resulting from a claim made by Seagull Energy that certain of the seismic data acquired by it in connection with its acquisition of Houston Oil & Minerals Corporation was actually delivered to other purchasers. In accordance with the settlement agreement, Seagull Energy received a cash payment in July 1992 of $2.6 million and will receive up to $5 million in pipeline business accommodations through December 31, 1995. If less than $3 million of business accommodations are realized, Seagull Energy will receive a cash payment in early 1996 equal to the difference between $3 million and the sum of the business accommodations realized. The $4.6 million in 1992 income includes the $2.6 million cash payment plus the present value of the $3 million guaranteed minimum payment for business accommodations less certain expenses.

INCOME TAXES

Seagull Energy's effective tax rate for the year ended December 31, 1993 was substantially lower than the statutory federal tax rate of 35% primarily because it utilized approximately $4.8 million in credits allowed under Section 29 of the Internal Revenue Code of 1986, as amended, to reduce its 1993 regular income tax liability. The Section 29 (Tight Sands) credits are allowed for production of fuels derived from nonconventional sources that are sold to nonrelated parties.

The effect of utilizing the Section 29 credits discussed above more than offset the effect of an increase in the federal corporate tax rate from 34% to 35% called for in recently enacted tax legislation. The effect of this rate change was an increase in Seagull Energy's 1993 provision for federal income taxes of approximately $0.5 million.

The provision for income taxes for 1993 and 1992 is not comparable to 1991 due to Seagull Energy's adoption of SFAS No. 109 effective January 1, 1992. This SFAS requires the use of the "liability method," which bases the amount of current and future taxes payable on events recognized in the consolidated financial statements and under existing tax laws. Seagull Energy recognized the cumulative effect of this change in accounting principle in the line item entitled "Cumulative Effect of Change in Accounting Principles" in the accompanying combined statement of earnings for the year ended December 31, 1992. Accordingly, periods prior to January 1, 1992 were not restated to reflect this change.

LIQUIDITY AND CAPITAL RESOURCES

Capital expenditures for 1993 were substantially higher than those for 1992 due to significant increases in Seagull Energy's exploitative activities, primarily resulting from the large number of prospects acquired in connection with the Mid-South Acquisition, and its exploratory activities in response to improvements in prices received and demand for natural gas. Seagull Energy's E&P activities and related capital expenditures had been dramatically reduced in 1992 as a result of unacceptable natural gas prices early in the year.

Capital expenditures for 1993, 1992 and 1991 were as follows:

<TABLE>
<CAPTION>

				PERCENT CHANGE	
	1993	1992	1991	1992-'93	1991-'92
	(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
CAPITAL EXPENDITURES:					
Exploration and production:					
Lease acquisitions......................	$ 7,396	$ 5,396	$ 4,446	+ 37	+ 21
Exploration.............................	26,824	8,378	15,053	+220	- 44
Development.............................	63,598	18,341	38,960	+247	- 53
	97,818	32,115	58,459	+205	- 45
Pipeline and marketing......................	2,115	1,622	634	+ 30	+156
Corporate...................................	2,015	890	2,124	+126	- 58
	$101,948	$ 34,627	$ 61,217	+194	- 43
ACQUISITIONS, NET OF CASH ACQUIRED:					
Exploration and production..................	$ 29,470	$391,531	$201,767	- 92	+ 94
Pipeline and marketing......................	--	10,357	--	N/A	N/A
	$ 29,470	$401,888	$201,767	- 93	+ 99

</TABLE>

In October 1993, Seagull Energy purchased an interest in a producing natural gas field in East Texas for approximately $26.6 million, effective September 1, 1993. The interest purchased contained proved reserves estimated at approximately 28.3 Bcf of natural gas and approximately 143,000 barrels ("Bbl") of condensate, or the equivalent of 29.2 Bcf of natural gas as of the October 1993 closing date.

Plans for 1994 call for capital expenditures of approximately $163 million, including about $160 million in exploration and production. Seagull Energy anticipates spending approximately $100 million for development, $10 million for lease acquisitions and $50 million will be devoted to exploration.

The growth in the E&P segment over the past six years has been accomplished primarily through acquisitions financed initially by bank borrowings; however, since August 1990, Seagull Energy has reduced borrowings under existing bank facilities by $520 million with net proceeds received from three separate Seagull Common Stock offerings and the July 1993 sale of Senior and Senior Subordinated Notes, discussed below, all in underwritten public offerings.

In connection with the Mid-South Acquisition, Seagull Energy entered into a credit agreement (the "Credit Agreement") with a group of major U. S. and international banks (the "Banks"). The Credit Agreement provided for a $150 million term loan, which was repaid in full in February 1993 with the net proceeds of approximately $164 million from the sale of 5,060,000 shares (10,120,000 shares after the Stock Split) of Seagull Common Stock, and a $475 million revolving credit line.

In June 1993, Seagull Energy amended and restated the Credit Agreement converting the facility into a single revolving credit facility (the "Revolver") with a total commitment of $475 million and a final maturity of December 31, 1999.

Under the terms of the Revolver, the commitments thereunder begin to decline on March 31, 1996 in equal quarterly reductions of $27.5 million and a final reduction of $62.5 million on December 31, 1999. The amount of senior indebtedness available to Seagull Energy under the provisions of the Revolver is subject to a borrowing base (the "Borrowing Base") based upon the proved reserves of the E&P segment and the financial performance of the Pipeline and

Marketing segment and the ENSTAR Alaska Group. The Borrowing Base is generally determined annually, but may be redetermined, at the option of either Seagull Energy or the Banks, one additional time each year, and will be redetermined upon the sale of certain assets included in the Borrowing Base.

As of January 4, 1994, immediately following the Company's acquisition (the "Seagull Canada Acquisition") of Novalta Resources Inc. ("Novalta"), the available commitment under the Revolver is subject to a $610 million Borrowing Base and is determined after consideration of outstanding borrowings under Seagull Energy's other senior debt facilities. As of February 28, 1994, borrowings outstanding under the Revolver were $188.5 million, leaving immediately available unused commitments of approximately $141.1 million, net of outstanding letters of credit of $2.2 million, $100 million of borrowings outstanding under the Senior Notes, the nominated maximum borrowing availability of $160 million under the Canadian Credit Agreement, defined below, and $18.2 million in borrowings outstanding under Seagull Energy's money market facilities.

In connection with the Seagull Canada Acquisition, Seagull Energy Canada Ltd. ("Seagull Canada"), the indirect wholly owned subsidiary of Seagull Energy which acquired Novalta, entered into a new $175 million reducing revolving credit facility (the "Canadian Credit Agreement") with a group of 10 Canadian affiliates of major U. S. and international banks. The Canadian Credit Agreement provides for dual currency borrowings in U. S. and Canadian dollars with a nominated maximum borrowing availability of $160 million, which may be increased or decreased by Seagull Energy at any time pursuant to provisions of the Canadian Credit Agreement, up to a maximum commitment of $175 million. The Canadian Credit Agreement matures on December 31, 1999 and commitments thereunder begin to decline on March 31, 1996 in equal quarterly reductions of $10,937,500. As of January 4, 1994, immediately following the Seagull Canada Acquisition, approximately $152 million in borrowings were outstanding under this facility.

In July 1993, Seagull Energy sold $100 million of senior notes (the "Senior Notes") and $150 million of senior subordinated notes (the "Senior Subordinated Notes") (collectively the "Notes"). The Senior Notes bear interest at 7 7/8% per annum, are not redeemable prior to maturity or subject to any sinking fund and mature on August 1, 2003. The Senior Subordinated Notes bear interest at 8 5/8% per annum, are not subject to any sinking fund and mature on August 1, 2005. On or after August 1, 2000, the Senior Subordinated Notes are redeemable at the option of Seagull Energy, in whole or in part, at redemption prices declining from 102.59% in 2000 to 100.00% in 2003 and thereafter. The Notes were issued at par and interest is paid semi-annually. Net proceeds from the offering, totaling approximately $245.0 million, were used to repay borrowings outstanding under the Revolver.

In addition to the facilities discussed above, Seagull Energy has money market facilities with two major U.S. banks with a combined maximum commitment of $70 million. These lines of credit bear interest at rates made available by the banks at their discretion and may be canceled at either Seagull Energy's or the banks' discretion. The lines are subject to annual renewal.

Management believes that Seagull Energy's capital resources will be sufficient to finance current and forecasted operations. However, Seagull Energy continues to actively pursue potential acquisitions and, depending upon the size and terms of any such acquisition, additional financing may be required. The Company has historically received cash from the ENSTAR Alaska Group in the form of dividends and payments under the Management Agreement and Tax Sharing Agreement, as defined below. These dividends and contractual payments, after taking into account the costs and tax obligations related to the contractual payments, have been used by Seagull Energy (together with other funds available to it) to fund its operations, including its capital expenditure programs. If the ENSTAR Alaska Stock Proposal is adopted, Seagull Energy will no longer receive the benefit of dividends from the ENSTAR Alaska Group, but will continue to receive payments under the Management Agreement and the Tax Sharing Agreement. During the three years ended December 31, 1993, the ENSTAR Alaska Group paid regular dividends of $8 million per year and a special dividend of $20 million in 1991.

To date, compliance with applicable environmental and safety regulations by Seagull Energy has not required any significant capital expenditures or materially affected its business or earnings. Seagull Energy believes it is in substantial compliance with environmental and safety regulations and foresees no material expenditures in the future; however, Seagull Energy is unable to predict the impact that compliance with future regulations may have on capital expenditures, earnings and competitive position.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Seagull Energy Corporation:

We have audited the accompanying combined balance sheets of Seagull Energy (without ENSTAR Alaska Group) (as defined in Note 1 to the combined financial statements) as of December 31, 1993 and 1992, and the related combined statements of earnings and cash flows for each of the years in the three-year period ended December 31, 1993. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined 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.

As more fully described in Note 1, the combined financial statements of Seagull Energy (without ENSTAR Alaska Group) should be read in conjunction with the audited consolidated financial statements of Seagull Energy Corporation as listed in the index on page IV-1.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Seagull Energy (without ENSTAR Alaska Group) as of December 31, 1993 and 1992, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 13 to the combined financial statements, Seagull Energy (without ENSTAR Alaska Group) adopted the provisions of the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, in 1992.

KPMG PEAT MARWICK

Houston, Texas
January 31, 1994, except as to
Note 1, Basis of Presentation,
which is as of March 11, 1994.

SEAGULL ENERGY
(WITHOUT ENSTAR ALASKA GROUP)

COMBINED STATEMENTS OF EARNINGS

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Revenues:			
Exploration and production	$227,437	$ 91,991	$ 81,099
Pipeline and marketing	42,484	37,240	37,823
	269,921	129,231	118,922
Costs of Operations:			
Cost of gas sold	2,660	3,888	5,913
Operations and maintenance	83,917	51,947	48,699
Exploration charges	17,265	9,905	9,227
Depreciation, depletion and amortization	109,045	56,047	45,924
	212,887	121,787	109,763
Operating Profit	57,034	7,444	9,159
Other (Income) Expense:			
General and administrative	13,591	12,043	10,352
Management fees received from the ENSTAR Alaska Group	(1,925)	(1,944)	(1,925)
Interest expense	30,455	11,500	11,920

Interest income and other	(5,469)	(4,412)	(1,059)
	36,652	17,187	19,288
Earnings (Loss) Before Income Taxes and Cumulative Effect of Change in Accounting Principles	20,382	(9,743)	(10,129)
Income Tax Expense (Benefit)	232	(3,702)	(5,610)
Earnings (Loss) Before Cumulative Effect of Change in Accounting Principles	20,150	(6,041)	(4,519)
Cumulative Effect of Change in Accounting Principles	--	690	--
Net Earnings (Loss)	$ 20,150	$ (5,351)	$ (4,519)

</TABLE>

See Accompanying Notes to Combined Financial Statements.

SEAGULL ENERGY
(WITHOUT ENSTAR ALASKA GROUP)

COMBINED BALANCE SHEETS

ASSETS

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1993	1992
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Current Assets:		
Cash and cash equivalents	$ 4,949	$ 2,663
Accounts receivable, net	81,021	69,755
Inventories	1,951	1,593
Prepaid expenses and other	4,890	746
Total Current Assets	92,811	74,757
Property, Plant and Equipment -- at cost (successful efforts method for gas and oil properties)	1,061,818	983,156
Accumulated Depreciation, Depletion and Amortization	290,633	205,713
	771,185	777,443
Other Assets	68,554	64,878
Total Assets	$ 932,550	$917,078
LIABILITIES AND COMMON EQUITY		
Current Liabilities:		
Accounts payable	$ 71,084	$ 87,070
Accrued expenses	23,469	8,169
Prepaid gas and oil sales	7,590	27,933
Total Current Liabilities	102,143	123,172
Long-Term Debt	397,000	541,000
Other Noncurrent Liabilities	53,024	68,402
Deferred Income Taxes	366	2,598
Common Equity	380,017	181,906
Commitments and Contingencies		
Total Liabilities and Common Equity	$ 932,550	$917,078

</TABLE>

See Accompanying Notes to Combined Financial Statements.

SEAGULL ENERGY
(WITHOUT ENSTAR ALASKA GROUP)

COMBINED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Operating Activities			
Net earnings (loss)	$ 20,150	$ (5,351)	$ (4,519)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Cumulative effect of change in accounting principles	--	(690)	--
Depreciation, depletion and amortization	110,957	57,318	46,943
Amortization of loan acquisition costs	4,092	2,771	592
Deferred income taxes	(2,322)	(399)	(1,961)
Dry hole expense	10,534	5,232	4,195
Gain on sales of property, plant and equipment	(3,929)	(177)	(46)
Distributions in excess of earnings from partnerships	1,506	872	888
Other	478	436	396
	141,466	60,012	46,488
Changes in operating assets and liabilities, net of acquisitions:			
Decrease (Increase) in accounts receivable, net	(9,384)	6,813	(6,272)
Decrease (Increase) in inventories, prepaid expenses and other	865	(373)	(1,153)
Increase (Decrease) in accounts payable	(17,662)	(3,274)	3,179
Decrease in prepaid gas and oil sales	(27,933)	--	--
Increase (Decrease) in accrued expenses and other	7,806	(1,516)	63
Net Cash Provided By Operating Activities	95,158	61,662	42,305
Investing Activities			
Capital expenditures	(101,948)	(34,627)	(61,217)
Acquisitions, net of cash acquired	(29,470)	(401,888)	(201,767)
Proceeds from sales of property, plant and equipment	13,566	1,202	1,303
Net Cash Used In Investing Activities	(117,852)	(435,313)	(261,681)
Financing Activities			
Proceeds from revolving lines of credit and other borrowings	599,490	697,000	307,000
Principal payments on revolving lines of credit and other borrowings	(743,490)	(312,667)	(154,954)
Fees paid to acquire financing	(6,535)	(17,980)	(3,201)
Contributions from the Company	174,140	8,584	65,571
Other	1,375	769	399
Net Cash Provided By Financing Activities	24,980	375,706	214,815
Increase (Decrease) In Cash And Cash Equivalents	2,286	2,055	(4,561)
Cash And Cash Equivalents At Beginning Of Year	2,663	608	5,169
Cash And Cash Equivalents At End Of Year	$ 4,949	$ 2,663	$ 608

</TABLE>

See Accompanying Notes to Combined Financial Statements.

SEAGULL ENERGY
(WITHOUT ENSTAR ALASKA GROUP)

NOTES TO COMBINED FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

</TABLE>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. On March 11, 1994, Seagull Energy Corporation (the "Company") announced that it would seek shareholder approval of a comprehensive plan (the "ENSTAR Alaska Stock Proposal") that upon implementation would result in (i) the creation of a new class of common stock (the "ENSTAR Alaska Stock") intended to reflect separately the performance of the Company's natural gas transmission and distribution operations in South-Central Alaska (the "ENSTAR Alaska Group") and (ii) the amendment of certain terms of the existing class of common stock (the "Seagull Common Stock") to allow for the issuance of the ENSTAR Alaska Stock. This capital structure has not been reflected in these financial statements.

Because the ENSTAR Alaska Stock is intended to reflect separately the performance of the ENSTAR Alaska Group, the Seagull Common Stock will reflect the performance of the Company's remaining two business segments ("Seagull Energy") that consist of (i) natural gas exploration, development and production, which is the Company's primary business focus, and (ii) pipeline and marketing operations. The ENSTAR Alaska Stock Proposal, which is summarized below, will be submitted to the Company's shareholders for their consideration and approval.

The Company currently plans, shortly after shareholder approval of the ENSTAR Alaska Stock Proposal and subject to prevailing market and other conditions, to make a public offering for cash of shares of ENSTAR Alaska Stock (the "ENSTAR Alaska Stock Offering") representing 100% of the equity attributable to the ENSTAR Alaska Group. The Board of Directors reserves the right to sell less than 100% of such equity and also reserves the right not to proceed with the ENSTAR Alaska Stock Offering if it determines that consummation of such offering is not in the best interests of the Company. The net proceeds of the ENSTAR Alaska Stock Offering would be used to repay amounts borrowed under the Company's revolving credit agreement, none of which debt is attributable to the ENSTAR Alaska Group.

The financial statements for Seagull Energy and for the ENSTAR Alaska Group comprise all of the accounts included in the corresponding consolidated financial statements of the Company. The Seagull Energy financial statements have been prepared based upon methods that management believes to be reasonable and appropriate and reflect the combined historical financial position, results of operations and cash flows of Seagull Energy. Consistent with the Articles of Amendment to the Articles of Incorporation and relevant

policies, such business group financial statements could also include contingent liabilities that are not separately identified with the operations of Seagull Energy.

If the ENSTAR Alaska Stock Proposal receives the requisite shareholder approval and the ENSTAR Alaska Stock Offering is consummated, the Company will provide to holders of Seagull Common Stock separate audited financial statements, management's discussion and analysis, description of business and other relevant information for Seagull Energy and the Company. Notwithstanding the allocation of the Company's assets and liabilities (including contingent liabilities) and shareholders' equity between Seagull Energy and the ENSTAR Alaska Group for the purpose of preparing their respective financial statements, holders of Seagull Common Stock (together with the holders of ENSTAR Alaska Stock) will be shareholders of the Company and will continue to be subject to all of the risks associated with an investment in the Company and all of its businesses and liabilities. Such allocation and the change in the equity structure of the Company contemplated by the ENSTAR Alaska Stock Proposal will not affect legal title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. As a result, the ENSTAR Alaska Stock Proposal will not affect the rights of holders of the Company's or any of its subsidiaries' debt. Financial impacts arising from the ENSTAR Alaska Group that affect the Company's financial condition could affect the results of operations or financial position of Seagull Energy. In addition, any net losses of the ENSTAR Alaska Group and dividends or distributions on, or repurchases of, ENSTAR Alaska Stock will reduce the legally available funds of the Company available for payment of dividends on the Seagull Common Stock. Accordingly, the Company's consolidated financial information and the combined financial information for the ENSTAR Alaska Group should be read in conjunction with Seagull Energy's combined financial information.

Dividends on the Seagull Common Stock will be limited to the lesser of (i) legally available funds of the Company under Texas law and (ii) the Available Seagull Energy Dividend Amount, defined as Seagull Energy's net assets less the stated capital of all common and preferred stock attributable to Seagull Energy. Amounts available for dividends may be further limited by covenants in the Company's bank credit agreements and other financing documents. See the Company's consolidated financial statements and notes related thereto in Annex IV. The Company has not paid any cash dividends on shares of Seagull Common Stock since it became an independent entity in 1981. The ENSTAR Alaska Stock Proposal would not change the Company's dividend policy with respect to the Seagull Common Stock. Accordingly, the Board of Directors does not currently intend to pay dividends on the Seagull Common Stock. For a description of the basis for determining voting rights and liquidation rights for each class of common stock, see "Proposal 2 -- the ENSTAR Alaska Stock Proposal -- Description of Seagull Common Stock and ENSTAR Alaska Stock -- Voting Rights" and "-- Liquidation Rights."

The accounting policies applicable to the preparation of the financial statements of Seagull Energy and of the ENSTAR Alaska Group could be modified or rescinded in the sole discretion of the Board of Directors without approval of shareholders, although there is no present intention to do so. The Board of Directors could also adopt additional policies depending upon the circumstances. Any determination of the Board of Directors to modify or rescind such policies, or to adopt additional policies, would be made by the Board of Directors in good faith and in the honest belief that such decision is in the best interests of the Company. Any such determination would also be made in light of the requirements imposed by the Alaska Public Utilities Commission that any transactions between the ENSTAR Alaska Group and its affiliates, including Seagull Energy, must be on terms comparable to arm's length transactions. In addition, generally accepted accounting principles require that any change in accounting policy be preferable (in accordance with such principles) to the policy previously established.

Combination. The accompanying combined financial statements include the combined accounts of the businesses comprising Seagull Energy.

The results of operations of Seagull Mid-South Inc. ("Seagull Mid-South"), formerly Arkla Exploration Company ("Arkla Exploration"), have been included with those of Seagull Energy since December 31, 1992, and the results of operations of certain gas and oil assets (the "Mid-Continent Assets") purchased from Mesa Limited Partnership, a predecessor of Mesa, Inc. ("Mesa"), have been included with those of Seagull Energy since March 8, 1991, the respective acquisition dates (see Note 3).

Partnerships in which Seagull Energy holds a 50% interest or less are accounted for using the equity method.

Cash Equivalents. Cash equivalents include all highly liquid investments with a maturity of three months or less when purchased.

Supplemental Disclosures of Cash Flow Information.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991

	-------	-------	-------
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Cash paid during the year for:			
Interest, net of amount capitalized....................	$23,034	$12,391	$12,373
Income taxes...	$ 3,804	$(2,461)	$(1,665)

</TABLE>

Inventories. Materials and supplies are valued at the lower of average cost or market value (net realizable value). Inventories of hydrocarbon products are valued on a first-in, first-out (FIFO) basis at the lower of cost or market value.

Gas and Oil Properties. Seagull Energy uses the successful efforts method of accounting for its gas and oil operations. The costs of unproved leaseholds are capitalized pending the results of exploration efforts. Unproved leaseholds with significant acquisition costs are assessed periodically, on a property-by-property basis, and a loss is recognized to the extent, if any, that the cost of the property has been impaired. Unproved leaseholds whose acquisition costs are not individually significant are aggregated, and the portion of such costs estimated to ultimately prove nonproductive, based on experience, is amortized over an average holding period. As unproved leaseholds are determined to be productive, the related costs are transferred to proved leaseholds. Exploratory dry holes and geological and geophysical charges are expensed. Depletion of proved leaseholds and amortization and depreciation of the costs of all development and successful exploratory drilling are provided by the unit-of-production method based upon estimates of proved gas and oil reserves on a field-by-field basis. Estimated costs (net of salvage value) of dismantling and abandoning gas and oil production facilities are computed and included in depreciation and depletion using the unit-of-production method. The total estimated future dismantlement and abandonment cost being amortized as of December 31, 1993 was approximately $23.2 million. On a world-wide basis, should the net capitalized costs exceed the estimated future undiscounted after tax net cash flows from proved gas and oil reserves, such excess costs would be charged to expense.

Other Property, Plant and Equipment. Depreciation of gas gathering pipeline facilities is computed principally using the unit-of-production method based on the estimated proved reserves to be transported through the pipeline facility. Depreciation of the gas processing plants and other property is computed using the straight-line method over their estimated useful lives, which vary from 3 to 20 years. Gain or loss on sale or disposition of property is credited or charged to interest income and other.

Maintenance, repairs and renewals are charged to operations and maintenance expense except that renewals which extend the life of the property are capitalized.

Revenue Recognition. Seagull Energy records revenue following the entitlement method of accounting for production gas imbalances.

Profits on construction of pipeline systems for third parties is recognized under the percentage-of-completion method.

General and Administrative Expense. General and administrative expenses represent various overhead costs of corporate departments. All overhead expenses directly related to the operations of Seagull Energy's business segments are included in operations and maintenance costs and exploration charges.

Interest Rate Swap Agreements. Seagull Energy has entered into interest rate swap agreements to manage the impact of changes in interest rates. The differential interest to be paid or received is accrued as interest rates change and is recognized over the life of the agreements as a component of interest expense.

Income Taxes. Effective January 1, 1992, Seagull Energy adopted Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. This SFAS requires the use of the liability method under which deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date.

Prior to January 1, 1992, Seagull Energy used the deferral method of accounting for income taxes, under which deferred taxes were provided for all material timing differences arising from the recognition of certain items of income and expense in different accounting periods for tax and financial accounting purposes using the tax rate applicable for the year of the calculation. Under the deferral method, deferred taxes were not adjusted for subsequent changes in tax rates.

Earnings Per Share. Historical earnings per share are omitted from the combined statements of earnings since the ENSTAR Alaska Stock was not part of the equity structure of the Company and the Seagull Common Stock had not been amended to allow for the issuance of the ENSTAR Alaska Stock for the periods presented.

2. RELATED PARTY ACTIVITIES

The following policies and agreements may be modified or rescinded by action of the Board of Directors, or the Board of Directors may adopt additional policies, without approval of the shareholders of the Company, although the Board of Directors has no present intention to do so.

Corporate Overhead Costs. Since 1985, when the Company acquired the ENSTAR Alaska Group, Seagull Energy has provided certain management and administrative services to the ENSTAR Alaska Group pursuant to a series of written management agreements. The most recent such agreement, the Agreement for Services, was entered into effective as of January 1, 1993 (the "Management Agreement"). Pursuant to the Management Agreement, Seagull Energy provides certain management, financial reporting, legal, human resources, treasury, investor relations and administrative services to the ENSTAR Alaska Group. In consideration for these services, the ENSTAR Alaska Group has agreed to pay Seagull Energy an annual management fee equal to the greater of (i) $1,925,000 and (ii) the sum of (A) the direct cost of providing such services and (B) the allocable portion of Seagull Energy's general and administrative expenses associated with providing such services, primarily determined by reference to the relative amount of time spent by Seagull Energy's employees to provide such services. The Management Agreement would continue in effect following implementation of the ENSTAR Alaska Stock Proposal. The Management Agreement may be amended by agreement between Seagull Energy and the ENSTAR Alaska Group. Fees paid by the ENSTAR Alaska Group pursuant to the Management Agreement totaled $1.9 million in each of the years 1993, 1992 and 1991 and were included as a reduction in other (income) expense.

Income Taxes. Seagull Energy and the ENSTAR Alaska Group are also parties to a tax sharing agreement dated as of January 1, 1986 (the "Tax Sharing Agreement"). Because the ENSTAR Alaska Group is included in the Company's consolidated group for income tax purposes, tax deductions and credits attributable to Seagull Energy tend to reduce the amount of income tax that would be payable if such taxes were calculated solely with respect to the operations of the ENSTAR Alaska Group. Pursuant to the Tax Sharing Agreement, the ENSTAR Alaska Group generally pays Seagull Energy an amount equal to the amount of income taxes that would be payable by the ENSTAR Alaska Group on a "stand alone" basis, excluding the effects of historical purchase accounting adjustments. In this regard, the assets and liabilities of the ENSTAR Alaska Group are accounted for based upon the ENSTAR Alaska Group's original historical cost prior to the ENSTAR Alaska Group's acquisition by the Company in 1985. To the extent current taxes paid by the ENSTAR Alaska Group to Seagull Energy pursuant to the Tax Sharing Agreement differ from amounts computed based on income and expenses included in the ENSTAR Alaska Group's statements of earnings, such amounts are recorded as an adjustment to common equity. The ENSTAR Alaska Group would continue to be included in the Company's consolidated group for income tax purposes after the implementation of the ENSTAR Alaska Stock Proposal, and the Tax Sharing Agreement would continue in effect. The Tax Sharing Agreement may be amended by agreement between Seagull Energy and the ENSTAR Alaska Group.

3. ACQUISITIONS

Seagull Mid-South Inc. On December 31, 1992, Seagull Energy purchased all of the outstanding capital stock of Arkla Exploration from Arkla, Inc. ("Arkla") for approximately $397 million in cash, subject to certain customary post-closing adjustments (the "Mid-South Acquisition"). The purchase price was adjusted for, among other things, certain title defects and an adjustment relating to the net aggregate gas imbalances attributable to Arkla Exploration's interest in the properties it owned. The final adjusted purchase price was approximately $393 million. The acquisition was accounted for as a purchase.

Seagull Mid-South's assets (the "Mid-South Properties") consist almost exclusively of natural gas and oil reserves and developed and undeveloped lease acreage concentrated principally in a small number of fields located in Arkansas, Louisiana, Mississippi, Oklahoma and Texas. Arkla Exploration entered into prepaid gas and oil sales contracts prior to its acquisition by Seagull Energy. As of December 31, 1992, Seagull Mid-South was obligated to deliver for no future consideration approximately 13 billion cubic feet ("Bcf") of gas and approximately one million barrels ("MMbbl") of oil and condensate pursuant to these contracts over periods expiring January 31, 1994 and June 30, 1995, respectively. As of December 31, 1993, approximately 620 million cubic feet ("MMcf") of gas and 529,000 barrels ("Bbl") of oil and condensate remain to be delivered under these contracts.

Mid-Continent Assets. On March 8, 1991, Seagull Energy purchased the Mid-Continent Assets from Mesa for approximately $199 million in cash after certain adjustments. In addition, Seagull Energy and Mesa entered into a contingent gas price payment agreement at the closing pursuant to which Seagull Energy would generally pay an additional $450,000 (up to a maximum of $25 million) for each $.01 that the weighted average wellhead price, as defined, of natural gas sold from the Mid-Continent Assets exceeds $1.80 per thousand cubic feet ("Mcf") for the three year period ending December 31, 1993. The estimated weighted average wellhead price, as defined, of natural gas sold for the three year period ended December 31, 1993 was $1.76 per Mcf. Based upon this estimated price, Seagull Energy does not anticipate that any payment will be required under the contingent gas price payment agreement. The Mid-Continent Assets include gas and oil interests generally located in Western Oklahoma and the Texas Panhandle and certain related assets. The acquisition was accounted for as a purchase.

See Note 17 for information concerning the acquisition of Novalta Resources Inc. ("Novalta") (the "Seagull Canada Acquisition") in January 1994.

4. PROPERTY, PLANT AND EQUIPMENT

The major classes of property, plant and equipment are shown below:

<TABLE>
<CAPTION>

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Gas and oil properties	$ 972,460	$888,178
Pipeline facilities	63,019	72,413
Gas processing plants	15,808	12,301
Equipment and other	10,531	10,264
	$1,061,818	$983,156

</TABLE>

Interest cost capitalized as property, plant and equipment amounted to approximately $0.8 million in 1993 and 1992 and $1.6 million in 1991. Total depreciation, depletion and amortization related to property, plant and equipment amounted to approximately $111.0 million, $57.3 million and $46.9 million in 1993, 1992 and 1991, respectively.

5. SUPPLEMENTAL GAS AND OIL PRODUCING ACTIVITIES (UNAUDITED)

For disclosures with respect to supplemental gas and oil producing activities, reference is made to Note 4 of Notes to Consolidated Financial Statements of Seagull Energy Corporation beginning on page IV-23 of Annex IV.

6. OTHER NONCURRENT ASSETS

Other noncurrent assets include the following:

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Natural gas imbalances	$31,271	$35,418
Debt acquisition costs	18,387	16,656
Investments in partnerships	7,377	8,883
Acquisition costs -- Seagull Canada Acquisition	7,745	--
Other	3,774	3,921
	$68,554	$64,878

Natural Gas Imbalances. Seagull Energy records revenue following the entitlement method of accounting for production imbalances, in which any excess amount received above its share is treated as a liability. If less than Seagull Energy's entitlement is received, the underproduction is recorded as an asset. Seagull Energy records revenue from gas marketing sales net of the cost of gas and third-party delivery fees, with any resulting transportation imbalances recorded as a current receivable or payable.

Seagull Energy's natural gas imbalance assets and liabilities were as follows:

	DECEMBER 31, 1993 AMOUNT	1993 VOLUMES	1992 AMOUNT	1992 VOLUMES
	(DOLLARS IN THOUSANDS AND VOLUMES IN BCF)			
ASSETS:				
Current	$ 5,808	3.6	$ 2,686	1.8
Noncurrent	31,271	20.9	35,418	23.8
	$37,079	24.5	$38,104	25.6
LIABILITIES:				
Current	$ 7,546	4.5	$ 5,552	3.7
Noncurrent	31,693	20.7	39,011	25.7
	$39,239	25.2	$44,563	29.4

Debt Acquisition Costs. Debt acquisition costs represent financing costs incurred in connection with the execution of various facilities entered into or securities issued by Seagull Energy. These costs are capitalized and amortized to interest expense over the life of the related debt. As discussed in Note 7, Seagull Energy has a $475 million revolving credit line which matures in 1999. Financing costs initially incurred in 1992 of approximately $16.7 million were capitalized in connection with this facility and will be amortized to interest expense over periods ending December 31, 1999. Approximately $5.0 million in financing costs incurred were capitalized in connection with the July 1993 issuance of $250 million in senior and senior subordinated notes, and will be amortized to interest expense over periods ending August 1, 2005 (see Note 7).

Investments in Partnerships.

Seagull Shoreline System. Seagull Energy, through one of its combined subsidiaries, serves as operator and at December 31, 1993 held approximately a 19% interest in the Seagull Shoreline System ("SSS"), a partnership that owns an offshore gas pipeline. At December 31, 1993, the investment in SSS amounted to $2.3 million.

Cavallo Pipeline Company. A combined subsidiary of Seagull Energy owns a 50% interest in, and operates, Cavallo Pipeline Company ("Cavallo"). The Cavallo system consists of an offshore pipeline system. At December 31, 1993, the investment in Cavallo amounted to approximately $5.1 million.

The financial position and results of operations of SSS and Cavallo are summarized below. The amounts in the table include interests that are not 100% attributable to Seagull Energy:

	SSS			CAVALLO		
	YEAR ENDED DECEMBER 31,			YEAR ENDED DECEMBER 31,		
	1993	1992	1991	1993	1992	1991
INCOME STATEMENT DATA (for the year):						
Revenues	$ 9,309	$ 7,366	$ 6,718	$ 4,737	$ 4,061	$ 2,931
Earnings before income taxes	5,467	3,575	2,899	2,624	2,061	839
BALANCE SHEET DATA (at December 31):						
Current assets	1,782	1,513	1,545	982	1,175	1,017
Noncurrent assets	12,975	15,152	17,326	10,148	11,412	12,665
Current liabilities	435	653	720	163	118	179

Seagull Energy's interest in the combined earnings of SSS and Cavallo for the years ended December 31, 1993, 1992 and 1991 was $2.5 million, $2.2 million and $1.5 million, respectively.

In April 1993, SSS filed an application with the Federal Energy Regulatory Commission (the "FERC") requesting an increase in its per unit transportation tariff to $0.09 per MMbtu. To date, the FERC has not approved nor disapproved SSS's application and it cannot be determined what rate the FERC will ultimately approve. As a result, the 1993 revenues and earnings before income taxes disclosed above for SSS could be reduced by as much as approximately $2.5 million if the tariff increase is ultimately not approved by the FERC. Seagull Energy's interest in the 1993 combined earnings of SSS and Cavallo reflects a reduction of approximately $0.5 million for 1993 transportation tariffs which may not ultimately be approved by the FERC.

Acquisition Costs -- Seagull Canada Acquisition. Acquisition costs represent costs incurred in connection with the Seagull Canada Acquisition, including a deposit of approximately $7.5 million paid in November 1993 which was applied as part of the cash purchase price paid in January 1994 (see Note 17).

7. LONG-TERM DEBT

Long-term debt for 1993 and 1992 was as follows:

	DECEMBER 31,	
	1993	1992
	(DOLLARS IN THOUSANDS)	
Money market facilities, variable rates (3.875%-4.75% at December 31, 1993) due in 1994	$ 70,000	$ --
Term Loan, variable rates (8% at December 31, 1992) due in 1993-1995	--	150,000
Revolving credit, variable rates (6% and 8% at December 31, 1993 and 1992) due in 1996-1999	77,000	391,000
Senior notes, 7.875%, due August 1, 2003	100,000	--

Senior subordinated notes, 8.625%, due August 1, 2005	150,000	--
Total long-term debt	$397,000	$541,000

</TABLE>

The combined financial statements reflect debt and related interest expense incurred directly by Seagull Energy. The change in the equity structure of the Company contemplated by the ENSTAR Stock Proposal will not affect responsibility for the liabilities of the Company or any of its subsidiaries.

Money Market Facilities. Seagull Energy has money market facilities with two major U. S. banks with a combined maximum commitment of $70 million. These lines of credit bear interest at rates made available by the banks at their discretion and may be canceled at either Seagull Energy's or the banks' discretion. The lines are subject to annual renewal. In connection with the Seagull Canada Acquisition (see Note 17), borrowings outstanding under Seagull Energy's money market facilities were reduced to $10 million in January 1994 and the remaining $60 million was refinanced with borrowings under the Revolver (defined below).

Seagull Energy Corporation Revolving Credit. During 1993, Seagull Energy amended and restated its credit agreement with a group of major U. S. and international banks (the "Banks") converting the facility into a single revolving credit facility (the "Revolver") with a total commitment of $475 million and a final maturity of December 31, 1999. The facility was also amended to, among other things, release as security all of the following: (i) a pledge of the stock of all direct or indirect subsidiaries of the Company whose shares had been pledged; (ii) a mortgage on all gas and oil properties of the Company and its subsidiaries; and (iii) guaranties from each of the Company's subsidiaries pledging stock or mortgaging properties as described

above. Under the terms of the Revolver, the commitments thereunder begin to decline on March 31, 1996 in equal quarterly reductions of $27.5 million and a final reduction of $62.5 million on December 31, 1999.

The Revolver is an unsecured credit facility that contains restrictive provisions regarding the incurrence of additional debt, the making of investments outside existing lines of business, the maintenance of certain financial ratios (based upon the Company's consolidated financial condition and results of operations), the incurrence of additional liens, the declaration or payment of dividends (other than dividends payable on up to $100 million of preferred stock or dividends payable solely in the form of additional shares of Seagull Common Stock) and the repurchase or redemption of capital stock. Under the most restrictive of these provisions, approximately $9.1 million was available for payment of cash dividends on Seagull Common Stock or to repurchase Seagull Common Stock as of December 31, 1993. As of January 4, 1994, immediately following the Seagull Canada Acquisition, the Company's consolidated Debt to Capitalization Ratio, as defined under the Revolver, increased to 60.2%. In the event the Company's consolidated Debt to Capitalization Ratio is in excess of 60% as of March 31, 1994, the Company would not be able to pay any cash dividends on or repurchase any Seagull Common Stock under these currently existing provisions. No cash dividends have been paid on Seagull Common Stock since the Company became an independent entity in 1981. However, in connection with the consummation of the ENSTAR Alaska Stock Offering, the Revolver will be required to be amended to allow for the payment of cash dividends on the ENSTAR Alaska Stock.

The Revolver bears interest, at Seagull Energy's option, at a rate equal to (i) either one, two, three or six month Adjusted LIBOR, plus a margin (the "LIBOR Margin") or (ii) the Reference Rate, plus a margin (the "Prime Margin"). The "Reference Rate" is the greater of (i) 0.5% per annum above the daily federal funds rate or (ii) the prime rate of the agent bank. The LIBOR Margin ranges from 0.625% to 2.5% per annum, depending upon the Company's credit rating and consolidated Debt to Capitalization Ratio (as defined under the Revolver), and the Prime Margin ranges from 0% to 1.5% per annum, depending upon the same factors.

Under provisions included in the Revolver, the amount of senior indebtedness available to Seagull Energy is subject to a borrowing base (the "Borrowing Base"), based upon the proved reserves of the exploration and production segment and the financial performance of the Pipeline and Marketing segment and the ENSTAR Alaska Group. The Borrowing Base is generally determined annually, but may be redetermined, at the option of either Seagull Energy or the

Banks, one additional time each year, and will be redetermined upon the sale of certain assets included in the Borrowing Base. If the Borrowing Base is redetermined in such a manner that the amount outstanding under the Revolver (or any other permitted senior debt facility) exceeds the new Borrowing Base, then Seagull Energy must repay the Revolver or such other indebtedness in an amount necessary to cure the deficiency. If such deficiency has not been cured within 30 days, such deficiency must be cured in three equal quarterly installments.

As of January 4, 1994, immediately following the Seagull Canada Acquisition, the available commitment under the Revolver is subject to a $610 million Borrowing Base and is determined after consideration of outstanding borrowings under Seagull Energy's other senior debt facilities. On that date, borrowings outstanding under the Revolver were $188.5 million, leaving immediately available unused commitments of approximately $149.3 million, net of outstanding letters of credit of $2.2 million, $100 million of borrowings outstanding under the Senior Notes (defined below), the nominated maximum borrowing availability of $160 million under the Canadian Credit Agreement (defined below), and $10 million in borrowings outstanding under the money market facilities.

Canadian Credit Agreement. In connection with the Seagull Canada Acquisition (see Note 17), Seagull Energy Canada Ltd. ("Seagull Canada"), the indirect wholly owned subsidiary of the Company which acquired Novalta, entered into a new $175 million reducing revolving credit facility (the "Canadian Credit Agreement") with a group of 10 Canadian affiliates of major U. S. and international banks. The Canadian

Credit Agreement provides for dual currency borrowings in U. S. and Canadian dollars with a nominated maximum borrowing availability of $160 million, which may be increased or decreased by Seagull Energy at any time pursuant to provisions of the Canadian Credit Agreement, up to a maximum commitment of $175 million. The Canadian Credit Agreement matures on December 31, 1999 and commitments thereunder begin to decline on March 31, 1996 in equal quarterly reductions of $10,937,500. As of January 4, 1994, immediately following the Seagull Canada Acquisition, approximately $152 million in borrowings were outstanding under this facility, which are currently denominated in Canadian dollars.

Borrowings outstanding in Canadian dollars bear interest, at Seagull Canada's option, at a rate equal to (i) either one, two, three or six month Bankers' Acceptance Rate plus the LIBOR Margin or (ii) the Paying Agent's prime rate plus the Prime Margin. Borrowings outstanding under the Canadian Credit Agreement funded in U. S. dollars bear interest, at Seagull Canada's option, in a manner similar to borrowings outstanding under the Revolver as described above. The Canadian Credit Agreement is an unsecured credit facility guaranteed by the Company and contains restrictive provisions similar to those included in the Revolver.

Senior and Senior Subordinated Notes. In July 1993, Seagull Energy sold $100 million of senior notes (the "Senior Notes") and $150 million of senior subordinated notes (the "Senior Subordinated Notes") (collectively the "Notes") in an underwritten public offering. The Senior Notes bear interest at 7 7/8% per annum, are not redeemable prior to maturity or subject to any sinking fund and mature on August 1, 2003. The Senior Subordinated Notes bear interest at 8 5/8% per annum, are not subject to any sinking fund and mature on August 1, 2005. On or after August 1, 2000, the Senior Subordinated Notes are redeemable at the option of Seagull Energy, in whole or in part, at redemption prices declining from 102.59% in 2000 to 100.00% in 2003 and thereafter (expressed as a percentage of principal amount), plus accrued interest to the redemption date. The Notes were issued at par and interest is paid semi-annually.

The Notes represent unsecured obligations of Seagull Energy. The Senior Notes rank pari passu with senior indebtedness of the Company while the Senior Subordinated Notes are subordinate in right of payment to all existing and future senior indebtedness of the Company. The Notes contain conditions and restrictive provisions including, among other things, restrictions on additional indebtedness by the Company and by its subsidiaries, as well as restrictions on the incurrence of secured debt and entering into sale and leaseback transactions. Net proceeds from the offering, totaling approximately $245.0 million, were used to repay borrowings outstanding under the Revolver.

Interest Rate Swap Agreements. Seagull Energy enters into interest rate swap agreements to manage the impact of changes in interest rates. During 1993, the following interest rate swap agreements were in effect:

NOTIONAL AMOUNT (DOLLARS IN THOUSANDS)	EFFECTIVE DATE	MATURITY DATE	INTEREST RATE RECEIVED	INTEREST RATE PAID
$15,000	9/11/92	9/11/93	Floating	5.52%
40,000	9/11/92	9/11/95	Floating	6.76%
20,000	9/16/92	9/16/94	Floating	6.265%
25,000	9/11/92	9/11/94	Floating	6.265%
50,000	8/2/93	7/31/98	5.635%	Floating
50,000	8/2/93	7/31/97	5.43%	Floating
50,000	8/2/93	7/31/96	5.199%	Floating

While notional amounts are used to express the volume of the interest rate swap transactions discussed above, the amount potentially subject to credit risk, in the event of nonperformance by the counterparties, is

significantly smaller. For the year ended December 31, 1993, interest expense included approximately $1.8 million net expense relating to these agreements.

Annual Maturities. $2.0 million of long-term debt at December 31, 1993 will mature in 1998 with the remainder maturing thereafter. The required payments related to the money market facilities are considered to be funded with amounts available under the Revolver.

8. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities include the following:

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
Natural gas imbalances	$31,693	$39,011
Prepaid gas and oil sales	2,732	10,322
Contingent consideration -- Wacker	--	3,104
Other	18,599	15,965
	$53,024	$68,402

Natural Gas Imbalances. Revenues for natural gas production received and sold by Seagull Energy in excess of its ownership percentage of total gas production (see Note 6).

Prepaid Gas and Oil Sales. Prepayments received pursuant to prepaid gas and oil sales contracts Arkla Exploration entered into prior to its acquisition by Seagull Energy (see Notes 3 and 5).

Contingent Consideration -- Wacker. A portion of the adjusted purchase price of Wacker Oil Inc. ("Wacker") withheld pending resolution of issues that developed with respect to two of its producing gas wells prior to the closing of the acquisition of Wacker by the Company in 1990. The disposition of the contingent consideration was settled through arbitration on December 2, 1993 pursuant to provisions of the agreements executed in connection with the acquisition. The arbitration resulted in a payment to the seller of $1 million of the funds withheld at closing. This amount was paid in December 1993, and the remaining unpaid contingent consideration was accounted for as a reduction to the purchase price.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments are summarized as follows:

	DECEMBER 31,			
	1993		1992	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
	(DOLLARS IN THOUSANDS)			
Assets:				
Cash and cash equivalents	$ 4,949	$ 4,949	$ 2,663	$ 2,663
Liabilities:				
Long-term debt:				
Term Loan	--	--	(150,000)	(150,000)
Revolver and money market facilities	(147,000)	(147,000)	(391,000)	(391,000)
Senior Notes	(100,000)	(99,500)	--	--
Senior Subordinated Notes	(150,000)	(149,250)	--	--
Interest rate swap agreements:				
In a receivable position	--	1,986	--	--
In a payable position	--	(2,709)	--	(3,161)

Cash and Cash Equivalents. The carrying amount approximates fair value because of the short maturity of these instruments.

Long-Term Debt. The carrying amount of borrowings outstanding under the Term Loan, Revolver and money market facilities approximates fair value because these instruments bear interest at rates tied to current market rates.

The fair value of the Senior and Senior Subordinated Notes is estimated based on quoted market prices for the same issues.

Interest Rate Swap Agreements. The fair values are obtained from the financial institutions that are counterparties to the transactions. These values represent the estimated amount Seagull Energy would pay or receive to terminate the agreements, taking into consideration current interest rates and the current creditworthiness of the counterparties. The interest rate swap agreements are off balance sheet transactions and, accordingly, there are no respective carrying amounts for these transactions included in the accompanying combined balance sheets as of December 31, 1993 and 1992.

10. COMMON EQUITY

The sources of change in common equity are as follows:

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
Common equity, beginning of year	$181,906	$176,518	$114,979
Net earnings (loss)	20,150	(5,351)	(4,519)
Contributions from the Company	176,509	9,924	65,270
Net equity transactions with the ENSTAR Alaska Group	1,452	815	788
Common equity, end of year	$380,017	$181,906	$176,518

Contributions from the Company are primarily net proceeds received by

Seagull Energy attributable to past successful common stock offerings by the Company. Net equity transactions with the ENSTAR Alaska

Group represent the extent current taxes paid by the ENSTAR Alaska Group to Seagull Energy pursuant to the Tax Sharing Agreement differ from amounts computed based on income and expenses.

11. EMPLOYEE BENEFIT PLANS

Retirement Plan. Effective January 1, 1986, Seagull Energy adopted an unfunded retirement plan which provides for supplemental benefits to certain officers and key employees. As of December 31, 1993, only one person was designated to participate in such plan. Total expenses of the plan were approximately $0.2 million for 1993 and 1992 and $0.3 million for 1991. The retirement plan's costs are included in general and administrative expenses.

Thrift Plan. The Seagull Thrift Plan (the "Thrift Plan") is a qualified employee savings plan in accordance with the provisions of Section 401(k) of the Internal Revenue Code of 1986. Seagull Energy contributions to the Thrift Plan were approximately $1.1 million, $0.7 million and $0.6 million for the years 1993, 1992 and 1991, respectively. The Thrift Plan's costs are included in operations and maintenance costs and general and administrative expenses.

Employee Stock Ownership Plan. On November 15, 1989, the Company formed the Seagull Employee Stock Ownership Plan (the "ESOP") for the benefit of the employees of Seagull Energy. Contributions from Seagull Energy to the ESOP of approximately $0.5 million in 1993 and $0.4 million in 1992 and 1991 are included in operations and maintenance costs and general and administrative expenses.

12. INTEREST INCOME AND OTHER

Interest income and other includes the following:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Interest income	$ 229	$ 150	$ 178
Seismic Litigation Settlement	--	4,606	--
Gain on sales of property, plant and equipment	4,175	177	46
Other	1,065	(521)	835
	$5,469	$4,412	$1,059

</TABLE>

Seismic Litigation Settlement. Interest income and other for the year ended December 31, 1992 includes $4.6 million relating to a settlement of litigation (the "Seismic Litigation Settlement") resulting from a claim made by the Company that certain of the seismic data acquired by it in connection with its 1988 acquisition of Houston Oil & Minerals Corporation ("HO&M") was actually delivered to other purchasers. In accordance with the settlement agreement, Seagull Energy received a cash payment in July 1992 of $2.6 million and will receive up to $5 million in pipeline business accommodations through December 31, 1995. If less than $3 million of business accommodations are realized, Seagull Energy will receive a cash payment in early 1996 equal to the difference between $3 million and the sum of the business accommodations realized. The $4.6 million in 1992 income includes the $2.6 million cash payment plus the present value of the $3 million guaranteed minimum payment for business accommodations less certain expenses.

Gain on Sales of Property, Plant and Equipment. Interest income and other for the year ended December 31, 1993 includes a pre-tax gain of approximately $3.8 million relating to sales of non-strategic oil and gas producing properties. Net proceeds from the sales totaled approximately $13.0 million, resulting in an after-tax gain of $2.8 million. The parcels sold had proven reserves estimated at approximately 19 Bcf of natural gas equivalents.

13. INCOME TAXES

Total income tax expense for the years ended December 31, 1993 and 1992 was allocated as follows:

	1993	1992
	(DOLLARS IN THOUSANDS)	
Income tax provision before cumulative effect of changes in accounting principles	$ 232	$(3,702)
Adjustment for change in accounting principles	--	(690)
Common equity for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(1,966)	(214)
	$(1,734)	$(4,606)

The provision for income taxes for each of the years ended December 31, 1993, 1992 and 1991 was as follows:

	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Current:			
Federal	$ 2,240	$(1,770)	$(1,956)
State	314	(1,533)	(1,693)
Total current	2,554	(3,303)	(3,649)
Deferred:			
Federal	(2,135)	(2,941)	(2,699)
State	(187)	2,542	738
Total deferred	(2,322)	(399)	(1,961)
Income tax provision before cumulative effect of change in accounting principles	$ 232	$(3,702)	$(5,610)

The provision for income taxes before cumulative effect of change in accounting principles for the years ended December 31, 1993 and 1992 is not comparable to 1991 due to the adoption of SFAS No. 109, Accounting for Income Taxes, effective January 1, 1992. Seagull Energy recognized the cumulative effect of this change in accounting principle in the line item entitled "Cumulative Effect of Change in Accounting Principles" in the accompanying combined statement of earnings for the year ended December 31, 1992. Accordingly, periods prior to January 1, 1992 were not restated to reflect this change. The cumulative effect of this accounting change as of January 1, 1992 resulted in a reduction of the net loss of approximately $0.7 million. The effect of this change on earnings before income taxes for the year ended December 31, 1992 was not material.

The provision for income taxes before cumulative effect of change in accounting principles for each of the years ended December 31, 1993, 1992 and 1991 was different than the amount computed using the federal statutory rate (35% for 1993, 34% for 1992 and 1991) for the following reasons:

<TABLE>
<CAPTION>

	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Amount computed using the statutory rate..........	$ 7,133	$(3,313)	$(3,444)
Increase (Reduction) in taxes resulting from:			
Utilization of Internal Revenue Code Section 29 (Tight Sands) credits........................	(4,773)	--	--
Excess of tax basis over book basis of acquired assets.....................................	--	--	(1,712)
State income taxes, net.........................	82	665	(630)
Increase (Decrease) in deferred tax asset valuation allowance.........................	(859)	1,119	--
Adjustments to beginning-of-the-year tax bases per the 1992 and 1991 tax returns...........	(657)	(1,828)	--
Increase in the beginning-of-the-year balance of the deferred tax liabilities due to the increase in the corporate federal income tax rate.......................................	309	--	--
Other...	(1,003)	(345)	176
Income tax provision before cumulative effect of change in accounting principles................	$ 232	$(3,702)	$(5,610)

</TABLE>

The significant components of deferred income tax expense attributable to income from continuing operations for the years ended December 31, 1993 and 1992 are as follows:

<TABLE>
<CAPTION>

	1993	1992
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Deferred tax expense (exclusive of the effects of other components listed below)...	$(1,772)	$(1,518)
Increase (Decrease) in deferred tax asset valuation allowance..	(859)	1,119
Increase in the beginning-of-the-year balance of the deferred tax liabilities due to the increase in the corporate federal income tax rate...	309	--
	$(2,322)	$ (399)

</TABLE>

As discussed in Note 1, under SFAS No. 109 deferred income taxes have been provided for all temporary differences between the carrying amounts of assets and liabilities for financial accounting and tax purposes. In 1991, prior to the adoption of SFAS No. 109, deferred income taxes were provided based on timing differences in certain items of income and expense recognized for income tax purposes in periods different from the periods for financial accounting purposes.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax liabilities and deferred tax assets as of December 31, 1993 and 1992 were as follows:

<TABLE>

<CAPTION>

	1993	1992
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Deferred tax liabilities:		
Property, plant and equipment, due to differences in depreciation, depletion and amortization..................	$ 15,811	$ 13,002
Investments in partnership, due to difference in depreciation..	606	1,307
Other..	(515)	(680)
Deferred tax liabilities.....................................	15,902	13,629
Deferred tax assets:		
Minimum tax credit carryforwards............................	(12,221)	(9,024)
Investment tax credit carryforwards.........................	(1,339)	(1,691)
Deferred compensation/retirement related items accrued for financial reporting purposes.............................	(3,028)	(2,221)
Contingent consideration related to acquisitions/dispositions...............................	(604)	(1,975)
Other..	(883)	573
Deferred tax assets..	(18,075)	(14,338)
Less -- valuation allowance..................................	1,943	2,802
Net deferred tax assets......................................	(16,132)	(11,536)
Net deferred tax liabilities (assets)........................	$ (230)	$ 2,093

</TABLE>

For federal income tax purposes, as of December 31, 1993, Seagull Energy has unused investment tax credits of approximately $1.3 million which will expire in the years 1998 through 2000, and unused minimum tax credits of approximately $12.2 million which are available over an indefinite period.

During 1991, the tax effects of timing differences were as follows:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1991
	(DOLLARS IN THOUSANDS)
<S>	<C>
Net operating loss offsetting deferred taxes for financial accounting purposes..	$(7,778)
Depreciation, depletion and partnership earnings....................	(4,837)
Gas and oil property costs capitalized for financial accounting purposes..	12,180
Minimum tax credit carryforward for tax purposes....................	(1,330)
Other...	(196)
Total deferred tax provision..	$(1,961)

</TABLE>

14. BUSINESS SEGMENTS

Information on operations by business segment is as follows for the year ended December 31:

<TABLE>
<CAPTION>

	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
REVENUES:(*)			
Exploration and production..............................	$227,437	$ 91,991	$ 81,099

Pipeline and marketing	42,484	37,240	37,823
	$269,921	$129,231	$118,922
OPERATING PROFIT:			
Exploration and production	$ 42,969	$ (1,613)	$ 1,275
Pipeline and marketing	14,065	9,057	7,884
	57,034	7,444	9,159
General and administrative expense	(13,591)	(12,043)	(10,352)
Management fees received from the ENSTAR Alaska Group	1,925	1,944	1,925
Interest expense	(30,455)	(11,500)	(11,920)
Interest income and other	5,469	4,412	1,059
Earnings (Loss) before income taxes	$ 20,382	$ (9,743)	$(10,129)
OPERATIONS AND MAINTENANCE EXPENSE:			
Exploration and production	$ 63,651	$ 30,844	$ 27,951
Pipeline and marketing	20,266	21,103	20,748
	$ 83,917	$ 51,947	$ 48,699
DEPRECIATION, DEPLETION AND AMORTIZATION:			
Exploration and production	$103,552	$ 52,855	$ 42,646
Pipeline and marketing	5,493	3,192	3,278
	$109,045	$ 56,047	$ 45,924
IDENTIFIABLE ASSETS:			
Exploration and production	$816,812	$831,222	$371,208
Pipeline and marketing	70,675	65,378	49,611
Corporate	45,063	20,478	8,706
	$932,550	$917,078	$429,525
CAPITAL EXPENDITURES:			
Exploration and production	$ 97,818	$ 32,115	$ 58,459
Pipeline and marketing	2,115	1,622	634
Corporate	2,015	890	2,124
	$101,948	$ 34,627	$ 61,217
ACQUISITIONS, NET OF CASH ACQUIRED:			
Exploration and production	$ 29,470	$391,531	$201,767
Pipeline and marketing	--	10,357	--
	$ 29,470	$401,888	$201,767

</TABLE>

- ---------------

(*) Intersegment revenues are recorded at market prices.

SEAGULL ENERGY
(WITHOUT ENSTAR ALASKA GROUP)

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

15. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data is as follows:

<TABLE>
<CAPTION>

	REVENUES		OPERATING PROFIT		NET EARNINGS (LOSS)	
	1993	1992	1993	1992	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>	<C>
			(DOLLARS IN THOUSANDS)			
March 31,	$ 64,000	$ 30,077	$10,322	$(2,511)	$ (699)	$(3,437)(1)
June 30,	68,048	29,065	13,841	2,346	3,739	1,859(2)

September 30,	66,869	32,918	16,460	1,183	8,598(4)	(2,189)
December 31,	71,004	37,171	16,411	6,426	8,512	(1,584)(3)
Total	$269,921	$129,231	$57,034	$ 7,444	$20,150	$(5,351)

</TABLE>

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(1) Includes the cumulative effect of a change in accounting principles in the first quarter of 1992 representing a reduction to the net loss of approximately $0.7 million. (See Notes 1 and 13).

(2) Includes an after-tax gain in the second quarter of 1992 of approximately $2.9 million relating to the Seismic Litigation Settlement. (See Note 12).

(3) Includes two charges in the fourth quarter of 1992 resulting from the expensing of $2.3 million in unamortized loan acquisition costs relating to the repayment of the then existing revolving credit line and $1.2 million in costs related to a potential acquisition which was not consummated. The effect of these charges on net earnings was a reduction of approximately $1.5 million and $0.8 million, respectively.

(4) Includes an after-tax gain in the third quarter of 1993 of approximately $2.7 million relating to sales of non-strategic oil and gas producing properties. (See Note 12).

16. COMMITMENTS AND CONTINGENCIES

Lease Commitments. Seagull Energy leases certain office space and equipment under operating lease arrangements which contain renewal options and escalation clauses. Future minimum rental payments under these leases range between $1.6 million and $2.8 million in each of the years 1994-1998, and total $10.3 million for all subsequent years.

Total rental expense under operating leases for 1993, 1992 and 1991 was approximately $1.6 million, $1.7 million and $1.6 million, respectively.

Concentrations of Credit Risk. Seagull Energy operates in various phases of the natural gas industry with sales to resellers such as pipeline companies and local distribution companies as well as to end-users such as commercial businesses, industrial concerns and residential consumers. While certain of these customers are affected by periodic downturns in the economy in general or in their specific segment of the natural gas industry, the Company believes that its level of credit-related losses due to such economic fluctuations has been immaterial and will continue to be immaterial to the results of operations in the long term.

Litigation. The Company is a party to ongoing litigation in the normal course of business or other litigation with respect to which the Company is indemnified pursuant to various purchase agreements or other contractual arrangements. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. While the outcome of lawsuits or other proceedings against the Company cannot be predicted with certainty, management believes that the effect on Seagull Energy's financial condition and results of operations, if any, will not be material.

17. SUBSEQUENT EVENT

In January 1994, an indirect wholly owned subsidiary of Seagull Energy acquired all of the outstanding shares of stock of Novalta and an intercompany note (the "Note") from Novalta to its parent, Novacor Petrochemicals Ltd. ("Novacor Petrochemicals") for a purchase price of approximately $203 million in cash, subject to customary post-closing adjustments described below (the "Seagull Canada Acquisition"). The economic effective date of the Seagull Canada Acquisition was December 31, 1993 (the "Effective Date"). The purchase price was adjusted for, among other things, working capital and capital expenditures for 1993 in excess of a specified threshold pursuant to the provisions of the Sale Agreement, dated November 19, 1993, between Seagull Energy and Novacor Petrochemicals. Effective as of the January 1994 Closing Date, Novalta was amalgamated with Seagull Canada, the indirect subsidiary of Seagull Energy that acquired Novalta. As a result of the amalgamation, the Note was extinguished. The acquisition was accounted for as a purchase.

Seagull Canada's assets (the "Seagull Canada Properties") consist primarily of natural gas and oil reserves and developed and undeveloped lease acreage concentrated principally in a small number of fields located in Alberta, Canada. According to reserve estimates prepared as of December 31, 1993 by an independent petroleum engineering firm, the Seagull Canada Properties had proved reserves totaling 257.4 Bcf of natural gas and 2.8 MMbbl of oil, condensate and natural gas liquids. Approximately 80% of these reserves and 75% of Seagull Canada's total producing wells are concentrated in 16 of 95 total fields. As of December 31, 1993, the Seagull Canada Properties consisted of lease acreage holdings including approximately 200,000 net developed acres and approximately 250,000 net undeveloped acres.

In connection with the Seagull Canada Acquisition, Seagull Energy entered into the Canadian Credit Agreement (see Note 7).

The following table presents the unaudited pro forma results of the combined operations of Seagull Energy and Novalta for the year ended December 31, 1993 as though the acquisition of Novalta had occurred on January 1, 1993, financed primarily with borrowings under the Canadian Credit Agreement as well as borrowings under the Revolver (see Note 7).

The results presented give effect to depreciation, depletion and amortization of assets recognized in recording the purchase, interest on debt incurred to effect the purchase and the related income tax effects of these items. The unaudited pro forma information presented does not purport to be indicative of actual results if the combination had been in effect on the date or for the period indicated, or of future results.

	YEAR ENDED DECEMBER 31, 1993	
	ACTUAL	PRO FORMA (UNAUDITED)
	(DOLLARS IN THOUSANDS)	
Revenues	$269,921	$302,279
Net earnings	$ 20,150	$ 15,114

ANNEX VI

ENSTAR ALASKA GROUP

INDEX

EXPLANATORY NOTE REGARDING FINANCIAL INFORMATION

Notwithstanding the allocation of assets and liabilities (including contingent liabilities), shareholders' equity and items of income and expense between Seagull Energy and the ENSTAR Alaska Group for the purpose of preparing their respective financial statements, the change in the equity structure of the Company contemplated by the ENSTAR Alaska Stock Proposal would not affect title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. The Company and its subsidiaries would each continue to be responsible for their respective liabilities. Holders of Seagull Common Stock and ENSTAR Alaska Stock will be common shareholders of the Company and would continue to be subject to all of the risks associated with an investment in the Company and all of its businesses and liabilities.

Financial effects arising from either Seagull Energy or the ENSTAR Alaska Group that affect the Company's consolidated results of operations or financial condition could affect the results of operations or financial position of the other business group or the market price of both classes of common stock of the Company. In addition, any net losses of Seagull Energy or the ENSTAR Alaska Group and dividends or distributions on, or repurchases of, either class of common stock of the Company will reduce the assets of the Company legally available for payment of dividends on both classes of common stock of the Company. Accordingly, the Company's consolidated financial information should be read in conjunction with Seagull Energy's and the ENSTAR Alaska Group's combined financial information.

ENSTAR ALASKA GROUP

DESCRIPTION OF BUSINESS

The operations of the ENSTAR Alaska Group are conducted through ENSTAR Natural Gas Company ("ENG"), a division of the Company, and Alaska Pipeline Company ("APC"), an Alaska corporation and a wholly owned subsidiary of the Company. ENG and APC are currently operated as a single business unit, and are regulated by the Alaska Public Utilities Commission (the "APUC"). See "Regulation" below. APC engages in the intrastate transmission of natural gas in South-Central Alaska. ENG engages in the distribution of natural gas in Anchorage and other nearby communities in Alaska and is APC's only customer.

The ENSTAR Alaska Group's predecessor was formed in 1959 and began serving the Anchorage area with natural gas in 1961. Five years later, in 1966, the predecessor became one of the original entities that formed Alaska Interstate Company, a newly organized public company the shares of which were traded on the New York Stock Exchange. Alaska Interstate Company changed its name to ENSTAR Corporation in 1982.

In 1985, the Company purchased the ENSTAR Alaska Group for $55 million in cash plus $10 million in the form of a seven-year, unsecured, 10% subordinated note. At the time of the acquisition, APC had outstanding debt of approximately $65 million. The transaction received the final approval of the APUC in June 1985.

GAS TRANSMISSION SYSTEM

APC owns and operates the only natural gas transmission lines in its service area that are operated for utility purposes. The pipeline transmission system is composed of approximately 277 miles of 12-to 20-inch diameter pipeline and approximately 71 miles of smaller diameter pipeline. The system's present design delivery capacity is approximately 410 million cubic feet per day ("MMcf/d"). The average throughput of the system in 1993, 1992 and 1991 was 110 MMcf/d, 112 MMcf/d and 109 MMcf/d, respectively.

The APC gas transmission system consists of two separate pipeline systems that extend from various natural gas fields on both sides of Cook Inlet into the Anchorage metropolitan area. One pipeline system, the Kenai Pipeline System, serves the east side of Cook Inlet and enters Anchorage from the south, while the other pipeline system, the Beluga Pipeline System, serves the west side of Cook Inlet and enters Anchorage from the north. The two pipeline systems are interconnected in Anchorage, allowing the distribution system to serve all customers from either of the two pipeline systems. The origination points of the two pipeline systems are also interconnected by means of producer-owned pipelines.

APC's eastern system, the Kenai Pipeline System, was originally constructed in 1960 and currently obtains gas from the Kenai, Beaver Creek, Trading Bay, West Fork and McArthur River gas fields. The main trunk line of the Kenai Pipeline System, originating at the Kenai gas field and extending for a length of approximately 85 miles, consists of a 12-inch diameter pipeline that is looped by a combination of 12-inch diameter and 16-inch diameter pipeline. The Royalty Lateral, consisting of 25 miles of 8-inch diameter pipeline, connects with the mainline and provides a supply of gas from the other gas sources. The Kenai Pipeline System is powered by two compressor stations that have an aggregate of 8,400 horsepower. With these facilities the eastern system has a present delivery capacity of approximately 210 MMcf/d.

APC's Kenai Pipeline System includes an eight-mile twin crossing of the Turnagain Arm of the Cook Inlet. The crossing includes two separate pipelines that may be operated independently, and management believes that the lines are buried at a depth sufficient to protect them from the elements.

APC's western system, the Beluga Pipeline System, was constructed in 1984 and extends from the Beluga River gas field through the Pretty Creek gas field and near the Lewis River, Ivan River and Stump Lake gas fields to the Anchorage metropolitan area. Along the mainline route, gas is provided to the Matanuska-Susitna Borough and Eagle River residents. The mainline consists of a single 102 mile, 20-inch diameter line with installed provisions for future looping. The Lewis River, Pretty Creek, Ivan River, Stump Lake, Trading Bay and McArthur River gas fields are connected to the Beluga mainline by lines owned by the producers of the fields. No compressor stations currently exist, but valves have been installed on the mainline, and land has

been acquired for the installation of a compressor plant. The present delivery capacity of the system is approximately 200 MMcf/d.

GAS DISTRIBUTION SYSTEM

ENG distributes natural gas through approximately 1,916 miles of gas mains to approximately 88,200 residential, commercial, industrial and electric power generation customers within the cities and environs of Anchorage, Eagle River, Palmer, Wasilla, Soldotna, Kenai and the Nikiski area of the Kenai Peninsula in South-Central Alaska. During the 1993 construction season, ENG added approximately 55 miles of new gas distribution mains, installed 1,791 new service lines and added approximately 1,800 net customers. ENG anticipates relatively modest growth in its customer base and will install additional main and service lines to accommodate this growth. See "Customers" and "New Markets" below.

ENG serves more than 90% of the residential population in the Anchorage area with natural gas at rates that are consistently among the lowest in any metropolitan area in the United States. As of January 1994, ENG's rate for residential service was reduced to $3.67 per thousand cubic feet ("Mcf") for ENG's customers as part of ENG's gas cost adjustment. See "Regulation" below. By comparison, as of December 31, 1993, residential natural gas costs were $4.87 in Denver, $6.62 in Chicago and $8.93 in New York City. In the winter heating cost survey conducted in February 1994 in the Anchorage area, fuel oil cost the equivalent of $6.65 per Mcf, propane cost the equivalent of $14.36 per Mcf and electricity, efficiency adjusted, cost the equivalent of $21.35 per Mcf.

CUSTOMERS

The ENSTAR Alaska Group classifies its sales customers into two major categories: non-power customers, which includes residential and commercial customers; and power customers, which includes sales to the military's central heat and electric generation plants. The ENSTAR Alaska Group also provides transportation service to additional power plant sites and to a liquefied natural gas ("LNG") plant. In 1993, the ENSTAR Alaska Group began providing off-peak transportation service to an ammonia plant under an interruptible industrial transportation tariff approved by the APUC. The ENSTAR Alaska Group expects this off-season load to continue. The ENSTAR Alaska Group continues to pursue expansion opportunities with respect to all classes of customers.

The following table sets forth the number of customers, volumes and gross margin per Mcf for the ENSTAR Alaska Group for 1993, 1992 and 1991, as well as the heating degree days (as described below) for such periods:

	1993	1992	1991
NUMBER OF CUSTOMERS (AT END OF YEAR):			
Residential	75,912	74,293	72,833
Commercial	12,277	12,112	11,976
Power (sales and transport)	8	8	8
Industrial	2	1	1
Total	88,199	86,414	84,818
VOLUMES (MMCF):			
Residential	13,413	14,221	13,385
Commercial	10,829	11,725	11,312
Power (sales and transport)	13,215	13,879	14,471
Industrial	2,757	1,343	440
Total	40,214	41,168	39,608
GROSS MARGIN PER MCF ($/MCF):			
Residential	1.91	1.90	1.87
Commercial	1.37	1.35	1.34
Power (sales and transport)	0.46	0.46	0.51
Industrial	0.21	0.24	0.24
Overall Average	1.18	1.20	1.20
HEATING DEGREE DAYS(1):	9,382	10,653	10,178

- ---------------

(1) The average annual heating degree days for the 30 years, 10 years and 5 years ended December 31, 1993 were 10,431, 10,101 and 10,324, respectively. "Heating degree days" are a standard industry measure of temperature over a specific time period and represent the extent by which the mean of daily high and low temperatures, expressed in Fahrenheit degrees, is less than 65 degrees. More degree days equate to colder weather.

The ENSTAR Alaska Group purchases gas and resells it to its residential and commercial customers, as well as to certain electric generation plants. In 1993, purchase/resale volumes accounted for 72% of ENG's throughput and 91% of ENG's gross margin. The remaining volumes are transported for power and industrial customers for a transportation fee.

During the last five years, the ENSTAR Alaska Group's natural gas volumes delivered on a purchase/resale basis have declined primarily due to two of its major customers electing to purchase gas directly from gas producers. During the fourth quarter of 1991, Municipal Light and Power ("ML&P"), an electric utility and the larger of the two customers, began purchasing gas directly from three gas producers which displaced gas sales of approximately 8.0 billion cubic feet ("Bcf") per year. However, the APUC has approved a tariff allowing the ENSTAR Alaska Group to transport these volumes from ML&P's purchase points to the ML&P electric generation facilities for a transportation fee that approximates the margin that would have been earned had ML&P remained a sales customer rather than becoming a transportation customer. Deliveries of gas to ML&P during 1993, 1992 and 1991 amounted to approximately 18%, 19% and 19%, respectively, of the total deliveries of gas by the ENSTAR Alaska Group.

During 1988, Chugach Electric Association, a major customer of the ENSTAR Alaska Group, entered into a contract to purchase gas directly from a producer. The contract became effective on April 1, 1989, resulting in a displacement of gas sales at that time of approximately 2.6 Bcf per year. The ENSTAR Alaska Group currently continues to transport approximately 1.3 Bcf per year of Chugach Electric Association's gas volumes, although at a lower fee than the margin earned on sales volumes because of the proximity of the

customer's facility to a producing field and a producer-owned pipeline. The remaining 1.3 Bcf of natural gas required by Chugach Electric Association in 1989 was displaced by a 90-megawatt hydroelectric facility at Bradley Lake, completed in September 1991. See "Competition" below.

Should any other large customer choose to purchase gas directly from producers, the ENSTAR Alaska Group would expect to collect a fee for transporting that gas equivalent to the margin earned on sales volumes because, unlike the situation with Chugach Electric Association, the large distance of remaining user facilities from producing fields would preclude pipeline by-pass.

ENG's five largest customers are ML&P; the U. S. Air Force; the U. S. Army; the Anchorage School District; and Unocal Corporation. Together, they account for about $6.8 million in annual gross margin and about 14 Bcf per year in volumes, which represent approximately 14% and 35%, respectively, of ENG totals.

ENG distributes gas to its customers under tariffs and contracts approved by the APUC that provide for varying delivery priorities. All of the ENSTAR Alaska Group's residential and commercial customers receive firm service, which assures the customer that the gas supply will not be curtailed at the election of the ENSTAR Alaska Group and diverted to other customers except under the most extreme emergency conditions. Power sales and power transportation customers also receive firm service. However, facilities with alternative generation capabilities may be subject to varying interruptions or curtailments in times of gas supply shortages. The gas cost adjustment provision of the ENSTAR Alaska Group's tariff provides for the sharing of the additional cost of alternative fuels used during an interruption between all of the ENSTAR Alaska Group's customers. See "Regulation" below. The ENSTAR Alaska Group has not had to interrupt or curtail service to any firm service customer for other than routine maintenance since 1983.

In addition to the size of the customer base, the other major determinant of gas usage for any period is the weather, particularly with respect to residential and commercial customers and, to a lesser extent, power customers. Accordingly, the ENSTAR Alaska Group's business is seasonal with approximately 65% of its revenues generated in the first and fourth quarters of each year. The heating degree days for 1993 were 9,382, which translates to an average daily temperature of 39.2 degrees. By contrast, the average heating degree days for the 30 year period ended December 31, 1993 were 10,431. Generally, consumption for heating purposes increases as heating degree days increase.

GAS SUPPLY

In May 1988, the ENSTAR Alaska Group entered into a gas purchase contract (the "Marathon Contract") with Marathon Oil Company ("Marathon") providing for the delivery of approximately 450 Bcf of natural gas in the aggregate. The Marathon Contract is a "requirements" contract with no specified daily deliverability or annual take-or-pay quantities. APC has agreed to purchase, and Marathon has agreed to deliver, all of APC's gas requirements in excess of those provided for in other presently existing gas supply contracts, subject to certain exceptions, until the commitment has been exhausted and without limit as to time; however, Marathon's delivery obligations are subject to certain specified annual limitations after 2001. The contract has a base price of $1.55 per Mcf plus reimbursements for any severance taxes and other charges. The base price is subject to annual adjustment based on changes in the price of certain traded oil futures contracts. During 1994, the cost of gas purchased under the Marathon Contract is expected to average $1.66 per Mcf, including reimbursements for severance taxes. The Marathon Contract, as amended, has been approved by the APUC. See "Regulation" below.

Effective January 1, 1992, APC amended a gas purchase contract with Shell Oil Company and ARCO Alaska, Inc. (the "Shell Contract") to extend the term of the contract through the year 2009, modify the price, delivery and deliverability provisions and provide procedures for reducing take-or-pay volumes for the effect of APC sales volumes that are displaced by gas sales made by others. The Shell Contract provides for the delivery of up to approximately 220 Bcf of gas. The amendments revised the price to a base price of $1.971 per Mcf plus reimbursements for any severance taxes and an annual adjustment based on changes in the price of certain traded oil futures contracts from the relevant base price. Certain portions of the gas purchased under the amendments may be priced under a pricing term similar to the Marathon Contract. The 1994 price under the Shell Contract, after application of contractual adjustments, is expected to average approximately $1.64

per Mcf, including reimbursements for severance taxes. The amendments provide for varying deliverability, before displaced gas sales adjustments, up to a maximum of 110 MMcf/d through 1995, and take-or-pay quantities, before displaced gas sales adjustments, up to a maximum of 15.4 Bcf per year through 1994. The Shell Contract, as amended, has been approved by the APUC. See "Regulation" below.

Combined, the Marathon and Shell Contracts will supply all of the ENSTAR Alaska Group's gas supply requirements through the year 2001. After that time, supplies will still be available under these contracts in accordance with their terms, but the annual limitations contained in the Marathon Contract will begin to take effect. As a result, after 2001, at least a portion of the ENSTAR Alaska Group's requirements are expected to be satisfied outside the terms of those contracts, as currently in effect.

Based on gas purchases during the 12 months ended December 31, 1993, which are not necessarily indicative of the volume of future purchases, the gas reserves committed to the ENSTAR Alaska Group under the Marathon Contract and the Shell Contract would have a current reserve life index of approximately 14 years.

The ENSTAR Alaska Group's average cost of gas sold in 1993, 1992 and 1991 was $2.07, $1.94 and $2.32 per Mcf, respectively. The average price of gas sold by the ENSTAR Alaska Group in 1993, 1992 and 1991 was $3.56, $3.41 and $3.64 per Mcf, respectively.

As stated above, the ENSTAR Alaska Group currently purchases all of its natural gas under long-term contracts in which the price is indexed to crude oil futures contracts. However, because the ENSTAR Alaska Group's sales prices are adjusted to include the projected cost of its natural gas, there has been and is expected to be little or no impact on margins derived from the ENSTAR Alaska Group's gas sales as a result of fluctuations in fuel oil prices due to world-wide political events and changing market conditions.

The ENSTAR Alaska Group has no material take-or-pay obligations and does not anticipate any such obligations in the foreseeable future.

BUSINESS CLIMATE

Anchorage is served by a deep water port and an international airport, and is the headquarters for the Alaska Railroad system. Oil company managerial offices and approximately half of state and regional federal governmental employees are located in Anchorage. While the petroleum industry and the resulting tax and royalty payments to the State of Alaska still provide the largest influence on Anchorage's economy, some diversification is taking place. Federal Express and United Parcel Service have both built international distribution hubs in Anchorage. The Anchorage International Airport continues to be a major refueling point for cargo flights between the Far East and Europe. Tourism enjoys continued growth, with Alaska now a significant summer cruise destination. In addition, the ENSTAR Alaska Group believes that, because of Anchorage's strategic location, the military will continue to play a significant role in Anchorage's economy. In fact, the military has announced $250 million in construction projects over the next three years for both Elmendorf Air Force Base and Fort Richardson Army Post.

National retailers, such as Kmart, Wal-Mart and Toys R Us, have recently entered the ENSTAR Alaska Group's service area, fueling a significant expansion of retail space for these firms and other retailers already in the market. In Anchorage, 300,000 square feet of retail space was added in 1992, over a half million square feet opened in 1993, and an additional half million is under construction and scheduled for opening in 1994. Other portions of the ENSTAR Alaska Group's service area saw 200,000 square feet of retail space open in 1993, with an additional 200,000 square feet under construction and scheduled for opening in 1994.

Recent population and employment estimates continue to show modest economic growth in the ENSTAR Alaska Group's service area through the mid-1990's, followed by a leveling off. The Anchorage area population was reported at 174,000 in 1980 by the U.S. Bureau of the Census. The population level peaked in 1985 at an estimated level of 248,000 and reached a low of 219,000 in 1988. Anchorage began to show population increases again in 1989, and the 1990 Bureau of the Census count indicated the population had grown to 226,000. Current estimates place the population at 242,600, which is approximately 45% of the total population of the state.

The rapid population growth in the early 1980's is believed to have been caused by employment resulting from increased state governmental expenditures that were fueled by petroleum related revenues. With the collapse of oil prices in the mid-1980's, the state had to slow its level of spending, resulting in employment reductions, especially in the construction industry. While oil prices have seen some recovery, oil production levels are declining, and petroleum revenues are expected to decrease through the end of the century. As of July 1993, Anchorage employment had increased by 2,700 from the prior year to 121,000 jobs. During each of the past four years, Anchorage employment exceeded the pre-recession peak of 114,300 jobs attained in 1985. Since inception, the ENSTAR Alaska Group has been able to increase its number of customers each year, despite the variations in population and employment described above. A portion of this customer growth has been achieved by expanding the distribution system into areas not previously served by the ENSTAR Alaska Group. See "New Markets" below.

Vacant Anchorage housing units that in 1988 amounted to about 17% of total supply dropped to 4.2%, or about 3,800 units, in 1993. Apartment vacancies are under 2%, and office building vacancy rates have dropped from a high of 18% in 1988 to 9.6% in 1993. Because of the severe weather conditions that the ENSTAR Alaska Group's service area experiences during winter, even vacant structures require gas service for heating. Accordingly, the ENSTAR Alaska Group estimates that the number of customers who are connected to its system but do not consume gas is currently approximately 0.5% of the ENSTAR Alaska Group's total accounts, as compared to 2.1% at the end of 1988.

NEW MARKETS

Distribution system expansion into formerly unserved areas continues to offer potential for increased markets. Gas distribution facilities planned for 1994 and 1995 will make gas available for the first time in the Big Lake area of the Matanuska-Susitna Valley. The ENSTAR Alaska Group estimates that there are approximately 1,000 potential customers in the Big Lake area. This project, like others completed by the ENSTAR Alaska Group in the past, is being financed in part through customer-funded improvement districts. The ENSTAR Alaska Group also believes that transportation of natural gas for large industrial customers could provide additional opportunities. The ENSTAR Alaska Group continues to pursue expansion opportunities with respect to all classes of customers.

COMPETITION

The ENSTAR Alaska Group competes primarily with municipal and cooperative electric power distributors and with various suppliers of fuel oil and propane for the available energy market. There are also extensive coal reserves proximate to the ENSTAR Alaska Group's operating area; however, such reserves are not presently being produced.

The ENSTAR Alaska Group supplies natural gas to its customers at prices that at the present time economically preclude substitution of alternative fuels. Since the Shell Contract and the Marathon Contract include prices that fluctuate based on oil indices, a competitive margin favoring natural gas over oil-based energy sources is expected to continue. However, there is no assurance that the competitive advantage over other alternative fuels will not be reduced or eliminated by the development of new energy technology or by changes in the price of oil or refined products.

A 90-megawatt hydroelectric facility at Bradley Lake, completed in September 1991, reduced the ENSTAR Alaska Group's lower-margin power volumes by approximately 1.0 to 1.5 Bcf per year. The ENSTAR Alaska Group's margin on gas sales was reduced by approximately $500,000 to $750,000 per year as a result of this facility.

As described above under "Customers," during the last five years, the ENSTAR Alaska Group's natural gas volumes delivered on a purchase/resale basis have declined primarily due to two of its major customers, ML&P and Chugach Electric Association, electing to purchase gas directly from gas producers. If any other existing large customer of the ENSTAR Alaska Group chooses to purchase gas directly from producers, the ENSTAR Alaska Group would expect to collect a fee for transporting that gas equivalent to the margin

earned on sales volumes for those customers because, unlike the situation with Chugach Electric Association, the large distance of remaining user facilities from producing fields would preclude pipeline by-pass.

REGULATION

The APUC has jurisdiction as to rates and charges for gas sales, construction of new facilities, extensions and abandonments of service and certain other matters. Rates are generally designed to permit the recovery of the cost of providing service, including purchased gas costs, and a return on investment in plant. APC and ENG are regulated by the APUC on a combined basis as though they were a single entity. Because the ENSTAR Alaska Group's operations are wholly intrastate, the ENSTAR Alaska Group is not subject to or affected by Order 636 or any other economic regulation by the Federal Energy Regulatory Commission.

The APUC consists of five members who serve staggered six-year terms. They are appointed by the Governor of the State of Alaska and confirmed by the Alaska State Legislature. Qualifications require that one member have expertise in law, one member have expertise in engineering, one member have expertise in financial matters and two members be consumers.

As a regulated company under APUC jurisdiction, the ENSTAR Alaska Group may apply to the APUC for rate increases if increased costs or other factors warrant. Such rates typically go into effect, subject to refund, pending final APUC determination, 45 days after the rates are filed unless such rates are suspended. The APUC normally suspends general rate increases filed to recover costs, other than purchased gas costs, for at least a six-month period. Since its inception in 1961, the ENSTAR Alaska Group has participated in only three formal rate proceedings, which were filed in 1975, 1982 and 1984. The proceeding filed in 1984 was filed in order to take into account the construction of the Beluga Pipeline System. See "Gas Transmission System" above.

All gas rates are adjusted annually to reflect changes in the ENSTAR Alaska Group's cost of purchased gas based on estimated costs for the upcoming 12-month period. The Gas Cost Adjustment ("GCA") may be adjusted quarterly if it is determined that there are significant variances from the estimates used in the annual determination. Any purchased gas cost difference between actual costs incurred and the APUC's approved rate adjustments is deferred and included, with applicable carrying charges, in the next GCA.

Gas cost increases that may result from new gas supply contracts may be recovered only upon approval of the APUC for inclusion in the GCA tariff or by application for a general rate increase. The APUC has given overall approval of the Marathon and Shell Contracts, including the 1991 amendments to both contracts, and has approved recovery of gas costs attributable to the Shell Contract and to the Marathon Contract. See "Gas Supply" above.

In May 1986, the APUC granted the ENSTAR Alaska Group a general rate increase of 3.26% and authorized a rate of return on common equity of 15.65%. In January 1994, the APUC approved the ENSTAR Alaska Group's gas cost adjustment filing for 1994. The 1994 gas cost adjustment resulted in a price decrease of approximately 9% from 1993 levels for residential customers. The decrease resulted primarily from lower gas costs associated with contract terms that indexed gas prices to oil prices that increased from the prior year. See "Gas Supply" above.

The ENSTAR Alaska Group currently has no significant regulatory issues pending before the APUC.

EMPLOYEES

As of February 28, 1994, the ENSTAR Alaska Group had 198 full time employees. The ENSTAR Alaska Group operates under collective bargaining agreements with separate bargaining units for operating and clerical employees. These units represent approximately 70% of the ENSTAR Alaska Group's work force. The clerical collective bargaining agreement is scheduled to expire on April 1, 1995, and the collective bargaining agreement for the operating bargaining unit was renegotiated during 1993 and is scheduled to expire on April 1, 1996. The ENSTAR Alaska Group is not a party to any other collective bargaining agreement.

The ENSTAR Alaska Group considers its relations with its employees to be satisfactory.

ENSTAR ALASKA GROUP

UNAUDITED PRO FORMA CONDENSED STATEMENT OF EARNINGS

The unaudited pro forma condensed statement of earnings for the year ended December 31, 1993 gives effect to the issuance and sale of shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group in a public offering as if the sale occurred on January 1, 1993. The net proceeds of the ENSTAR Alaska Stock Offering would be used to repay amounts borrowed under the Revolver, none of which debt is attributable to the ENSTAR Alaska Group. No pro forma adjustments were necessary to the ENSTAR Alaska Group's historical combined balance sheet as of December 31, 1993 to give effect to the pro forma transaction described above.

The following unaudited pro forma information has been included as required by the rules of the Securities and Exchange Commission and is provided for comparative purposes only. The unaudited pro forma information presented is based on the historical combined financial statements of the ENSTAR Alaska Group and should be read in conjunction with the ENSTAR Alaska Group combined financial statements as well as the Company's consolidated financial statements and the related notes thereto and the Company's unaudited pro forma condensed financial statements. The unaudited pro forma information presented does not purport to be indicative of actual results, if the transactions had occurred on the dates or for the periods indicated, or of future results.

ENSTAR ALASKA GROUP

UNAUDITED PRO FORMA CONDENSED STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1993

	HISTORICAL	CONFORMING ADJUSTMENTS	PRO FORMA COMBINED(B)
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)		
Revenues	$ 107,244	$ --	$ 107,244
Costs of Operations:			
Operating costs	80,778	--	80,778
Depreciation and amortization	7,511	--	7,511
Operating Profit	18,955	--	18,955
General and Administrative Expense	--	--	--
Interest Expense	6,298	--	6,298
Interest Income and Other	(239)	--	(239)
Earnings Before Income Taxes	12,896	--	12,896
Income Taxes	5,848	--	5,848
Net Earnings	$ 7,048	$ --	$ 7,048
Earnings Per Share			$ 0.94
Weighted Average Number of Common Shares Outstanding		7,500(A)	7,500

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(A) To record the issuance and sale of 7,500,000 shares of ENSTAR Alaska Stock representing 100% of the equity attributable to the ENSTAR Alaska Group pursuant to the ENSTAR Alaska Stock Offering.

(B) Based on the assumptions described above, the Available ENSTAR Alaska Group Dividend Amount as of December 31, 1993, assuming no Retained Interest, would be $58,612,000. For a description of the Available ENSTAR Alaska Group Dividend Amount, see "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Description of Seagull Common Stock and ENSTAR Alaska Stock -- Dividends."

ENSTAR ALASKA GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (UNAUDITED)

BASIS OF PRESENTATION

On March 11, 1994, Seagull Energy Corporation (the "Company") announced that it would seek shareholder approval of a comprehensive plan (the "ENSTAR Alaska Stock Proposal") that upon implementation would result in (i) the creation of a new class of common stock (the "ENSTAR Alaska Stock") intended to reflect separately the performance of the Company's natural gas transmission and distribution operations in South-Central Alaska (the "ENSTAR Alaska Group") and (ii) the amendment of certain terms of the existing class of common stock (the "Seagull Common Stock") to allow for the issuance of the ENSTAR Alaska Stock. This capital structure has not been reflected in these financial statements. Implementation of the ENSTAR Alaska Stock Proposal will not result in any adjustment to the carrying amounts of the assets, liabilities or common equity presented in the accompanying combined financial statements.

Because the ENSTAR Alaska Stock is intended to reflect separately the performance of the ENSTAR Alaska Group, the Seagull Common Stock will reflect the performance of the Company's remaining two business segments ("Seagull Energy") that consist of (i) natural gas exploration, development and production, which is the Company's primary business focus, and (ii) pipeline and marketing operations. The ENSTAR Alaska Stock Proposal will be submitted to the Company's shareholders for their consideration and approval.

The financial statements for the ENSTAR Alaska Group and for Seagull Energy comprise all of the accounts included in the corresponding consolidated financial statements of the Company. The ENSTAR Alaska Group financial statements have been prepared based upon methods that management believes to be reasonable and appropriate and reflect the combined historical financial position, results of operations and cash flows of the ENSTAR Alaska Group. Consistent with the Articles of Amendment to the Articles of Incorporation and relevant policies, such business group financial statements could also include contingent liabilities that are not separately identified with the operations of the ENSTAR Alaska Group.

For additional information with respect to the ENSTAR Alaska Stock Proposal, see "Basis of Presentation" included in Note 1 of notes to the accompanying combined financial statements of the ENSTAR Alaska Group beginning on page VI-21 of this Annex.

GENERAL

Operating profit for the ENSTAR Alaska Group is affected by weather, regulatory action and customer growth in its market area. The ENSTAR Alaska Group's business is seasonal with approximately 65% of its sales made in the first and fourth quarters of each year. Since ENSTAR Alaska Group's customer base is primarily residential and commercial, its results of operations are significantly influenced by the severity of the weather in its service area. The Company expects customer growth to continue to be relatively modest. During the ENSTAR Alaska Group's 1993 summer construction season, approximately 55 miles of new distribution pipeline were installed to connect some 1,800 net new customers. The new customers were primarily residential customers added by extending the ENSTAR Alaska Group's distribution system into areas not previously serviced.

Because the ENSTAR Alaska Group's operations are wholly intrastate, it is not subject to or affected by Order 636 or any other economic regulation by the Federal Energy Regulatory Commission. The rates, services and operations of the ENSTAR Alaska Group are subject to regulation by the Alaska Public Utilities Commission (the "APUC"). In May 1986 the APUC granted the ENSTAR Alaska Group a rate increase of 3.26% and authorized a rate of return on common equity of 15.65%. The ENSTAR Alaska Group has no significant regulatory issues pending before the APUC.

The ENSTAR Alaska Group currently purchases all of its natural gas under long-term contracts with two major international oil and gas companies in which the price is indexed to crude oil futures contracts. These contracts provide for delivery of all the ENSTAR Alaska Group's gas requirements with varying daily deliverability. Prices include a base price plus reimbursement for any severance taxes, with annual adjustments based upon changes in the price of certain traded oil futures contracts. Both contracts have been approved by the APUC.

Because the ENSTAR Alaska Group's sales prices are adjusted to include the projected cost of its natural gas, there has been and is expected to be little or no impact on margins derived from the ENSTAR Alaska Group's gas sales as a result of fluctuations in fuel oil prices due to world-wide political events and changing market conditions.

Based on gas purchases during the 12 months ended December 31, 1993, which are not necessarily indicative of the volume of future purchases, the gas reserves committed to the ENSTAR Alaska Group under its gas contracts would have a current reserve life index of approximately 14 years.

RESULTS OF OPERATIONS

Summarized financial and operating data for the ENSTAR Alaska Group are as follows:

<TABLE>
<CAPTION>

	1993	1992	1991	PERCENT CHANGE 1992-'93	PERCENT CHANGE 1991-'92
	(DOLLARS IN THOUSANDS EXCEPT PER UNIT AMOUNTS)				
Revenues:					
Gas sales	$102,930	$105,511	$128,439	- 2	- 18
Transportation	4,097	4,087	1,176	--	+248
Other	217	--	--	N/A	--
	107,244	109,598	129,615	- 2	- 15
Cost of gas sold	59,898	59,999	81,935	--	- 27
Operating margin	47,346	49,599	47,680	- 5	+4
Operations and maintenance expense	18,955	18,032	17,752	+ 5	+ 2
Management fees paid to Seagull Energy	1,925	1,944	1,925	- 1	+ 1
Depreciation and amortization	7,511	7,184	6,978	+ 5	+ 3
Operating profit	18,955	22,439	21,024	-16	+ 7
Interest expense	(6,298)	(6,074)	(5,955)	+ 4	+ 2
Interest income and other	239	293	367	-18	- 20
Earnings before income taxes and cumulative effect of changes in accounting principles	$ 12,896	$ 16,658	$ 15,436	-23	+ 8
Net earnings	$ 7,048	$ 12,039	$ 9,626	-41	+ 25
OPERATING DATA:					
Degree days (1)	9,382	10,653	10,178	-12	+ 5
Volumes (Bcf)(2):					
Gas Sold	28.9	30.9	35.3	- 6	- 12
Gas Transported	11.3	10.2	4.3	+11	+137
Combined	40.2	41.1	39.6	- 2	+ 4
Margins ($ per Mcf)(2):					
Gas Sold	1.49	1.47	1.32	+ 1	+ 11
Gas Transported	0.36	0.40	0.27	-10	+ 48
Combined	1.17	1.20	1.20	- 3	--
Year-end customers	88,200	86,400	84,800	+ 2	+ 2

</TABLE>

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(1) A measure of weather severity calculated by subtracting the mean temperature for each day from 65 degrees Fahrenheit. More degree days equate to colder weather.

(2) Mcf and Bcf represent one thousand cubic feet and one billion cubic feet of natural gas, respectively.

1993 Results Compared to 1992

Operating margin for 1993 declined from 1992 primarily as a result of a decline in higher margin, weather sensitive gas sales volumes due to unusually warm weather in the ENSTAR Alaska Group's market area. Degree days declined 12% in 1993 to 9,382 compared with 10,653 degree days in 1992. Since sales prices are adjusted to include the projected cost of gas sold, operating margin is not materially impacted by changes in the price the ENSTAR Alaska Group pays for its gas supply.

The 6% decline in sales volumes was primarily due to the warmer weather. However, a net increase of 1,800 sales customers during 1993 partially offset the negative effects of the weather. Transported volumes increased 11% in 1993 compared to 1992 primarily due to the addition of an industrial customer served under a new interruptible transportation tariff.

Earnings before income taxes was lower in 1993 compared to 1992 primarily as a result of the decrease in operating margin discussed above. In addition, operations and maintenance expense, depreciation and amortization and interest expense all increased slightly in 1993. Operations and maintenance expense was higher due to increased payroll and payroll burden costs and ad valorem taxes. The higher payroll costs resulted largely from the settlement of a collective bargaining agreement in early 1993. Depreciation and amortization increased in 1993 due to the higher depreciable asset base resulting from the ENSTAR Alaska Group's capital expenditure program. Interest expense was higher in 1993 as a result of the mid-1992 private placement of long-term debt of $50 million.

1993 net earnings reflects an increase in the ENSTAR Alaska Group's income tax provision of approximately $800,000 resulting from a 1% increase in the federal corporate tax rate from 34% to 35% called for in recently enacted tax legislation. In addition, net earnings for 1992 included the cumulative effect of two changes in accounting principles. Effective January 1, 1992, the ENSTAR Alaska Group adopted two Statements of Financial Accounting Standards ("SFAS"), SFAS No. 109, Accounting for Income Taxes, and SFAS No. 106, Employers, Accounting for Postretirement Benefits Other Than Pensions. The cumulative effect of these accounting changes as of January 1, 1992 resulted in an increase in net earnings of approximately $1.6 million as reflected in the ENSTAR Alaska Group's combined statements of earnings for the year ended December 31, 1992.

1992 Results Compared to 1991

Operating margin was higher in 1992 compared to 1991 primarily as a result of higher heating customer demand due to colder temperatures and an increase in customers, primarily residential customers. Degree days and combined sales and transported volumes increased 5% and 4%, respectively, in 1992 compared to 1991.

Sales volumes decreased 12% and transported volumes increased 137% because one large utility customer that was previously a sales customer began purchasing gas directly from gas producers in the fourth quarter of 1991. The ENSTAR Alaska Group transports the utility's gas supplies for a transportation fee that approximates the margin that would have been earned had the customer remained a sales customer rather than becoming a transportation customer. Accordingly, combined volumes and operating margin were not materially affected by these factors in 1992.

Earnings before income taxes was higher in 1992 compared to 1991 due to the increase in operating margin partially offset by increased operations and maintenance expense, depreciation and amortization and interest expense. Operations and maintenance expense was 2% higher than the previous year primarily due to increases in payroll-related costs. Depreciation and amortization increased due to the higher depreciable asset base resulting from the ENSTAR Alaska Group's capital expenditure program. Interest expense increased slightly due to the mid-1992 private placement of long-term debt of $50 million.

Net earnings for 1992 included the cumulative effect of the accounting changes described above.

LIQUIDITY AND CAPITAL RESOURCES

<TABLE>
<CAPTION>

	1993	1992	1991	PERCENT CHANGE 1992-'93	1991-'92
	(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
Net cash provided by operating activities..........	$24,603	$10,525	$27,468	+134	-62
Capital expenditures..............................	$10,094	$ 9,024	$10,492	+12	-14
Dividends paid to the Company:					
Regular...	$ 8,000	$ 8,000	$ 8,000	--	--

Special..	--	--	$20,000	--	-100

</TABLE>

Changes in net cash provided by operating activities from year to year occurred primarily due to fluctuations in working capital which are the result of the timing of the payment of certain accounts payable and collection of certain accounts receivable. The ENSTAR Alaska Group has a $5 million revolving line of credit, none of which was utilized during 1993. This is a one-year line of credit that has historically been renewed annually and is used for seasonal working capital requirements.

The decline in capital expenditures for 1992 in comparison to the 1993 and 1991 levels was primarily due to a shorter summer construction season resulting from colder weather in the ENSTAR Alaska Group's market area during 1992. Approximately 43 miles of distribution pipeline were installed to connect new customers during the 1992 summer construction season, in comparison to approximately 55 miles and 60 miles installed during the 1993 and 1991 seasons, respectively. Current plans for 1994 call for capital expenditures of approximately $10.2 million for the ENSTAR Alaska Group, which are expected to be financed by cash flows from operations. The ENSTAR Alaska Group, is engaged in a continuous construction program. Management believes capital expenditures required on an annual basis in the foreseeable future for betterments and expansion will approximate historical levels.

Regular dividends paid to the Company of $8 million in each of the years 1993, 1992 and 1991 were financed with cash flows from operations. A special dividend of $20 million was paid to the Company in 1991, financed with a portion of the proceeds from a $40 million unsecured credit facility entered into in July 1991. The remaining proceeds were used to repay debt. The ENSTAR Alaska Group's debt to total capitalization ratio increased from approximately 37% as of December 31, 1990 to approximately 51% as of December 31, 1991 primarily as a result of these transactions. The ENSTAR Alaska Group's debt to total capitalization ratio was 52% and 51% as of December 31, 1993 and 1992, respectively.

Future dividends on the ENSTAR Alaska Stock will be paid at the discretion of the Board of Directors based primarily upon the financial condition, results of operations and business requirements of the ENSTAR Alaska Group and the Company as a whole. Under the most restrictive provisions of the ENSTAR Alaska Group's financing arrangements, approximately $14.2 million of Alaska Pipeline Company's retained earnings was available for the making of restricted investments, restricted stock payments, including dividends, and restricted subordinated debt payments as of December 31, 1993. Amounts available for dividends on the ENSTAR Alaska Stock will be further limited by covenants in the Company's bank credit agreements and other financing documents. Such dividends will also be limited to the lesser of (i) legally available funds of the Company under Texas law and (ii) the Available ENSTAR Alaska Group Dividend Amount, as defined. See Annex IV.

The ENSTAR Alaska Group believes that internally generated funds and APC's access to debt markets will provide necessary working capital and liquidity for capital expenditures, required debt payments and other cash needs in the foreseeable future. For a discussion of APC's debt instruments, see Note 4 of Notes to the accompanying combined financial statements of the ENSTAR Alaska Group beginning on page VI-25 of this Annex.

To date, compliance with applicable environmental and safety regulations by the ENSTAR Alaska Group has not required any significant capital expenditures or materially affected its business or earnings. The ENSTAR Alaska Group believes it is in substantial compliance with environmental and safety regulations and

foresees no material expenditures in the future; however, the ENSTAR Alaska Group is unable to predict the impact that compliance with future regulations may have on capital expenditures, earnings and competitive position.

The ENSTAR Alaska Group is a party to ongoing litigation in the normal course of business. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. While the outcome of lawsuits or other proceedings against the ENSTAR Alaska Group cannot be predicted with certainty, management believes that the effect on the combined financial condition and results of operations, if any, will not be material.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Seagull Energy Corporation:

We have audited the accompanying combined balance sheets of the ENSTAR Alaska Group (as defined in Note 1 to the combined financial statements) as of December 31, 1993 and 1992, and the related combined statements of earnings and cash flows for each of the years in the three-year period ended December 31, 1993. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined 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.

As more fully described in Note 1, the combined financial statements of the ENSTAR Alaska Group should be read in conjunction with the audited consolidated financial statements of Seagull Energy Corporation as listed in the index on page IV-1.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the ENSTAR Alaska Group as of December 31, 1993 and 1992, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Notes 7 and 8 to the combined financial statements, respectively, the ENSTAR Alaska Group adopted the provisions of the Financial Accounting Standards Board Statements of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, and No. 109, Accounting for Income Taxes, in 1992.

KPMG PEAT MARWICK

Houston, Texas
January 31, 1994, except as to Note 1,
Basis of Presentation, which is as of
March 11, 1994.

ENSTAR ALASKA GROUP

COMBINED STATEMENTS OF EARNINGS

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Revenues	$107,244	$109,598	$129,615
Costs of Operations:			
Cost of gas sold	59,898	59,999	81,935
Operations and maintenance	18,955	18,032	17,753
Management fees paid to Seagull Energy	1,925	1,944	1,925
Depreciation and amortization	7,511	7,184	6,978
	88,289	87,159	108,591
Operating Profit	18,955	22,439	21,024
Other (Income) Expense:			
Interest expense	6,298	6,074	5,955
Interest income and other	(239)	(293)	(367)
	6,059	5,781	5,588
Earnings Before Income Taxes and Cumulative Effect of Changes in Accounting Principles	12,896	16,658	15,436
Income Taxes	5,848	6,202	5,810

Earnings Before Cumulative Effect of Changes in Accounting Principles	7,048	10,456	9,626
Cumulative Effect of Changes in Accounting Principles	--	1,583	--
Net Earnings	$ 7,048	$ 12,039	$ 9,626

</TABLE>

See Accompanying Notes to Combined Financial Statements.

ENSTAR ALASKA GROUP

COMBINED BALANCE SHEETS

<TABLE>
<CAPTION>

<S>	DECEMBER 31, 1993 <C>	1992 <C>
	(DOLLARS IN THOUSANDS)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 623	$ 1,219
Customer accounts receivable, net	17,713	20,068
Inventories	2,431	2,560
Prepaid expenses and other	1,630	813
Total Current Assets	22,397	24,660
Property, Plant and Equipment -- at cost	216,883	208,419
Accumulated Depreciation and Amortization	54,879	48,060
	162,004	160,359
Other Assets	1,300	1,500
Total Assets	$185,701	$186,519
LIABILITIES AND COMMON EQUITY		
Current Liabilities:		
Accounts payable	$ 11,977	$ 11,301
Purchased gas cost adjustment	1,843	1,149
Accrued expenses:		
Interest	2,680	507
Other	3,985	4,670
Current maturities of long-term debt	1,538	3,743
Total Current Liabilities	22,023	21,370
Long-Term Debt	62,787	67,011
Refundable Customer Advances for Construction	11,623	10,379
Other Noncurrent Liabilities	2,138	2,147
Deferred Income Taxes	27,768	23,845
Common Equity	59,362	61,767
Commitments and Contingencies		
Total Liabilities and Common Equity	$185,701	$186,519

</TABLE>

See Accompanying Notes to Combined Financial Statements.

ENSTAR ALASKA GROUP

COMBINED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1993	1992	1991

	(DOLLARS IN THOUSANDS)		
Operating Activities			
Net earnings	$ 7,048	$ 12,039	$ 9,626
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Cumulative effect of changes in accounting principles	--	(1,583)	--
Depreciation and amortization	8,587	7,920	7,868
Amortization of loan acquisition costs	169	156	153
Deferred income taxes	3,372	2,704	2,399
Other	120	120	120
	19,296	21,356	20,166
Changes in operating assets and liabilities:			
Decrease (Increase) in accounts receivable, net	2,355	(1,774)	4,508
Decrease (Increase) in inventories, prepaid expenses and other	(108)	(84)	64
Increase (Decrease) in accounts payable	1,370	(8,060)	4,602
Increase (Decrease) in accrued expenses and other	1,690	(913)	(1,872)
Net Cash Provided By Operating Activities	24,603	10,525	27,468
Investing Activities			
Capital expenditures	(10,094)	(9,024)	(10,492)
Proceeds from disposition of (Costs to retire) property, plant and equipment	(138)	145	91
Net Cash Used In Investing Activities	(10,232)	(8,879)	(10,401)
Financing Activities			
Proceeds from issuance of long-term debt and other borrowings	--	59,500	58,900
Principal payments on long-term debt and other borrowings	(6,549)	(57,210)	(43,251)
Fees paid to acquire financing	--	(302)	--
Dividends paid to the Company	(8,000)	(8,000)	(28,000)
Other	(418)	(4)	873
Net Cash Used In Financing Activities	(14,967)	(6,016)	(11,478)
Increase (Decrease) In Cash And Cash Equivalents	(596)	(4,370)	5,589
Cash And Cash Equivalents At Beginning Of Year	1,219	5,589	--
Cash And Cash Equivalents At End Of Year	$ 623	$ 1,219	$ 5,589

See Accompanying Notes to Combined Financial Statements.

ENSTAR ALASKA GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. On March 11, 1994, Seagull Energy Corporation (the "Company") announced that it would seek shareholder approval of a comprehensive plan (the "ENSTAR Alaska Stock Proposal") that upon implementation would result in (i) the creation of a new class of common stock (the "ENSTAR Alaska Stock") intended to reflect separately the performance of the Company's natural gas transmission and distribution operations in South-Central Alaska (the "ENSTAR Alaska Group") and (ii) the amendment of certain terms of the existing class of common stock (the "Seagull Common Stock") to allow for the issuance of the ENSTAR Alaska Stock. This capital structure has not been reflected in these financial statements. The ENSTAR Alaska Stock Proposal will not result in any adjustment to the carrying amounts of the assets, liabilities or common equity presented in the accompanying combined financial statements.

Because the ENSTAR Alaska Stock is intended to reflect separately the performance of the ENSTAR Alaska Group, the Seagull Common Stock will reflect the performance of the Company's remaining two business segments ("Seagull Energy") that consist of (i) natural gas exploration, development and production, which is the Company's primary business focus, and (ii) pipeline and marketing operations. The ENSTAR Alaska Stock Proposal, which is summarized below, will be submitted to the Company's shareholders for their consideration and approval.

The Company currently expects that, shortly after shareholder approval of the ENSTAR Alaska Stock Proposal and subject to prevailing market and other conditions, it will make a public offering for cash of shares of ENSTAR Alaska Stock (the "ENSTAR Alaska Stock Offering") representing 100% of the equity attributable to the ENSTAR Alaska Group. The Board of Directors reserves the right to sell shares of ENSTAR Alaska Stock representing less than 100% of such equity and also reserves the right not to proceed with the ENSTAR Alaska Stock Offering if it determines that consummation of such offering is not in the best interests of the Company. The net proceeds of the ENSTAR Alaska Stock Offering would be used to repay amounts borrowed under the Company's revolving credit agreement, none of which debt is attributable to the ENSTAR Alaska Group.

The financial statements for the ENSTAR Alaska Group and for Seagull Energy comprise all of the accounts included in the corresponding consolidated financial statements of the Company. The ENSTAR Alaska Group financial statements have been prepared based upon methods that management believes to be reasonable and appropriate and reflect the combined historical financial position, results of operations and cash flows of ENSTAR Alaska Group. Consistent with the Articles of Amendment to the Articles of Incorporation and relevant policies, such business group financial statements could also include contingent liabilities that are not separately identified with the operations of the ENSTAR Alaska Group.

If the ENSTAR Alaska Stock Proposal receives the requisite shareholder approval and the ENSTAR Alaska Stock Offering is consummated, the Company will provide to holders of ENSTAR Alaska Stock

separate audited financial statements, management's discussion and analysis, description of business and other relevant information for the ENSTAR Alaska Group and the Company. Notwithstanding the allocation of the Company's assets and liabilities (including contingent liabilities) and shareholders' equity between the ENSTAR Alaska Group and Seagull Energy for the purpose of preparing their respective financial statements, holders of ENSTAR Alaska Stock (together with the holders of Seagull Common Stock) will be shareholders of the Company and will continue to be subject to all of the risks associated with an investment in the Company and all of its businesses and liabilities. Such allocation and the change in the equity structure of the Company contemplated by the ENSTAR Alaska Stock Proposal will not affect legal title to the assets or responsibility for the liabilities of the Company or any of its subsidiaries. As a result, the ENSTAR Alaska Stock Proposal will not affect the rights of holders of the Company's or any of its subsidiaries' debt. Financial impacts arising from Seagull Energy that affect the Company's financial condition could affect the results of operations or financial position of the ENSTAR Alaska Group. In addition, any net losses of Seagull Energy and dividends or distributions on, or repurchase of, Seagull Common Stock will reduce the legally available funds of the Company available for payment of dividends on the ENSTAR Alaska Stock. Accordingly, the Company's consolidated financial information and the combined financial information for Seagull Energy should be read in conjunction with the ENSTAR Alaska Group's combined financial information.

Dividends on the ENSTAR Alaska Stock will be limited to the lesser of (i) legally available funds of the Company under Texas law and (ii) the Available ENSTAR Alaska Group Dividend Amount, defined as the ENSTAR Alaska Group's net assets less the stated capital of all common and preferred stock attributable to the ENSTAR Alaska Group, assuming no Retained Interest by Seagull Energy. Amounts available for dividends may be further limited by covenants in the

Company's bank credit agreements and other financing documents. See the Company's consolidated financial statements and notes related thereto. Dividends on the ENSTAR Alaska Stock will be paid at the discretion of the Board of Directors based primarily upon the financial condition, results of operations and business requirements of the ENSTAR Alaska Group and the Company as a whole. For a description of the basis for determining voting rights and liquidation rights for each class of common stock, see "Proposal 2 -- The ENSTAR Alaska Stock Proposal -- Description of Seagull Common Stock and ENSTAR Alaska Stock -- Voting Rights" and "-- Liquidation Rights."

The accounting policies applicable to the preparation of the financial statements of the ENSTAR Alaska Group and Seagull Energy could be modified or rescinded in the sole discretion of the Board of Directors without approval of shareholders, although there is no present intention to do so. The Board of Directors could also adopt additional policies depending upon the circumstances. Any determination of the Board of Directors to modify or rescind such policies, or to adopt additional policies, would be made by the Board of Directors in good faith and in the honest belief that such decision is in the best interests of the Company. Any such determination would also be made in light of the requirements imposed by the Alaska Public Utilities Commission ("APUC") that any transactions between the ENSTAR Alaska Group and its affiliates, including Seagull Energy, must be on terms comparable to arm's length transactions. In addition, generally accepted accounting principles require that any change in accounting policy be preferable (in accordance with such principles) to the policy previously established.

Combination. The accompanying combined financial statements include the combined accounts of the businesses comprising the ENSTAR Alaska Group. The ENSTAR Alaska Group operates in Alaska through ENSTAR Natural Gas Company ("ENG"), a division of the Company, and Alaska Pipeline Company ("APC"), a wholly owned subsidiary. The accompanying combined financial statements of the ENSTAR Alaska Group reflect the basis of accounting established by the Company as of June 17, 1985, the date the ENSTAR Alaska Group was acquired by the Company. All significant intercompany transactions between ENG and APC have been eliminated in preparation of the accompanying combined financial statements.

Regulation. The ENSTAR Alaska Group is subject to regulation by the APUC, which has jurisdiction over, among other things, rates, accounting procedures and standards of service. The ENSTAR Alaska Group

meets the criteria and, accordingly, follows the reporting and accounting requirements of Statement of Financial Accounting Standards ("SFAS") No. 71, Accounting for the Effects of Certain Types of Regulation.

Cash Equivalents. Cash equivalents include all highly liquid investments with a maturity of three months or less when purchased.

Supplemental Disclosures of Cash Flow Information.

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Cash paid during the year for:			
Interest, net of amount capitalized	$3,719	$6,688	$3,741
Income taxes	$3,336	$3,339	$5,413

Inventories. Inventories consisting of materials and supplies are valued at the lower of average cost or market value (net realizable value).

Property, Plant and Equipment. Utility plant is reflected at cost, net of contributions in aid of construction. Capitalized costs include costs of funds, payroll costs and certain general and administrative costs. Depreciation of the utility plant and other property is computed using the straight-line method over their estimated useful lives, which vary from 4 to 33 years.

Utility plant facilities are subject to APUC regulation. When utility properties are disposed of or otherwise retired, the original cost of the property, plus cost of retirement, less salvage value, is charged to accumulated depreciation.

Maintenance, repairs and renewals are charged to operations and maintenance expense except that renewals which extend the life of the property are capitalized.

Revenue Recognition. The ENSTAR Alaska Group's operating revenues are based on rates authorized by the APUC which are applied to customers' consumption of natural gas. The ENSTAR Alaska Group records unbilled revenue, including amounts to be billed under a purchased gas adjustment clause, at the end of each accounting period.

Income Taxes. Effective January 1, 1992, the ENSTAR Alaska Group adopted SFAS No. 109, Accounting for Income Taxes. This SFAS requires the use of the liability method under which deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date.

Prior to January 1, 1992, the ENSTAR Alaska Group used the deferral method of accounting for income taxes, under which deferred taxes were provided for all material timing differences arising from the recognition of certain items of income and expense in different accounting periods for tax and financial accounting purposes using the tax rate applicable for the year of the calculation. Under the deferral method, deferred taxes were not adjusted for subsequent changes in tax rates.

Earnings Per Share. Historical earnings per share are omitted from the combined statements of earnings since the ENSTAR Alaska Stock was not part of the equity structure of the Company and the Seagull Common Stock had not been amended to allow for the issuance of the ENSTAR Alaska Stock for the periods presented.

2. RELATED PARTY ACTIVITIES

The following policies and agreements may be modified or rescinded by action of the Board of Directors, or the Board of Directors may adopt additional policies, without approval of the shareholders of the Company, although the Board of Directors has no present intention to do so.

Corporate Overhead Costs. Since 1985, when the Company acquired the ENSTAR Alaska Group, Seagull Energy has provided certain management and administrative services to the ENSTAR Alaska Group pursuant to a series of written management agreements. The most recent such agreement, the Agreement for Services, was entered into effective as of January 1, 1993 (the "Management Agreement"). Pursuant to the Management Agreement, Seagull Energy provides certain management, financial reporting, legal, human resources, treasury, investor relations and administrative services to the ENSTAR Alaska Group. In consideration for these services, the ENSTAR Alaska Group has agreed to pay Seagull Energy an annual management fee equal to the greater of (i) $1,925,000 and (ii) the sum of (A) the direct cost of providing such services and (B) the allocable portion of Seagull Energy's general and administrative expenses associated with providing such services, primarily determined by reference to the relative amount of time spent by Seagull Energy's employees to provide such services. The Management Agreement would continue in effect following implementation of the ENSTAR Alaska Stock Proposal. The Management Agreement may be amended by agreement between Seagull Energy and the ENSTAR Alaska Group. Fees paid by the ENSTAR Alaska Group pursuant to the Management Agreement totaled $1.9 million in each of the years 1993, 1992 and 1991 and were included in costs of operations.

Income Taxes. Seagull Energy and the ENSTAR Alaska Group are also parties to a tax sharing agreement dated as of January 1, 1986 (the "Tax Sharing Agreement"). Because ENSTAR Alaska is included in the Company's consolidated group for income tax purposes, tax deductions and credits attributable to

Seagull Energy tend to reduce the amount of income tax that would be payable if such taxes were calculated solely with respect to the operations of the ENSTAR Alaska Group. Pursuant to the Tax Sharing Agreement, the ENSTAR Alaska Group generally pays Seagull Energy an amount equal to the amount of income taxes that would be payable by the ENSTAR Alaska Group on a "stand alone" basis excluding the effects of historical purchase accounting adjustments. In this regard, the assets and liabilities of the ENSTAR Alaska Group are accounted for based upon the ENSTAR Alaska Group's original historical cost prior to the ENSTAR Alaska Group's acquisition by the Company in 1985. To the extent current taxes paid by the ENSTAR Alaska Group to Seagull Energy pursuant to the Tax Sharing Agreement differ from amounts computed based on income and expenses included in the accompanying statements of earnings, such amount is recorded as an adjustment to common equity. The ENSTAR Alaska Group would continue to be included in the Company's consolidated group for income tax purposes after the implementation of the ENSTAR Alaska Stock Proposal, and the Tax Sharing Agreement would continue in effect. The Tax Sharing Agreement may be amended by agreement between Seagull Energy and the ENSTAR Alaska Group.

3. PROPERTY, PLANT AND EQUIPMENT

The major classes of the ENSTAR Alaska Group's property, plant and equipment are shown below:

<TABLE>
<CAPTION>

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Gas plant	$196,312	$188,714
General plant	10,131	9,609
Land, buildings and other	10,440	10,096
	$216,883	$208,419

</TABLE>

Total depreciation and amortization related to property, plant and equipment amounted to approximately $8.6 million in 1993 and $7.9 million in both 1992 and 1991.

4. LONG-TERM DEBT

The ENSTAR Group's portion of the Company's consolidated long-term debt for 1993 and 1992 was as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 1993	DECEMBER 31, 1992
<S>	<C>	<C>
	(DOLLARS IN THOUSANDS)	
Unsecured industrial development bonds:		
7.75%-8.00% due in 1993-2008	$12,915	$13,100
Other unsecured indebtedness:		
9.95%-12.80% notes, due in 1993-2000	2,750	9,107
8.15%-8.81% notes, due in 1997-2009	50,000	50,000
Other debt	26	33
	65,691	72,240
Less: Current maturities	1,538	3,743
Unamortized debt discount	1,366	1,486
Total long-term debt	$62,787	$67,011

</TABLE>

The combined financial statements reflect debt and related interest expense incurred directly by the ENSTAR Alaska Group. The change in the equity structure of the Company contemplated by the ENSTAR Alaska Stock Proposal will not affect responsibility for the liabilities of the Company or any of its subsidiaries.

All long-term debt of the ENSTAR Alaska Group is issued by APC. The majority of the capital requirements of ENG are met by loans from APC pursuant to intercompany notes secured by a mortgage on the properties, rights and franchises (other than certain excepted properties) of ENG. The senior unsecured notes of APC provide for restrictions on dividends, additional borrowings and purchases, redemptions or retirements of shares of capital stock, other than in stock of APC. Under the most restrictive provisions of these financing arrangements, approximately $14.2 million was available for the making of restricted investments, restricted stock payments, including dividends, and restricted subordinated debt payments as of December 31, 1993.

In July 1992, APC issued three new series of senior unsecured notes totaling $50 million to a group of institutional investors. The notes have interest rates ranging from 8.15% to 8.81% and have final maturities ranging from 2001 to 2009. The proceeds were used to retire APC's then existing $40 million unsecured credit agreement, to meet sinking fund requirements on other APC debt and for working capital purposes. The Company has not guaranteed payment of the new senior unsecured notes of APC.

APC has a $5 million revolving line of credit, none of which was utilized during 1993. This is a one year line of credit which has historically been renewed annually and is used for seasonal working capital requirements.

ENSTAR ALASKA GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Annual Maturities. At December 31, 1993, the ENSTAR Alaska Group's aggregate annual maturities of long-term debt are as follows:

YEAR ENDING DECEMBER 31,	(DOLLARS IN THOUSANDS)
1994	$ 1,538
1995	$ 1,550
1996	$ 1,564
1997	$ 7,577
1998	$ 7,097
Thereafter	$46,365

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the ENSTAR Alaska Group's financial instruments are summarized as follows:

	DECEMBER 31,			
	1993		1992	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
	(DOLLARS IN THOUSANDS)			
Assets:				
Cash and cash equivalents	$ 623	$ 623	$ 1,219	$ 1,219
Liabilities:				
Customer deposits	(1,672)	(1,571)	(1,809)	(1,701)
Refundable customer advances for construction	(11,983)	(9,858)	(10,812)	(8,314)
Long-term debt, including current maturities	(64,325)	(75,800)	(70,754)	(75,667)

Cash and Cash Equivalents. The carrying amount approximates fair value because of the short maturity of these instruments.

Customer Deposits and Refundable Customer Advances for Construction. The fair value is based on discounted cash flow analyses utilizing a discount rate of 6% with monthly payments ratably over the estimated period of deposit or advance refunding.

Long-Term Debt. The fair value of APC's long-term debt is estimated based on quoted market prices for the same or similar issues.

6. COMMON EQUITY

The sources of change in common equity are as follows:

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Common equity, beginning of year....................	$61,767	$59,279	$ 77,537
Net earnings..	7,048	12,039	9,626
Dividends paid to the Company.......................	(8,000)	(8,000)	(28,000)
Net equity transactions with Seagull Energy..........	(1,453)	(815)	(788)
Other...	--	(736)	904
Common equity, end of year..........................	$59,362	$61,767	$ 59,279

Net equity transactions with the ENSTAR Alaska Group represent the extent current taxes paid by the ENSTAR Alaska Group to Seagull Energy pursuant to the Tax Sharing Agreement differ from amounts computed on income and expenses.

7. EMPLOYEE BENEFIT PLANS

Retirement Plans. The ENSTAR Alaska Group has two defined benefit retirement plans which cover salaried employees (the "Salaried Retirement Plan") and operating employees (the "Operating Unit Plan"). Clerical unit personnel, which constitute approximately 25% of total ENSTAR Alaska Group personnel, are not covered under a retirement plan. Determination of benefits for the salaried employees is based upon a combination of years of service and final monthly compensation. Benefits for operating employees are based solely on years of service. The ENSTAR Alaska Group's policy is to fund the minimum contributions required by applicable regulations. The net pension costs are included in operations and maintenance costs.

The following table sets forth the ENSTAR Alaska Group plans' funded status and the amounts recognized in the combined financial statements at December 31, 1993 and 1992:

	1993		1992	
	SALARIED EMPLOYEES	OPERATING EMPLOYEES	SALARIED EMPLOYEES	OPERATING EMPLOYEES
	(DOLLARS IN THOUSANDS)			
Actuarial present value of benefit obligations:				
Vested benefit obligation...........................	$(4,756)	$(2,753)	$(4,196)	$(2,449)
Accumulated benefit obligation......................	$(4,866)	$(2,773)	$(4,285)	$(2,465)
Projected benefit obligation for services rendered to date..	$(5,921)	$(2,773)	$(5,778)	$(2,465)
Plan assets at fair value, primarily listed stocks and corporate and U. S. bonds...........................	4,094	2,790	3,721	2,467
Plan assets in excess of (less than) projected benefit obligation..	(1,827)	17	(2,057)	2
Unrecognized prior service cost........................	90	19	245	21
Unrecognized net loss..................................	417	632	618	585
Unrecognized net obligation (asset) arising out of the				

initial application of SFAS No. 87, amortized over 15 years (salaried) and 18 years (operating)...........	748	(101)	842	(111)
Additional minimum liability..........................	(200)	--	(212)	--
Prepaid (accrued) pension cost.........................	$ (772)	$ 567	$ (564)	$ 497
Net pension cost includes the following components:				
Service cost -- benefits earned during the period....	$ 232	$ 110	$ 195	$ 84
Interest cost on projected benefit obligation........	413	190	386	162
Actual return on plan assets.........................	(333)	(224)	(185)	(197)
Net amortization and deferral........................	147	40	22	18
Net periodic pension cost.............................	$ 459	$ 116	$ 418	$ 67

</TABLE>

The assumed weighted average discount rate for both ENSTAR Alaska Group plans was 7.25% for 1993 and 1992, and the rate of increase in future compensation for the Salaried Retirement Plan used in determining the projected benefit obligation was 5% and 5.5% for 1993 and 1992, respectively. The expected long-term rate of return on plan assets for both ENSTAR Alaska plans was 8%.

Profit Sharing Plans. The ENSTAR Alaska Group has profit sharing plans for salaried employees and union employees. Annual contributions for each plan are determined by the Company's Board of Directors pursuant to formulae which contain minimum contribution requirements. Profit sharing expense was

approximately $0.3 million for each of the years 1993, 1992 and 1991, and is included in operations and maintenance costs.

Thrift Plan. The ENSTAR Natural Gas Company Thrift Plan (the "Thrift Plan") is a qualified employee savings plan in accordance with the provisions of Section 401(k) of the Internal Revenue Code of 1986, as amended. The ENSTAR Alaska Group contributions to the Thrift Plan were approximately $0.2 million in each of the years 1993, 1992 and 1991. The Thrift Plan's costs are included in operations and maintenance costs.

Postretirement Benefits Other Than Pensions. The ENSTAR Alaska Group has a postretirement medical plan which covers all of its salaried employees. Determination of benefits is based upon the combined age of the retiree and years of service at retirement. Prior to January 1, 1992, the ENSTAR Alaska Group accounted for these obligations on a "pay-as-you-go" basis.

Effective January 1, 1992, the ENSTAR Alaska Group adopted SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. This SFAS changes the accounting treatment for such benefits from a pay-as-you-go basis to a method where the expected costs for these benefits are accrued during the years the plan participants render service. The ENSTAR Alaska Group recognized the cumulative effect of this change in accounting principles in the line item entitled "Cumulative Effect of Changes in Accounting Principles" in the accompanying combined statement of earnings for the year ended December 31, 1992. Accordingly, periods prior to January 1, 1992 were not restated to reflect this change.

The cumulative effect of this accounting change as of January 1, 1992, resulted in a reduction in earnings of $0.7 million (after income taxes of $0.4 million). The effect of this change on earnings before the cumulative effect for the year ended December 31, 1992, and the pro forma effect of retroactive application of this accounting change on earnings for the year ended December 31, 1991, were not material.

The accrued postretirement benefit cost recognized in the combined balance sheet at December 31, 1993 and 1992 was $1.3 million and $1.2 million, respectively.

8. INCOME TAXES

Total income tax expense for the years ended December 31, 1993 and 1992 was allocated as follows:

<TABLE>
<CAPTION>

	1993	1992
	(DOLLARS IN	

THOUSANDS)		
Income tax provision before cumulative effect of changes in accounting principles	$5,848	$ 6,202
Adjustment for change in accounting principles	--	(2,783)
	$5,848	$ 3,419

ENSTAR ALASKA GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The provision for income taxes for each of the years ended December 31, 1993, 1992 and 1991 was as follows:

	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Current:			
Federal	$1,427	$1,901	$2,241
State	1,049	1,597	1,170
Total current	2,476	3,498	3,411
Deferred:			
Federal	3,263	2,729	2,214
State	109	(25)	185
Total deferred	3,372	2,704	2,399
Income tax provision before cumulative effect of changes in accounting principles	$5,848	$6,202	$5,810

The provision for income taxes before cumulative effect of changes in accounting principles for the years ended December 31, 1993 and 1992 is not comparable to 1991 due to the ENSTAR Alaska Group's adoption of SFAS No. 109, Accounting for Income Taxes, effective January 1, 1992. The ENSTAR Alaska Group recognized the cumulative effect of this change in accounting principle in the line item entitled "Cumulative Effect of Changes in Accounting Principles" in the accompanying combined statement of earnings for the year ended December 31, 1992. Accordingly, periods prior to January 1, 1992 were not restated to reflect this change. The cumulative effect of this accounting change as of January 1, 1992 resulted in an increase in earnings of approximately $2.3 million. The effect of this change on earnings before income taxes for the year ended December 31, 1992 was not material.

The provision for income taxes before cumulative effect of changes in accounting principles for each of the years ended December 31, 1993, 1992 and 1991 was different than the amount computed using the federal statutory rate (35% for 1993, 34% for 1992 and 1991) for the following reasons:

	1993	1992	1991
	(DOLLARS IN THOUSANDS)		
Amount computed using the statutory rate	$4,514	$5,664	$5,248
Increase (Reduction) in taxes resulting from:			
State income taxes, net	753	1,038	894
Excess of tax bases over book bases of acquired assets	--	--	(381)
Increase in the beginning-of-the-year balance of the deferred tax liabilities due to the increase in the corporate federal income tax rate	651	--	--
Other	(70)	(500)	49
Income tax provision before cumulative effect of changes in accounting principles	$5,848	$6,202	$5,810

</TABLE>

ENSTAR ALASKA GROUP

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The significant components of deferred income tax expense attributable to income from continuing operations for the years ended December 31, 1993 and 1992 are as follows:

	1993	1992
	(DOLLARS IN THOUSANDS)	
Deferred tax expense (exclusive of the effects of other components listed below)	$2,721	$2,704
Increase in the beginning-of-the-year balance of the deferred tax liabilities due to the increase in the corporate federal income tax rate	651	--
	$3,372	$2,704

As discussed in Note 1, under SFAS No. 109 deferred income taxes have been provided for all temporary differences between the carrying amounts of assets and liabilities for financial accounting and tax purposes. In 1991, prior to the adoption of SFAS No. 109, deferred income taxes were provided based on timing differences in certain items of income and expense recognized for income tax purposes in periods different from the periods for financial accounting purposes.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax liabilities and deferred tax assets as of December 31, 1993 and 1992 were as follows:

	1993	1992
	(DOLLARS IN THOUSANDS)	
Deferred tax liabilities:		
Property, plant and equipment, due to differences in depreciation, depletion and amortization	$29,485	$25,617
Other	1,024	1,226
Deferred tax liabilities	30,509	26,843
Deferred tax assets:		
Minimum tax credit carryforwards	--	(41)
Investment tax credit carryforwards	(1,432)	(1,643)
Deferred compensation/retirement related items accrued for financial reporting purposes	(241)	(42)
Other	(2,251)	(1,905)
Deferred tax assets	(3,924)	(3,631)
Net deferred tax liabilities	$26,585	$23,212

For federal income tax purposes, as of December 31, 1993, the ENSTAR Alaska Group has unused investment tax credits of approximately $1.4 million which will expire in 1999 and 2000.

During 1991, the tax effects of timing differences were as follows:

	YEAR ENDED DECEMBER 31, 1991
	(DOLLARS IN THOUSANDS)
Depreciation	$2,947

Minimum tax credit carryforward for tax purposes....................	(132)
Other..	(416)
Total deferred tax provision.............................	$2,399

</TABLE>

9. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data is as follows:

<TABLE>
<CAPTION>

	REVENUES		OPERATING PROFIT		NET EARNINGS (LOSS)	
	1993	1992	1993	1992	1993	1992
			(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
March 31,........	$ 39,192	$ 37,456	$ 9,099	$ 9,365	$ 4,552	$ 6,379(*)
June 30,.........	18,925	20,151	1,360	2,556	(115)	744
September 30,....	14,921	15,980	617	1,364	(1,325)	(121)
December 31,.....	34,206	36,011	7,879	9,154	3,936	5,037
Total...	$107,244	$109,598	$18,955	$22,439	$ 7,048	$12,039

</TABLE>

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(*) Includes the cumulative effect of two changes in accounting principles in the first quarter of 1992 representing an increase in earnings of approximately $1.6 million. (See Notes 1, 7 and 8).

10. SALES TO MAJOR CUSTOMERS

The ENSTAR Alaska Group had sales of 10% or more of total combined revenues to the following customers:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,					
	1993		1992		1991	
			(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
U. S. Governmental Agencies..................	$12,312	11%	$12,210	11%	$13,508	10%
Municipality of Anchorage....................	3,303	3%	3,673	3%	17,038	13%

</TABLE>

11. COMMITMENTS AND CONTINGENCIES

Concentrations of Credit Risk. The ENSTAR Alaska Group operates in the transmission and distribution phases of the natural gas industry with sales to end-users such as commercial businesses, industrial concerns and residential consumers. While certain of these customers are affected by periodic downturns in the economy in general or in their specific industry, the ENSTAR Alaska Group believes that its level of credit-related losses due to such economic fluctuations has been immaterial and will continue to be immaterial to the ENSTAR Alaska Group's results of operations in the long term.

Litigation. The Company is a party to ongoing litigation in the normal course of business or other litigation with respect to which the Company is indemnified pursuant to various purchase agreements or other contractual arrangements. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. While the outcome of lawsuits or other proceedings against the Company cannot be predicted with certainty, management believes that the effect on the ENSTAR Alaska Group's financial condition and results of operations, if any, will not be material.

PRELIMINARY COPY DATED APRIL 20, 1994

PROXY

SEAGULL ENERGY CORPORATION
ANNUAL MEETING OF SHAREHOLDERS -- JUNE 1, 1994
PROXY SOLICITED ON BEHALF OF BOARD OF DIRECTORS

The undersigned hereby appoints Barry J. Galt and Robert W. Shower as Proxies, each with the power to appoint his substitute, and hereby authorizes each of them to represent and to vote as designated below, all the shares of Common Stock of Seagull Energy Corporation (the "Company"), held of record by the undersigned on April 4, 1994, at the Annual Meeting of Shareholders to be held June 1, 1994 or any adjournment(s) or postponement(s) thereof.

The undersigned hereby revokes any proxy to vote said shares heretofore given. THE UNDERSIGNED ACKNOWLEDGES THAT THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER AND THAT IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ALL NOMINEES LISTED IN PROPOSAL 1 AND IN FAVOR OF PROPOSALS 2 AND 3.

Please sign exactly as name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

I plan to attend the meeting (Please check if yes) / /

1. Election of four directors to serve until the 1997 Annual Meeting of Shareholders: Class II -- Peter J. Fluor, Barry J. Galt, Dean P. Guerin and Robert W. Shower.

For	Withhold Authority	TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE, MARK THIS BOX AND STRIKE HIS NAME FROM ABOVE LISTING.
/ /	/ /	/ /

(continued on reverse side)

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2. Proposal to amend the Company's Articles of Incorporation to, among other things (i) authorize 25,000,000 shares of a new class of common stock of the Company, the Seagull Energy Corporation -- ENSTAR Alaska Group Common Stock, par value $.10 per share ("ENSTAR Alaska Stock"), and (ii) amend the terms of existing capital stock of the Company to allow for the issuance of the ENSTAR Alaska Stock.

For	Against	Abstain
/ /	/ /	/ /

3. Proposal to ratify the appointment by the Board of Directors of the firm of KPMG Peat Marwick as independent public auditors of the Company for the fiscal year ending December 31, 1994.

For	Against	Abstain
/ /	/ /	/ /

4. IN THEIR DISCRETION, THE PROXIES ARE AUTHORIZED TO VOTE UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING, OR ANY ADJOURNMENT(S) OR POSTPONEMENT(S) THEREOF.

(Shareholder Address)	If you receive more than one proxy card, please sign and

return all cards in the
accompanying envelope.
Date______________________, 1994

____
Signature

____
Signature if held jointly

This proxy may be revoked at any time prior to the voting of the proxy by the execution and submission of a revised proxy, by written notice to the Secretary of the Company or by voting in person at the meeting.

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