

# Oil & Gas Eye

Q2 2008

Ernst & Young's Oil & Gas Eye Index monitors the performance of AIM oil and gas companies on a weekly basis and can be viewed at [www.ey.com/uk/oilandgaseye](http://www.ey.com/uk/oilandgaseye). Movements and analysis of the index are reported in this quarterly publication.

Ernst & Young also produces a similar index for the mining sector which can be viewed at [www.ey.com/uk/miningeye](http://www.ey.com/uk/miningeye)

To receive copies of the quarterly updates, please contact Victoria Lea on +44 20 7951 9051 or email [vlea@uk.ey.com](mailto:vlea@uk.ey.com) – stating whether you are interested in Oil & Gas, Mining or both publications.

## Q2 2008: the Oil & Gas Eye outperforms again as E&P stocks rebound

- ▶ The Oil and Gas Eye index of the top 20 E&P companies by market value on AIM staged a rally in Q2 2008, gaining 27%, significantly outperforming the AIM All Share's 0.2% rise. Volatility remains the overriding trend going into Q3, with the index losing 13% over the first two weeks of July as the FTSE 100 headed into bear territory.
- ▶ Despite the index's strong performance in Q2, the impact of the credit crunch is being felt far beyond the financial sphere. AIM's oil and gas companies are warning of inflationary cost pressures, poor trading liquidity, the higher cost of debt and increasing competition for capital. In such times, the ability to demonstrate and realise the value of assets will become increasingly important for AIM's explorers and producers in the fight to grow and survive.
- ▶ Production and progress mark out the success stories of the quarter, with Afren, Green Dragon Gas and Gulfsands nearing or reaching the all-important transition from explorers to producers, Providence Resources acquiring production capacity and Sibir Energy making progress with its Moscow Refinery.
- ▶ Fundraising on AIM by the oil and gas sector remained relatively strong, with total funds raised up 27% on last quarter to £322m and down just 14% on the same period a year ago. Three new oil and gas companies joined AIM in the quarter, raising £70m between them. Contrary to expectations, listing and fundraising activity also picked up across the market, but the numbers remain historically low.
- ▶ Nevertheless, against the backdrop of high and volatile commodity prices and a nervous market environment, many of AIM's junior oil and gas companies are finding it increasingly challenging to secure funding from investors. Our analysis of shareholdings in AIM oil and gas companies points towards institutional investors playing a crucial role in the success or failure of these junior explorers.
- ▶ The pace of transactions in the AIM oil and gas space picked up with five deals announced in the quarter, highlighting the growing role of the strategic investor taking a minority position in a company. This helps secure a company's financial future balanced against the valuation and structuring challenges inherent in trying to sell 100% of a publicly traded exploration business.

# The Oil & Gas Eye stages a strong rally in Q2 2008

Ernst & Young's Oil & Gas Eye staged a strong rally in Q2 2008, closing the quarter up 27%, as stock markets across the world were impacted by deepening global economic concerns. The performance of AIM's top explorers and producers was reflected across the sector, with the AIM Oil & Gas index gaining 21% (the best performing sector index on AIM this quarter) and the FTSE Oil & Gas index gaining 16%. The strength of oil prices supported confidence in the sector's producers, whilst resources stocks remained in favour as investors retreated from financial and consumer-related sectors.

By contrast, the AIM All-share gained just 0.2%, while the FTSE All-share of Main Market stocks lost 2%. But in times of such market volatility, what goes up also goes down. Over the month of July, the Oil & Gas Eye steadily lost nearly all the gains

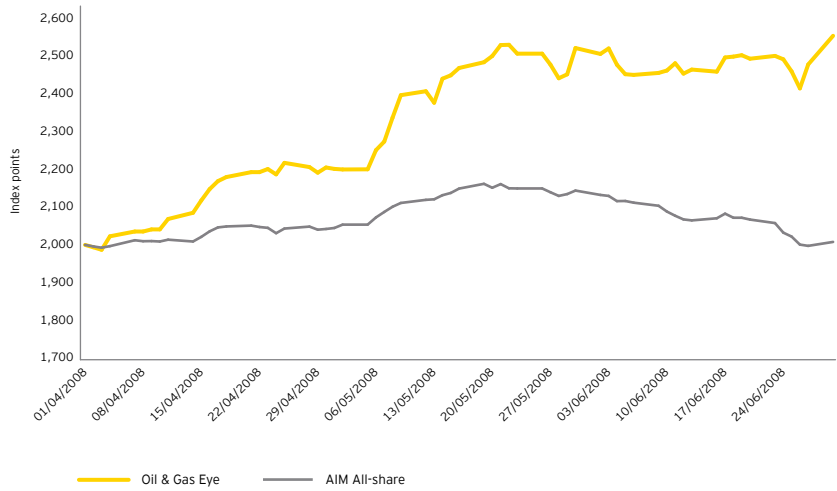
made over the quarter, dragged down by wider market movements, as the FTSE 100 headed into bear territory. A longer view reveals the relative strength of the oil and gas sector, and puts the recent volatility into some kind of perspective. Whilst the AIM All-share closed the quarter heading on a path towards lows last seen in 2003, the Oil & Gas Eye closed some 156% above its 2004 base value of 1,000. The anxiety engulfing the world's financial centres seems a world away from the tangible progress being made by AIM's junior explorers in far-flung locations, with a number of companies nearing or reaching that all important milestone of transition from explorer to producer.

Nevertheless, the impact of the credit crunch is being felt far beyond the financial sector. Capital is becoming increasingly difficult to raise, debt more costly to procure, and investors more discerning

about their investments. Inflationary pressures are impacting the cost of doing business, whilst market volatility is leading to postponed or abandoned transactions and IPOs. Perhaps now more than ever, share price movements of AIM's companies have become increasingly less indicative or representative of underlying or future value. Around 20 companies across AIM issued statements this quarter to the effect that they were unable to provide an explanation for the unusual and significant movements in their share prices. With appetite for M&A and asset purchases remaining strong in the oil and gas sector, the ability to demonstrate and realise the value of assets will become increasingly important for AIM's explorers and producers in the fight to grow and survive.

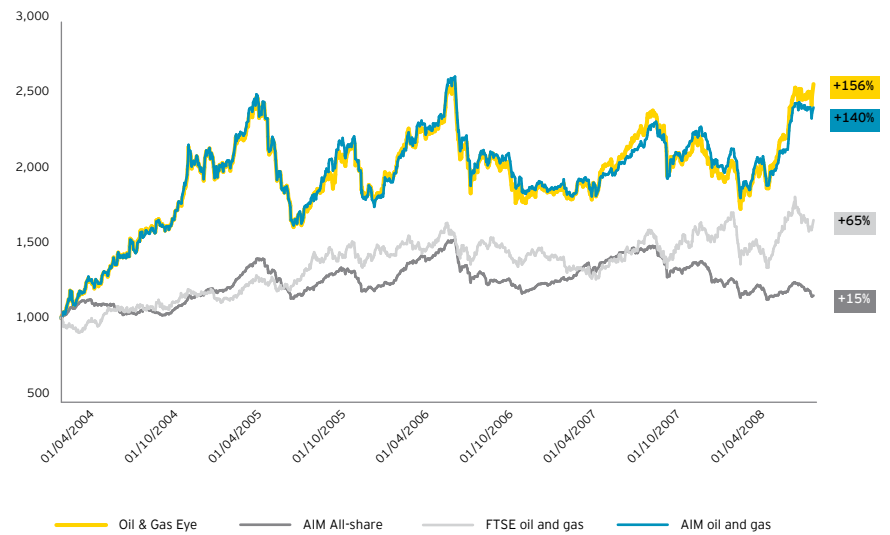
## Performance of the Oil & Gas Eye over Q2 2008

Source: Ernst & Young, Thomson Datastream



## Oil & Gas Eye relative performance since 2004

Source: Ernst & Young, Thomson Datastream



## **Production and progress mark out the winners in Q2 2008**

### ***Sibir Energy postpones Main Market move, but shares gain 48% on record production figures and progress in Moscow***

Sibir Energy is by far the largest company on AIM, its £3.1b market capitalisation almost double that of the next largest oil company and closing in on the values of FTSE 100 producers. The Russia-focused producer's planned move to the Main Market has been postponed to the end of this year or early next, while the company resolves outstanding integration issues relating to the Moscow Oil and Gas Company acquisition and pursues other potential opportunities. Nevertheless, the company's shares gained 48% over the quarter, on the back of record production figures from the Salym oil fields in Siberia and the publication of strong final results. In July, the company announced a major milestone in the development of its Moscow Refinery – the establishment of a joint venture with Gazprom Neft, Moscow NPZ Holdings BV, which will hold a 90% controlling share in the refinery. The agreement brings to an end months of negotiations and uncertainty and sets Sibir in good stead for the year ahead.

### ***Shares in Regal Petroleum shine as the company draws a line under its turbulent past***

Regal Petroleum was the Oil & Gas Eye's star performer in Q2 2008. Shares gained 112%, a marked turnaround on last quarter's declines, with the publication of 2007 results drawing a line under the company's well-publicised turbulent past. Regal's focus now is on the development of its Ukrainian, Egyptian and Romanian assets. First oil production was achieved from the ERB-A-1X well in Egypt, and a five-year drilling contract was secured with Saipem for the development of Regal's Mekhediviska-Golotvshinska and Svyrydivsk gas and condensate fields. Confirmation of preliminary third-party interest in Regal's Ukrainian assets helped to boost shares but the company has taken

the decision that independent development is in the best interests of shareholders.

### ***Afren achieves first oil, whilst Green Dragon Gas and Gulfsands Petroleum are on the verge of making the leap from explorers to producers***

Shares in Afren gained 37% over the quarter, as the company announced first oil production from its flagship Okoru Setu Project, offshore Nigeria. The project, in development for just two years, is operated in partnership with indigenous explorer, Amni International Petroleum Development Company. Afren also announced its intention to graduate to the Main Market later in the year.

China-focused coal-bed methane (CBM) developer Green Dragon Gas strode towards its ambitions of vertical integration with two acquisitions and the continued progress of its extensive drilling campaign towards commercial production. The company closed its C\$32.4m acquisition of Pacific Asia China Energy Inc, a Toronto-listed company holding a production sharing contract with China United Coal Bed Methane Corporation (CUCBM) and a 50% interest in a drilling service company with exclusive rights to specialist CBM drilling technology.

Shoring up its midstream activities, Green Dragon acquired Giant Power International Investment Ltd for US\$10.68m, providing access to 'Compressed Natural Gas Mother Stations', gas distribution stations strategically located for Green Dragon's CBM blocks. Progress has also been made with the company's upstream activities, with wells on line in all of the company's five blocks, and two in gas production. Shares in the company gained 27% over the quarter, and have gained a steady 63% since listing on AIM in August 2006.

Gulfsands Petroleum closed the quarter with news that it had completed construction of its 10,000 barrels per day (bpd) Early Production Facility for the Khurbet East field in Syria ahead of schedule. First production soon followed in July. The company's focus has determinedly turned towards the Middle East and Syria, underlined by a relocation

of corporate headquarters from Houston to London and a private placement of shares raising £9.35m to fund activities in Iraq. Natural gas discoveries made at the company's Gulf of Mexico E138 #17 and E157 #16 Eugene wells in the Gulf of Mexico will support cash flow when they come into production in August.

### ***Maple Energy makes progress with Peruvian ethanol project***

Outside of the index's top 20, integrated energy company Maple Energy saw an astonishing 185% rise in its share price over the quarter, propelling the company into the Oil & Gas Eye for Q3 2008. Maple Energy owns and operates integrated exploration, production, refining and distribution assets in Peru, and in 2007 achieved annual average production of 467 bpd from its Maquia and Agua Caliente fields. But it was news of progress with the company's ethanol production activities in Peru that appeared to excite investors this quarter. In April, the Peruvian government announced its approval of the environmental and social impact assessment for the project, a key development, whilst the company completed land clearing and secured contracts for specialist equipment. The company also raised gross proceeds of US\$25m (£12.7m) via a private share placing to fund capital expenditure relating to the ethanol project and to fund the acquisition of an additional voting interest in joint venture Aguaytia Energy LLC.

Shares in the company have remained fairly flat since the company listed on AIM a year ago, gaining just 11% in the nine months to March 2008. Investor sentiment towards the company may be helped further with the news that Standard & Poor's raised Peru's long-term foreign currency senior debt rating to investment grade (BBB-).

### ***Providence Resources to re-join the Oil & Gas Eye following the acquisition of production capacity***

Providence Resources makes a return to the index for Q3 2008, following a

successful second quarter in which the company acquired a US\$67.5m portfolio of eight producing and two development assets in the Gulf of Mexico from Triangle Oil & Gas. The acquisition will treble the company's daily production rate to 2,000 barrels of oil equivalent per day (boepd) – also adding valuable cash flow to support the company's 2008 offshore drilling programme. The programme will focus on further appraisal of the company's Hook Head oil discovery in the Celtic Sea. The company also made a gas discovery on Galveston Island Block A-155 in the Gulf of Mexico – a discovery that is to be fast-tracked to production, utilising nearby third party infrastructure.

### **Difficult market and operational conditions hamper Q2's fallers**

#### **Antrim Energy fails to secure favourable terms for proposed bond issue, but makes good progress with North Sea activities**

Shares in Antrim Energy fell 20% over the quarter, despite drilling progress at the company's Fyne well in the UK North Sea which led to the well's suspension as a future producer, with first production targeted for 2010. The company also secured the Transocean Prospect rig earlier than planned, meaning drilling operations will start ahead of schedule.

A proposed private placement in Canada (where Antrim is also listed) of up to US\$100m in senior unsecured convertible debentures was swiftly abandoned, the company blaming current debt market conditions for the failure to secure favourable terms. Instead, a C\$50m bought-deal financing was offered to Canadian investors to fund ongoing development of the Fyne field. News after the end of the quarter of a significant oil find at the company's Causeway 211/23d-18 in the UK North Sea should impact the company's share price favourably.

#### **EnCore Oil postpones gas storage demerger; shares retrace 23% over the quarter as excitement wanes**

Shares in EnCore Oil retraced from the highs of the last six months with news of the postponement of its proposed demerger of the Esmond Gordon gas storage project. The company is awaiting the results of evaluation drilling of the well by partner Star Energy to determine its size and scope. The company has since mooted a possible outright disposal of its EnCore Gas Storage subsidiary. Ensuring the true value of the asset will be crucial, given current market volatility.

The company successfully secured a rig for further appraisal of the Breagh gas discovery in the North Sea, and announced the farm-out of 25% interest in, and operatorship of, its UKCS Block 9/27a to UK explorer, Fairfield Acer Ltd.

Cobra Gas in the UK Southern Basin, revealed uncommercial flow rates. EnCore's 23% fall in share price leads the company out of the Oil & Gas Eye for Q3 2008.

#### **Victoria Oil & Gas sees further falls as legal concerns weigh on shares**

Amongst the smaller caps, concerns over a civil claim against Victoria Oil & Gas subsidiary Victoria Energy Central Asia's title to the Kermerkol licence in Kazakhstan caused shares in the company to fall 48% over the quarter. Shares in Victoria Oil & Gas have been in a broad trend of decline since May 2006, and at quarter end were trading 25% below the company's listing price. The company produces around 300-400 bpd from its Kermerkol wells 20 and 73 and is targeting increased production in order to achieve an export licence.

#### **Petrel Resources**

Shares in Iraq-focused explorer Petrel Resources plummeted on publication of the company's final results, which showed widening full-year losses to €0.52m from €0.42m a year earlier, and warned of slow progress in the beleaguered country. One of the few foreign oil companies with personnel in the region, Petrel Resources is committed to remaining in Iraq and is confident that the opportunities, when they do arise, will be worth the wait.





## Securing investment is not a one off exercise – accessing continuous funding is critical, but challenging for many

Investing in oil and gas companies is not a fire and forget exercise. Successful companies need more funds as they progress their assets through development and expand their portfolios; unsuccessful companies need more funds to pursue new ideas. Many junior oil and gas companies, particularly those weighted more towards exploration, are struggling to raise further funds.

Traditional investors may not want to commit further funds if their previous investments have not delivered success. Many institutional investors have large portfolios across the sector, and are being more discerning about which companies get further capital. Other sources of financing are being actively explored, and the growing trend of securing funding through a strategic equity investor, often an industry player, is a recurring theme in Ernst & Young's AIM network.

### ***The clock is ticking for junior explorers***

Cash is the lifeblood of junior oil and gas companies, particularly in the exploration and development phases. Without cash, a company cannot progress from

exploration activities to the development and production phase. The situation is exacerbated by the cash drain of overheads and the time pressures implied by work commitments that, if not met, could result in the loss of a company's licences.

Market pressure to perform is high and this is reflected in the share prices of those companies who are perceived to have failed to deliver with initial funding. In many cases, share prices are well below their listing price. There are now limited funding options for such companies to secure further funding.

Debt has never been a significant option in the exploration phase and, as banks retrench further towards the relative comfort of reserve based lending, this source of capital has largely evaporated. There is a similar challenge in securing equity. Institutional investors are thinking longer and harder about taking further exploration risk, and strategic investors need to see scale for it to merit acquiring or investing in smaller oil and gas companies. Scale is hard to achieve without capital.

### ***Institutional investors - the power behind the throne?***

Institutional investors, asset management funds and the like, are an investor class that has been relatively consistent in, and is still open to, providing the much needed funding to junior oil and gas explorers. They are usually attracted to companies that they perceive to be backed by good assets, strong management teams, and with potential for significant growth.

The list of these investors is long but there are a number who have built up significant exposure to the oil and gas sector. Ten funds/institutions are each invested in ten or more AIM listed oil and gas companies. The broadest exposure amongst these organisations numbers investments in some 31 AIM oil and gas companies.

Institutional investors have taken a portfolio approach to their investments in what is typically a high risk high return sector. Individual funds commonly have shareholdings ranging from 0.5% to 15%, often making them a company's most significant shareholder. Institutions usually do not get involved in the day to day operations of the company, trusting



management to deliver on the strategy they've been backed to execute.

The model appears to work well, and there are many individual investment success stories in the AIM oil and gas universe. Not every investment has, however, been successful. The crunch decision point arises when further capital is required. The influence of the institutional investor at this point should not be underestimated. If an institution does not want to commit further funds, this can precipitate real uncertainty around the company's future. The situation is exacerbated by the perception amongst other potential investors of a major shareholder not committing further funds to a business, and a negative domino effect can ensue.

This can lead companies to consider a range of other options, sometimes even resulting in a sale of the company.

### ***The rise of the strategic investor***

There has been continued transaction activity in the AIM oil and gas universe in the first half of 2008. A number of these transactions highlight the growing role of strategic investors, whose interests may

be as focused on the assets of the target company as they are on its share price. Such investors are likely to take a more active involvement in the company but maintain a commitment to the longer-term funding of an asset or project.

Iberdrola agreed to acquire a 22.64% stake in Petroceltic International plc for a total value of \$55.8m, in a privately negotiated transaction, via capital increase. The transaction was subject to shareholders approval. Concurrently, Iberdrola was granted an option to acquire a 49% stake in upstream assets of Petroceltic, indicating interest in the underlying asset base as well as the equity story. Noticeably, this is also the Spanish firm's first upstream investment and follows a growing trend of gas utility companies looking to secure reserve positions.

Separately, an investor group including Falcon Petroleum Ltd and Noor Capital, acquired a 29% stake in AIM listed Victoria Oil & Gas plc for \$35.5m in a privately negotiated transaction. A 30% shareholding level generally has implications under the City Code of Takeovers and Mergers so it is no coincidence that 29% is a popular shareholding target. Dana Petroleum hold

a similar size position in AIM listed Faroe Petroleum following the acquisition of additional shares in Faroe in March.

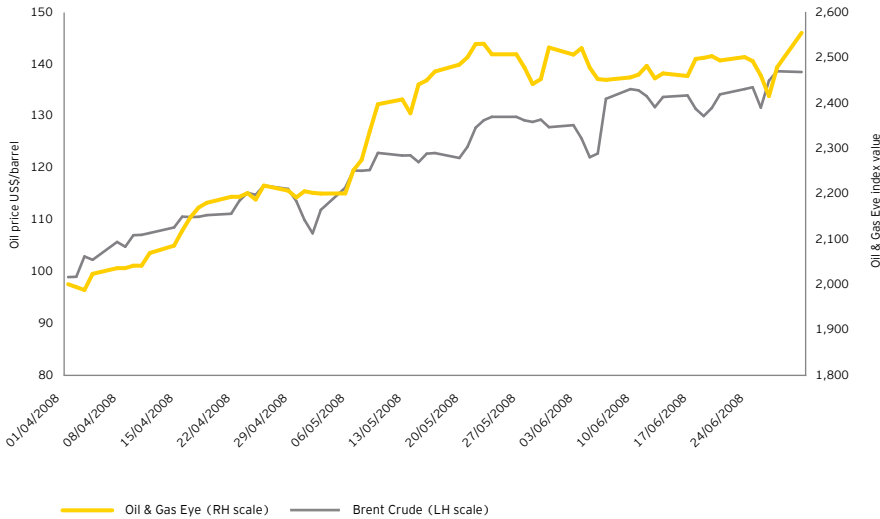
Rather than pursuing a strategic minority position, privately owned Silverstone Energy acquired all of Granby Oil & Gas for £23.1m. Following the divestment of its Indonesian assets, Granby held one of the few UK focused exploration portfolios which opened it up as a cleaner takeover candidate for UK focused Silverstone. The 63.0 pence share price offer, at a 31% premium to the pre-announcement share price, was still below Granby's average share pricing for the first quarter of this year, demonstrating some of the challenges exploration focused juniors have been facing.

The investor landscape in the oil and gas universe is shifting. Companies facing challenges in securing subsequent capital investment to continue their progress need to consider a broad range of funding options. The power of institutional investors to influence this debate should not be under-estimated.

# The only way is up for crude in Q2 2008

## Oil & Gas Eye and oil price over Q2 2008

Source: Ernst & Young, Thomson Datastream



Oil price sentiment in the second quarter was dominated by the weakness of the US dollar, minor supply disruptions, concerns over global economic growth and simmering geopolitical tensions. The average Brent crude price in the quarter was US\$121.30 per barrel, over 25% higher than the average for the first quarter. Over the course of the second quarter the Brent crude price rose by 40% and reached a succession of new highs.

At the beginning of the quarter the Brent crude price was just below US\$100 per barrel. However, disruption to oil exports from Mexico due to bad weather and an attack on an oil pipeline in Nigeria soon lifted oil prices back above the US\$100 per barrel level. The bullish sentiment was underpinned by industrial action by oil workers in Nigeria and employees of a refinery in Scotland. In a tight market, minor supply disruptions can have a heightened impact on crude prices. These factors, combined with the start of the US

summer driving season, helped propel oil prices above US\$120 per barrel for the first time during May.

Speculative interest in oil markets is also helping to sustain oil prices at new highs. Investors are taking refuge in commodities as a hedge against the weak US dollar and inflationary pressures. Additionally, the weak US dollar makes dollar priced crude oil more affordable for foreign investors.

Prices briefly eased back in early June on fears that a global economic slowdown could dampen oil demand. Larger than expected builds in US gasoline stocks and a quiet start to the Atlantic hurricane season also helped moderate prices.

However, it wasn't long before prices rebounded. A war of words between Israel and Iran reignited geopolitical concerns helping to lift oil prices above US\$130 per barrel. Another attack on oil infrastructure in Nigeria and a larger than expected drop in US crude stockpiles were also

supportive. A pledge by Saudi Arabia to increase output by 200,000 barrels per day failed to dampen prices. The unilateral move by Saudi Arabia to increase output attracted criticism from other members of OPEC who maintain that oil markets are well supplied and that speculators are to blame for the record prices.

Brent crude prices reached a new record high of US\$138.69 per barrel on the last day of the quarter. The price has since achieved fresh highs above US\$140 per barrel in early July. Brent crude prices ended the second quarter almost 48% up on the beginning of the year.

# Ins and outs of the AIM oil and gas universe

The universe of oil and gas companies on AIM remained steady in number with the quarter's four exits replaced by three new companies and one re-admission. At the small end of the market, increasing costs and difficult market conditions contributed to the delisting of at least two juniors.

The aggregate market value of the universe increased by a third to £15.8b from £11.9b last quarter, oil and gas companies now accounting for 17% of the AIM market by value. The value of the wider AIM market increased also, by a more modest 3% to £91.2b.

## Entrants

- ▶ **Chariot Oil & Gas**, an exploration company with a portfolio of offshore and onshore exploration licences in Namibia, raised £45m to fund the continued exploration and development of its blocks. Chariot joined AIM with a market value of £183m, and thus directly enters the Oil & Gas Eye for Q3 2008. The company is working with independent deep water technology specialist, HRT Petroleum, with the ambition of building a basin model for Namibia. The company is keen to explore farm-out options with major oil companies in order to secure further funding and mitigate risk.
- ▶ **Indus Gas** is AIM's largest new company this quarter by market value at admission, at £300m, and joins the Oil & Gas Eye for Q3 2008. The company is an oil and natural gas explorer and developer with a 90% participating interest in Block RJ-ON/6 in India. First gas production is expected in 2009. The company raised £25m to fund its activities, including further appraisal of the discoveries and the installation of gas processing facilities.
- ▶ **Petro Matad** joined AIM by way of Introduction, raising no capital. The company is focused on exploration, and future production, of oil in Mongolia, and is the sole contractor with the Mongolian government

on a Production Sharing Contract over Matad Block XX in eastern Mongolia. The company is majority Mongolian-owned, a key shareholder being Mongolian petroleum retailer Petrovis.

- ▶ **Gasol**, the Africa-focused gas company, was re-admitted to AIM in June following its acquisition of African LNG Holdings. The acquisition will strengthen Gasol's relationship with fellow AIM explorer, Afren plc, with whom African LNG has an exclusive right of first refusal contract to purchase Afren's natural gas.

## Exits

- ▶ **Global Marine Energy**, a UK oil services and equipment company, delisted from AIM in June, after a seven-year listing, following its acquisition by TSC Offshore Group (formerly EMER International), a Hong-Kong listed global provider of services to the offshore and onshore drilling industries. The acquisition provides TSC with access to new markets – namely, Singapore, Brazil and four locations in the UK. Takeover speculation has surrounded Global Marine Energy since September 2007, following a strategic review and proposed reverse takeover of the company by IDM Group Ltd, a drilling equipment specialist.
- ▶ North Sea explorer, **Granby Oil & Gas**, delisted from AIM in May, following its £23m acquisition by Silverstone Energy, an Aberdeen-based private North Sea explorer. Granby's key asset is its 54% operating interest in the Tristan North West field in the North Sea. Operations at the field, due to come on-stream in April, had been delayed by bad weather and equipment problems. In support of the takeover, the company cited the need to acquire scale and capital resources in order to survive the increasingly difficult and competitive market conditions facing junior explorers.

- ▶ **Prometheus Energy**, a US company producing LNG from stranded and waste sources of methane, decided that a delisting from AIM was in the company's best interests, citing limited trading volumes, significant listing costs and regulatory burdens, and the apparent impediment caused by the AIM-listing to potential fund-raising opportunities with third parties. Shares lost 32% of their value at the news.
- ▶ Shares in Gasol were cancelled and re-admitted, following the acquisition of African LNG Holdings, a reverse takeover under AIM rules.

# Oil & gas fundraising remains relatively strong, as activity picks up across the market

Total funds raised from oil and gas new and secondary issues were up 27% on last quarter, to £322m from £253m. Of the total, £70m was raised by new issues (Q1: £64m), and £252m was raised through secondary issues (Q1: £189m). Funds raised by the sector accounted for 16% of all funds raised across the market, down from last quarter's record of 22%.

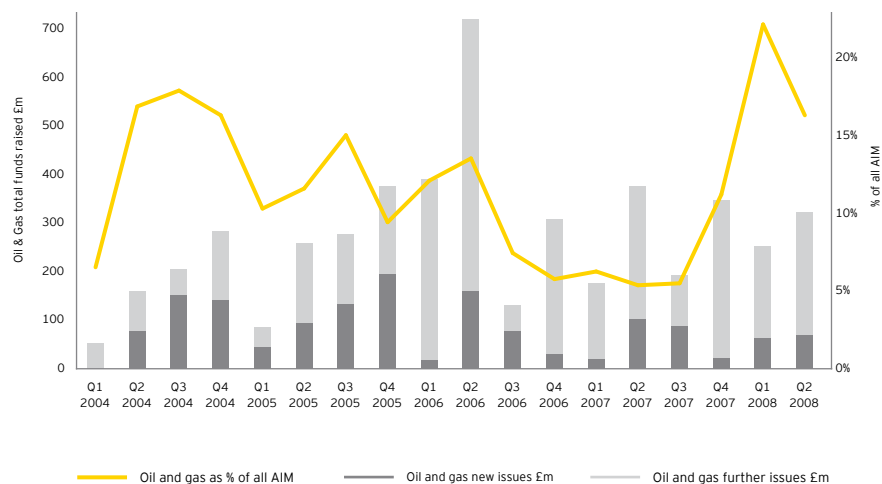
Perhaps contrary to expectations, total funds raised across the AIM market were also up on last quarter, by 76% to £2b, with the number of new companies joining the market (IPOs) up to 20 from 11 last quarter. Over two-thirds of capital raised in the quarter came from secondary issues. Nevertheless, the numbers remain historically low; in the same period last year, companies raised a total of £7b, with 52 new companies (IPOs) accounting for £2.4b (35%) of that total.

The largest secondary fundraisings in the oil and gas sector were undertaken by Afren, Bowleven and Green Dragon Gas.

Afren raised £119m via an oversubscribed equity placing, to fund the development of its Ebok Field, offshore Nigeria, and to further build its reserves and production base in West Africa. Bowleven raised £39m to finance exploration and appraisal of its West African projects, particularly the Etinde permit, offshore Cameroon, pending results of ongoing drilling at the IF-1r well. Green Dragon Gas raised £19m to part-finance its earlier acquisition of a 49% stake in Kesi Hengrun (Beijing) Technology Ltd, which has interests in a pipeline network within the Beijing Development area, and the launch of the company's own in-house drilling and technical services company, Greka Technical Services.

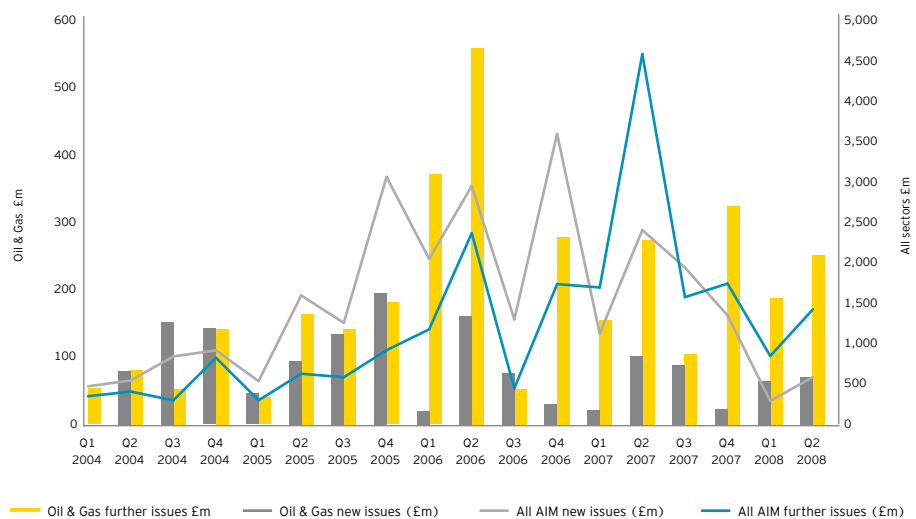
## Oil and gas funds raised as proportion of total funds raised on AIM

Source: Ernst & Young analysis of AIM market statistics



### Quarterly trend of funds raised on AIM - oil and gas, and all sectors

Source: Ernst & Young analysis of AIM market statistics



# Opinions and insights

Some of Ernst & Young's other recent oil & gas publications are profiled below. Copies can be accessed at [www.ey.com/uk/oilandgas](http://www.ey.com/uk/oilandgas) or contact [vlea@uk.ey.com](mailto:vlea@uk.ey.com) for further information.

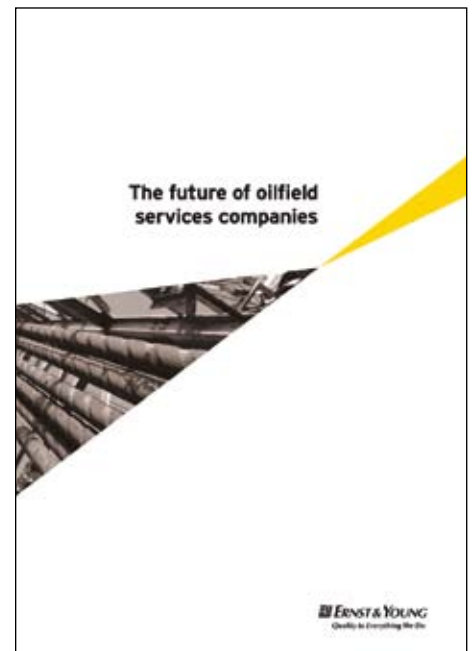


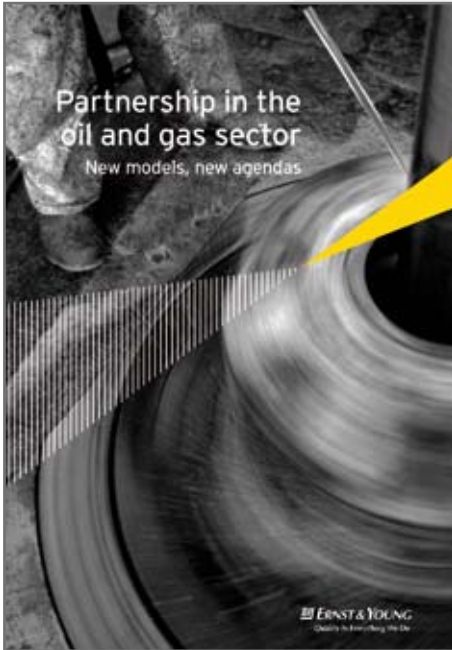
## What is next for international oil companies?

Increasing resource nationalism among NOCs is reducing the opportunities available to the IOCs. The IOCs are spending more to produce less and reserves replacement rates are languishing. IOCs are focusing resources on a smaller number of large, technically challenging projects. Many governments are currently re-examining their fiscal terms as oil prices remain high while access and terms become more challenging. The power has shifted to the resource holding NOCs. The question now remains; what does the future hold in store for IOCs?

## The future of oilfield services companies

The oilfield service sector has gone through significant changes in the last ten years. The sector, noted for its cyclicity, is enjoying sustained interest and a strong project pipeline. A prolonged period of high commodity prices has led to unprecedented levels of global activity across the oil and gas industry. Resource constraints and a period of tight supply have resulted in significant opportunities including a strengthening of order books, improved pricing, revenue growth and geographic expansion. The opportunities and challenges for oilfield service companies have never been greater.





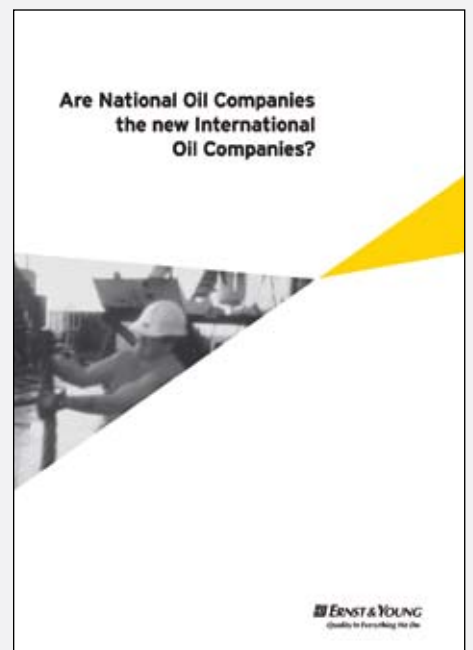
### Partnership in the oil and gas sector

This paper reviews the history and evolution of partnerships between national oil companies and international oil companies, considers the myriad of risks associated with partnerships and summarises the key success factors that could be considered at different points of the partnership life cycle.

### Are National Oil Companies the new International Oil companies?

Seven countries control 73% of the world's total proven oil reserves (Venezuela, Russia, Iran, Iraq, Kuwait, Saudi Arabia and United Arab Emirates). Ownership of gas reserves is even more concentrated with just three countries (Russia, Iran and Qatar) controlling 56% of the world's proven gas reserves. National oil companies (NOCs) were initially created to help extract value from host country's hydrocarbon resource base and secure future supply. With the intention of securing the necessary technical skills and gain access to capital, numerous NOCs partnered with the IOCs. However, their unique resource position, recent political developments and the increase in commodity prices has resulted in a shift of power from IOCs to NOCs. A number of NOCs have expanded beyond their home market seeking investment opportunities and identifying new markets for their products.

NOCs are also engaging in a greater number of cross border transactions, acquisitions, reorganisations, asset procurement and property transactions.



# Funds raised on AIM to Q2 2008

Source: Ernst & Young, AIM market statistics

New issues include placings, introductions, transfers and re-admissions (money-raising and non-money-raising)

	Oil & Gas		All AIM		Oil & Gas as % of all AIM	
	No. of Cos/ Issues	Funds Raised (£m)	No. of Cos/ Issues	Funds Raised (£m)	No. of Cos/ Issues	Funds Raised
<b>New Issues</b>						
Q2 2008	4	70.0	37	585.3	10.8%	12.0%
Q1 2008	5	64.0	32	290.8	15.6%	22.0%
Q4 2007	6	22.3	67	1,351.0	9.0%	1.7%
Q3 2007	5	88.7	79	1,944.7	6.3%	4.6%
Q2 2007	3	101.4	84	2,408.5	3.6%	4.2%
Q1 2007	3	21.5	54	1,124.4	5.6%	1.9%
2006	28	287.5	462	9,908.6	6.1%	2.9%
2005	38	470.6	519	6,460.8	7.3%	7.3%
2004	20	374.0	356	2,776.0	5.6%	13.5%
2003	5	27.8	163	1,095.4	3.1%	2.5%
2002	6	29.1	161	490.1	3.7%	5.9%
2001	3	1.0	177	593.1	1.7%	0.2%

	Oil & Gas		All AIM		Oil & Gas as % of all AIM	
	No. of Cos/ Issues	Funds Raised (£m)	No. of Cos/ Issues	Funds Raised (£m)	No. of Cos/ Issues	Funds Raised
<b>Further Issues</b>						
Q2 2008	81	251.7	1,031	1,424.4	7.9%	17.7%
Q1 2008	46	188.5	595	848.4	7.7%	22.2%
Q4 2007	88	324.7	1,004	1,745.2	8.8%	18.6%
Q3 2007	60	104.7	1,011	1,578.0	5.9%	6.6%
Q2 2007	70	274.1	999	4,589.5	7.0%	6.0%
Q1 2007	69	155.0	890	1,697.5	7.8%	9.1%
2006	261	1,262.3	3,389	5,734.3	7.7%	22.0%
2005	186	527.0	2,506	2,481.2	7.4%	21.2%
2004	144	328.9	2,024	1,880.3	7.1%	17.5%
2003	80	193.4	1,473	999.7	5.4%	19.3%
2002	67	22.7	1,126	485.8	6.0%	4.7%
2001	39	8.3	1,026	535.3	3.8%	1.6%

	Oil & Gas		All AIM		Oil & Gas as % of all AIM	
	No. of Cos/ Issues	Funds Raised (£m)	No. of Cos/ Issues	Funds Raised (£m)	No. of Cos/ Issues	Funds Raised
<b>Total Issues</b>						
Q2 2008	85	321.7	1,068	2,009.7	8.0%	16.0%
Q1 2008	51	252.5	627	1,139.2	8.1%	22.2%
Q4 2007	94	347.1	1,071	3,096.1	8.8%	11.2%
Q3 2007	65	193.4	1,090	3,522.7	6.0%	5.5%
Q2 2007	73	375.5	1,083	6,983.0	6.7%	5.4%
Q1 2007	72	176.5	944	2,821.9	7.6%	6.3%
2006	289	1,549.8	3,851	15,642.9	7.5%	9.9%
2005	224	997.6	3,025	8,942.4	7.4%	11.2%
2004	164	702.9	2,380	4,656.2	6.9%	15.1%
2003	85	221.2	1,636	2,095.2	5.2%	10.6%
2002	73	51.8	1,287	975.8	5.7%	5.3%
2001	42	9.3	1,203	1,128.4	3.5%	0.8%

# Index constituents at start of each quarter

Source: Ernst & Young, Thomson Datastream

Q1 2008	MV (£m)	Q2 2008	MV (£m)	Q3 2008	MV (£m)
Afren Plc	287	Afren Plc	337	Afren Plc	627
Antrim Energy Inc	289	Antrim Energy Inc	244	Antrim Energy Inc	195
Bankers Petroleum Ltd	188	Bankers Petroleum Ltd	409	Bankers Petroleum Ltd	478
BowLeven Plc	240	BowLeven Plc	259	BowLeven Plc	311
Coastal Energy Company	188	Coastal Energy Company	166	Chariot Oil & Gas Ltd	210
EnCore Oil Plc	158	Desire Petroleum Plc	169	Coastal Energy Company	196
Energy XXI (Bermuda) Ltd	202	EnCore Oil Plc	159	Desire Petroleum Plc	209
Faroe Petroleum Plc	173	Energy XXI (Bermuda) Ltd	165	First Calgary Petroleums Inc	293
First Calgary Petroleums Inc	356	Faroe Petroleum Plc	167	Green Dragon Gas Ltd	451
Green Dragon Gas Ltd	318	First Calgary Petroleums Inc	346	Gulfsands Petroleum Plc	256
Gulfsands Petroleum Plc	181	Green Dragon Gas Ltd	352	Indus Gas Ltd	388
Hardy Oil & Gas Plc	285	Gulfsands Petroleum Plc	179	Maple Energy plc	253
Max Petroleum Plc	199	Max Petroleum Plc	189	Providence Resources Plc	203
Regal Petroleum Plc	216	Regal Petroleum Plc	246	Regal Petroleum Plc	524
ROC Oil Company Ltd	395	ROC Oil Company Ltd	312	ROC Oil Company Ltd	253
Sibir Energy Plc	2,223	Sibir Energy Plc	2,122	Sibir Energy Plc	3,147
Star Energy Group Plc	358	Solana Resources Ltd	202	Solana Resources Ltd	348
Sterling Energy Plc	235	Urals Energy Public Company Ltd	304	Urals Energy Public Company Ltd	303
Urals Energy Public Company Ltd	354	Valiant Petroleum Plc	203	Valiant Petroleum Plc	278
Volga Gas Plc	190	Volga Gas Plc	284	Volga Gas Plc	285

Exits	Exits	Exits
Egdon Resources Plc	Hardy Oil & Gas Plc	EnCore Oil Plc
Falkland Oil & Gas Plc	Star Energy Group Plc	Energy XXI (Bermuda) Ltd
Providence Resources Plc	Sterling Energy Plc	Faroe Petroleum Plc
Serica Energy Plc		Max Petroleum Plc
White Nile Plc		

Entrants	Entrants	Entrants
Bankers Petroleum Ltd	Desire Petroleum	Chariot Oil & Gas Ltd
Coastal Energy Company	Solana Resources Ltd	Indus Gas Ltd
EnCore Oil Plc	Valiant Petroleum Plc	Maple Energy plc
Faroe Petroleum Plc		Providence Resources Plc
Gulfsands Petroleum Plc		

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