Q3 2008: the Oil & Gas Eye plummets. Healthy fundraising levels mask serious underlying cash flow challenges

► Over a turbulent Q3 2008, the Oil & Gas Eye suffered a 44% fall, the most severe quarterly fall since the index’s inception in 2004. A crisis of confidence in the strength of the global economy, and in turn in the potential weakening of demand for resources, caused commodity prices to plummet and triggered indiscriminate selling across the junior oil and gas sector.

► The influence of institutional investors played out with greater visibility this quarter, with a number of institutions reportedly liquidating their positions in some of AIM’s oil and gas stocks. An apparent retreat of certain institutions from the sector represents the potential loss of a key source of funding for AIM’s early-stage explorers.

► Amidst the market turmoil, AIM’s oil and gas companies raised a healthy £286m in primary and secondary issues over Q3 2008, accounting for 35% of funds raised across AIM, demonstrating that finance is still available for the right projects. Nevertheless, the most significant impact of the credit crunch is likely to be on the availability of institutional funding for exploration projects. Junior exploration companies, historically reliant on capital markets to fund their capital-intensive, high-cost growth, need to be open to other potential sources of capital or value realisation.

► The current market conditions raise the prospect of long-anticipated consolidation amongst AIM’s oil and gas companies. A number of proposed transactions have already been announced this quarter. Majors, mid-tier producers and larger AIM companies with healthy balance sheets and cash flow will remain on the hunt for quality assets, now at a more modest price.

► Downturns bring opportunities for those able to respond to the new market reality. AIM’s oil and gas companies must adopt innovative strategies for cash preservation, finance raising and financial risk management. The challenge will be to demonstrate value and stimulate liquidity in market conditions where share prices have become increasingly detached from operational progress and future prospects.
Q3 2008: turbulent times ahead for AIM’s junior oil and gas companies

In the most turbulent quarter since we began producing the Oil & Gas Eye, our index of the top 20 oil and gas companies on AIM by market values fell by a staggering 44%. In just three months, all of the gains made since mid-2004 had been wiped out in a steep downward trend that has continued well beyond quarter-end. By mid-October, the index reached an all time low, falling below its January 2004 base point of 1,000 to 920.68 points, before re-bounding slightly in tandem with the oil price.

This was a performance reflected across the sector and across global markets. AIM’s Oil & Gas supersector index fell 45% over the quarter, the second worst performing of AIM’s sector indices to Basic Resources, which lost 54%. The FTSE Oil & Gas Producers index of Main Market companies fell 22%, while in Toronto, the S&P/TSX Composite Oil & Gas Exploration & Production index lost 30%.

Just last quarter, it was the strength of confidence in commodity prices that steered resources stocks to an outperformance of their AIM peers in other sectors. This quarter, we have witnessed a stark turnaround in the fortunes of AIM’s resources companies. As the deepening financial crisis permeated far beyond the banking sector, so a crisis of confidence in the strength of the global economy, and in turn in the strength of demand for resources, caused commodity prices to plummet. The seemingly indiscriminate selling resulting from this crisis of confidence meant that junior oil and gas companies, regardless of size and development stage, saw their share prices tumble. Just four companies in the AIM universe of explorers and producers achieved a net gain in their share price over the quarter, while the average loss was 42%. The combined value of oil and gas companies on AIM decreased by 38% on last quarter, to £9.8b, while the threshold to join the Oil & Gas Eye index at the end of September was just £114m, compared to £195m last quarter. The value of AIM’s largest company, Sibir Energy, has more than halved, to £1.5b, in the space of just three months.
Institutional selling exaggerates the situation

The decimation of share prices amongst AIM’s explorers and producers is not exclusively a consequence of the underlying fundamentals of supply and demand for oil and gas. In our Q2 2008 edition of the Oil & Gas Eye, we discussed the influence of institutional investors over AIM’s oil and gas companies. This is an influence that has played out with greater visibility this quarter. Hedge funds and specialist resources funds, faced with investor redemptions in response to the falling oil price and an increasing aversion to risk, reportedly liquidated their positions in many resources stocks. This had devastating consequences for companies’ share prices, particularly in market conditions where trading volumes are relatively low and institutional buyers scarce.

The impact on the sector is likely to go far beyond the immediate effect on share prices. Such funds, with a focus on longer-term gains, have historically been important sources of investment for AIM’s junior resources stocks. Perhaps the most high profile of these funds this quarter was that of AIM-listed RAB Special Situations Company, which has provided invaluable funding for many resources stocks, both AIM-listed and pre-IPO. The net asset value of the company’s RAB Special Situations (Master) Fund had fallen by around 50% since the start of the year and, with redemptions pending, the company in August asked (successfully) that its investors agree to a three-year lock-in period to continue to support the investment strategy, in return for reduced fees. The apparent retreat of certain institutional funds from the sector represents the potential loss of a key, competitive source of funding for early-stage projects.

A new market reality – but funding is still available for the best projects

Over the last 18 months, we have witnessed a steady reduction in investor appetite for high risk exploration companies on AIM, compared to the ‘boom’ times of 2005 when resources stocks were the talk and strength of the market. The value of capital raised by AIM’s oil and gas companies has remained fairly consistent on a quarterly basis since Q2 2006, and accounted for just 7% of fundraising across AIM over 2007. Despite a very healthy £286m of fund-raising by AIM oil and gas companies in Q3 2008, the new market reality facing AIM resources companies is something more severe. The global credit crunch, fears of global recession and the resulting falls in commodity prices have colluded to create an unprecedented flight from perceived risk, as investors dash for cash and safer havens.

Perhaps the most tangible consequence of the credit crisis for AIM’s oil and gas companies will be its impact on the availability of institutional finance for exploration projects. The impact is already being felt by AIM’s miners, with fundraising at near-record lows and a profusion of warnings from companies regarding critical cash levels. However, oil and gas companies appear to be faring better than their mining cousins, with fundraising in Q3 2008 at comparable levels with previous quarters over the last 18 months. Perhaps investors are placing greater confidence in the oil price, than in the rapidly falling exchange-traded metals prices that influence investment decisions for mining companies.

Nevertheless, it is a prospect that AIM’s oil and gas companies must also prepare for. The doors to equity and capital are fast closing, and the importance of cash in such times should not be underestimated. Junior exploration companies, historically reliant on capital markets to fund their capital-intensive, high-cost growth, face the very real prospect that they will not be able to secure the funding needed to finance their growth plans. Management teams need to be open to other potential sources of capital or value realisation.
Deals and disasters
The prospect of tightening capital markets will impact companies’ growth plans and could stymie exploration activity across the junior oil and gas sector. The longer-term implications for the industry should not be overlooked, given the important role that juniors play in the quest for new resources, sometimes in markets that the majors have traditionally been reluctant to enter. But of more immediate urgency is the possibility that pure exploration companies will not have enough working capital simply to continue operating. As we discuss later on, a number of companies are already beginning to warn of a “material uncertainty” as to their ability to continue as a going concern. Current performance and future prospects are dominated by concern that funding may not be forthcoming, particularly for those companies already embroiled in lengthy negotiations with potential financiers, partners or acquirers.

The deep-pocketed investor seeking high-risk, high-reward returns is becoming a figure of the past. There is now little margin for setbacks in project development and slim possibility of financial bail-out or short-term financial fixes for those with early stage, unproven exploration assets. The impact of project delays, particularly in the form of unexpected costs or shortfalls in expected revenue, thus becomes critical, while the ability to raise and conserve cash becomes a matter of survival.

However, just as a downturn brings disaster for some, so it brings opportunities for others. The long-anticipated consolidation amongst AIM’s oil and gas companies, predicted in the Oil & Gas Eye over a year ago, has yet to reach its full scale. But with share prices and market values on a downward trajectory, and cash-strapped explorers finding it difficult to raise capital or procure debt to finance their development plans, that prospect must surely be raised.

Majors, mid-tier producers and larger AIM companies with healthy balance sheets and cash flow will remain on the hunt for quality assets, now at a more modest price. Financially-constrained companies with advanced, large-scale assets will become attractive targets, while juniors in a robust enough financial position to execute a deal will seek to acquire scale through consolidation. According to company regulatory announcements, at least nine proposed transactions have already been announced this quarter, with market rumours of interest from majors supporting that trend. Nevertheless, deal financing and execution remains a challenge in the current climate; one of the proposed transactions has since been withdrawn due to unfavourable market conditions.

Selected proposed transactions, as announced in regulatory statements to the stock exchange:

<table>
<thead>
<tr>
<th>Date of announcement</th>
<th>AIM target company</th>
<th>Acquiror</th>
<th>Transaction type</th>
<th>Approx. proposed value</th>
<th>Proposed shareholding after transaction</th>
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<tbody>
<tr>
<td>02-Oct-08</td>
<td>CDS Oil &amp; Gas plc</td>
<td>PetroSaudi Ltd Inc</td>
<td>Stake purchases</td>
<td>£32.8m</td>
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<td>Aurelian Oil &amp; Gas Ltd</td>
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<td>Takeover</td>
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<td>Libya Oil Holdings Ltd</td>
<td>Stake purchase</td>
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<td>Reverse takeover</td>
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<td>29-Jul-08</td>
<td>Solana Resources Ltd</td>
<td>Gran Tierra Energy Inc</td>
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<td></td>
<td>100%</td>
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<tr>
<td>02-Jul-08</td>
<td>Forum Energy plc</td>
<td>Philex Petroleum Corporation</td>
<td>Mandatory takeover following stake purchases</td>
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<td>16-Jun-08</td>
<td>Anzon Energy Ltd</td>
<td>ROC Oil Company Ltd</td>
<td>Merger</td>
<td>£147m</td>
<td>100%</td>
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</table>
Downturns present opportunities for those able to respond

The challenge for AIM’s oil and gas companies will be to prepare for, and respond urgently to, the new realities. Downturns also present opportunities for those able to differentiate themselves, and, as we have seen this quarter, the doors to capital remain open for selected projects. Companies must adopt innovative strategies for cash preservation, finance raising and financial risk management.

The challenge will be to demonstrate value and stimulate liquidity in a market where share prices have become increasingly detached from operational progress and future prospects and where the investor-base is losing interest. Keeping the market informed of progress may not drive immediate share-price returns but will alert potential long-term investors that the company is progressing and has a strategy to steer it through these difficult times. Demonstrating technical excellence and efficiency will be a key differentiator in attracting the attention of potential investors and/or acquirers. Companies will need to consider innovative options to secure the financial investment needed to meet long-term capital needs. Farm-outs, joint ventures and strategic stake holdings are becoming increasingly familiar methods of sharing costs (and, of course, rewards), while the sale of non-core assets and hedging of current or future production present opportunities to raise cash. Companies must also prepare for the possibility of unsolicited and potentially opportunistic takeover bids with a realistic understanding of value expectations.
Winners in Q3 2008 prove that progress on the ground is what really counts

Just four of AIM’s exploration and production companies made net share-price gains this quarter, and half of these were the result of takeover offers. Nevertheless, many companies continued to demonstrate operational progress on the ground. These ‘winners’ have not necessarily seen this reflected in share prices in a quarter of record falls.

Eni to acquire First Calgary Petroleums
Shares in Canada’s First Calgary Petroleums closed the quarter up 56%, as first rumours, then confirmation, of an offer for the company dramatically reversed the broad downward trend seen over preceding months. The company’s news flow in the first half of 2008 was dominated by a boardroom coup, leading to the eventual appointment of Shane O’Leary as the new President and CEO of the company. But on 8 September, the company confirmed that it had reached an agreement for the sale of its issued share capital to Eni S.p.A for CA$923m, representing a premium of 52.5% to the undisturbed share price. The offer was unanimously recommended by the board. First Calgary is working towards the commercialisation of its gas assets in Algeria, and holds a production sharing contract with state-owned energy group Sonatrach over Ledjmet Block 405b, including the Menzel Ledjmet East (MLE) field and Central Area Field Complex (CAFC). Ongoing discussions with banks regarding financing of the MLE and CAFC development plans have overshadowed First Calgary’s progress. For Eni’s part, the deal will bring the addition of a “high potential” asset and access to “skilled and experienced management” to complement the company’s existing portfolio of exploration and production assets in the country.

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Forum Energy under mandatory offer from the Philippines’ Philex Petroleum
Shares in Forum Energy gained 80% in the day following the announcement of a proposed mandatory offer for Forum by Philex Petroleum, a 51%-held subsidiary of Philippines gold and copper mining group Philex Mining Corp. Forum holds a portfolio of oil, gas and coal exploration and production assets in the Philippines, including a 100% interest in the GSEC101 (Reed Bank) offshore licence and a 2.27% interest in the Galoc Field, which achieved first oil production on 9 October 2008. Philex Petroleum’s 48p per share offer values Forum’s issued capital at £13.8m. The offer followed the purchase of 13.94% of Forum’s outstanding shares on 1 July, triggering Rule 9 of the City Code on Takeovers and Mergers requiring a mandatory cash offer to be made. Forum is awaiting the formal signing of service contract for the GSEC101 licence with the Philippines Department of Energy. Shares in the company closed the quarter up 51%.

Energy XXI reaps the reward of growth-by-acquisition with record earnings and increased production
Despite a 45% fall in shares over Q3 2008, Energy XXI rejoins the Oil & Gas Eye index for Q4 2008, following a short-lived exit last quarter. In September, the company reported record full-year earnings, a maiden dividend of US$0.005 per share, and a 62% rise in full-year production volumes to 26,200 barrels of oil equivalent per day (boepd). Following a series of acquisitions in recent years, including Marlin Energy, the Louisiana Gulf Coast producing properties of Castex and the Gulf of Mexico shelf properties of the Pogo Producing Company, Energy XXI reported proved reserves of 51.5m boe at the end of June 2008. The company is now focusing on organic reserve growth in addition to further acquisitions.

Faroe Petroleum builds momentum
Aberdeen-based Faroe Petroleum also rejoins the index at the end of Q3 2008, following a highly active quarter. First production commenced from the Wissey gas field in the UK Southern Gas Basin, in which Faroe holds an 18.75% working interest and net attributable reserves estimated at 5.9bcf of gas, with the potential for further upside. The company also reported commercial flow rates at the UK Topaz Gas Field, in which it holds a 7.5% stake. Despite persistent momentum-building with news of drilling results across a number of projects in the company’s 49-strong portfolio of licences, the company closed the quarter down 35%.
Post-quarter-end, however, news that a well drilled on the Marsvin prospect in Norwegian waters had failed to show moveable hydrocarbons, wiped £21m off the company’s market value, revealing something of the market’s intolerance for negative news flow in the current climate.

**Geopark Holdings makes its debut in the Oil & Gas Eye**

Geopark Holdings, a Latin America-focused explorer and producer, makes its debut in the Oil & Gas Eye index for Q4 2008. The company’s assets include the Del Mosquito exploration block, which contains two producing fields, and the Cerro Doña Juana and Loma Cortaderal exploration concessions, all in Argentina. In Chile, the company is operator over the Fell block, which holds a combination of rehabilitation, development and exploration opportunities, and gas and condensate production from the Molino, Ovejero and Nika fields. In July, the company announced a new oil discovery on the Fell block, following successful drilling of the Aoniken1 exploration well, and the award of a new petroleum block, Otway, in Chile, to a consortium comprising Geopark (42%), Methanex Corporation of Canada (16%) and Wintershall Energia (42%). The award substantially increases Geopark’s acreage in the region. Interim results for the six months ended 30 June 2008 revealed a 241% increase in revenues largely due to a 109% increase in production to 2,553boepd, compared to the same period a year ago, and sales of gas at a price 78% higher than over the same period last year.

**Gulfsands Petroleum achieves first production from Khurbet East**

Gulfsands Petroleum retains its place in the Oil & Gas Eye index going into the last quarter of the year, despite a 31% fall in shares over Q3 2008. The company’s activities in the quarter were dominated by the announcement of first production from the Khurbet East field in Syria, following the fast-tracked completion of construction of its 10,000 barrels per day (bpd) Early Production Facility less than just five months after approval was granted for the development of the field. By the end of the quarter, the production facility was producing at a stabilised rate in excess of 11,500bopd, contributing much welcomed cash flow for the company.
Index stalwart Urals Energy leads the Oil & Gas Eye exits at the end of the quarter

A 78% fall in the company’s share price over Q3 2008 leads Urals Energy out of the Oil & Gas Eye for the first time since it joined the index in Q4 2005, despite two positive drilling updates in the quarter. Overshadowing the company’s operational progress were rumours regarding the company’s ongoing negotiations for the rearrangement and extension of its existing loan facilities with Sberbank. Urals has US$630m worth of bank debt and needs to receive both a conditional, incremental US$140m loan from Sberbank and the extension of other loans maturing in November 2008 if it is to continue as a going concern. The company is also planning to sell non-core assets to meet cash flow requirements. In the three months to 30 September 2008, the company’s market value has plummeted to £66m from £303m.

Despite operational progress during the quarter, Antrim Energy, Providence Resources and Volga Gas are also to exit the Oil & Gas Eye index going into Q4 2008, with shares down 65%, 51% and 66% respectively. Volga Gas’s share price was hit particularly hard by news of a lawsuit brought in the Russian courts, disputing the validity of Volga’s acquisition of Gazneteservis.

Timan Oil & Gas finally secures funding, but at what cost

The activities of AIM mid-cap explorer, Timan Oil & Gas, have been overshadowed by financing concerns since shares were suspended in March 2008, following the company’s warning that it had insufficient working capital. The company confirmed in August that it had been unable to secure bond financing on the international capital markets and needed a loan or equity financing to continue trading. An eleventh hour rescue came in the form of a five year loan agreement with Kamanisk Holdings Ltd for US$100m, in two tranches of US$50m, secured against an initial 51% of the company’s shareholdings in various subsidiaries. The company must meet “aggressive” reserves and production targets at its NGPT and KNG licences over the next 18 months in order to draw down the second tranche.

Small-caps face “going concern” issues as they struggle to secure finance

Roxi Petroleum, an exploration company with assets in Kazakhstan, holds the dubious honour of being the quarter’s biggest faller, with shares falling 86% over the three months to September 2008, and nearly 100% since the company’s AIM listing in May 2007. The company has been seeking additional funding to support its development programme since the start of the year, following greater than anticipated costs relating to its acquisition of Eragon Petroleum, but ruled out equity fundraising via AIM due to the poor performance of its share price. In August 2008, the company announced a heads of agreement for a farm-out to Canamens Energy Central Asia Ltd to develop the Ravninnoe Contract Area, whereby Canamens will fund drilling of the first well up to a total amount of US$8.5m, in return for the sale of up to 20% of Roxi’s holding in the project. Roxi also announced a short-term oil purchase agreement for the sale of future production from the Galaz Contract Area, equivalent to US$3m. The company,
and the market, awaits with urgency the conclusion of discussions over longer-term financing.

For **Matra Petroleum**, a small-cap explorer active in Hungary and Russia, the third quarter was overshadowed by news of court proceedings in Russia, instigated by Gaz i Neft, a previous shareholder in “OOO” Arkhangelovskoe which was acquired by Matra in April 2007. Gaz i Neft claimed that the acquisition was not fully compliant with Russian Federation laws and should thus be nullified. The claim was subsequently dismissed. Drilling at the Inke concession in Hungary, in which Matra has a 40% share, has proven disappointing to date, so the company is keen to point to the value of its Sokolovskoe discovery in Russia. Matra needs to raise further finance if it is to continue developing the Sokolovskoe field, which has been valued at US$172m on a “most likely” case by independent consultants. Matra’s market value at the end of Q3 2008 stood at just £7.5m. The company’s auditors pointed out that the group’s cash flow forecasts indicate additional funding will be required before November 2008, and pointed to the existence of “material uncertainty which may cast significant doubt about the company’s ability to continue as a going concern”.

Small-cap oil and gas explorer, **TXO**, eventually managed to refinance its debt in order to repay its existing Dresdner bond, but not before attempts to secure finance through a share placing were rejected by shareholders. During the year, the company’s share price had fallen below the nominal value of the shares. Its market value stood at £1.5m at the end of September. **Nostra Terra Oil & Gas**, which had a market value of just £1m at the end of the quarter, confirmed in its interim report at the end of September that it needs to raise further working capital to fund planned exploration activity and ongoing operating costs, following the unanticipated cessation of activity at its Oktyabrskoe #24 well in the Ukraine.
Global economic concerns send oil prices tumbling

Oil price sentiment in the third quarter was dominated by concerns over weakening global economic growth and the impact on oil demand. The average Brent crude price in the quarter was US$115.04 per barrel, some 5% lower than the average for the second quarter but still almost 54% higher than the figure for third quarter of 2007. The quarter was characterised by a high degree of price volatility. The Brent crude price reached a new record high during the third quarter but also dropped to an eleven month low. At the beginning of the quarter the Brent crude price was just above US$140 per barrel. Continued geopolitical tensions, particularly regarding Iran’s nuclear programme, and falls in US crude oil stockpiles helped drive the Brent crude price to a record high of US$144.07 per barrel in early July.

However, from mid July onwards oil prices were set on a downward trajectory. Increased supplies from Saudi Arabia in July, following its earlier pledge to raise output, helped ease tightness in the market. The bearish sentiment was underpinned by signs of a fall off in US oil demand on the back of higher crude prices and a slowing US economy. Unexpected increases in US crude stockpiles and a strengthening of the US dollar also contributed to the price weakness. At its meeting in September, OPEC opined that oil markets were oversupplied and as a result, members agreed to strictly comply with September 2007 production allocations. Subsequently, at an extraordinary meeting held in late October, the organisation agreed to reduce output by 1.5 million barrels a day with effect from 1st November 2008. The decision to cut production was made in response to concerns about the financial crisis, the state of the global economy and the impact on oil markets.

By the end of the third quarter, all the gains in crude prices over the first seven months of the year had been eroded. On the last day of the quarter the Brent crude price was US$93.69 per barrel, some 33% lower than the start of the quarter but less than 1% down on the start of the year. Early in the fourth quarter, oil prices continued to slide lower, edging below US$70 per barrel for the first time since August 2007.
Ins and outs of the AIM oil and gas universe

Perhaps contrary to expectations, and certainly contrary to a wider trend across AIM, four companies joined AIM’s oil and gas sector in Q3 2008. By number, these new issues accounted for 17% of new issues across the market. Just one company left the market, with the fallout from the financial crisis yet to make victims of vulnerable companies in the form of privatisations and insolvencies.

Nevertheless, financial challenges and transactional activity are likely to cause a contraction in the size of the AIM oil and gas universe over the coming months, with a number of proposed deals already in the pipeline and the threat of liquidation looming heavily for some.

The value of AIM’s oil and gas companies fell by 38% over the quarter, to £9.8b from £15.8b. This compares to a fall in value across AIM of 33% to £61.5b from £91.3b. Oil and gas companies now account for 16% of AIM by value, compared to 17% in Q2 2008.

**Market entrants:**

- **Resaca Exploitation**, a Houston-based independent oil and gas company, raised £53.3m via an IPO on AIM in July. The company has proved and probable reserves of 28.1m barrels of oil and 19.3bcf gas (as at 1 January 2008), and holds a number of oil and gas fields located in the Permian Basin of West Texas and New Mexico. Resaca plans to use a variety of techniques to exploit its oil reserves, including secondary waterfloods and the injection of sequestered CO2 for tertiary recovery. By the end of the quarter, the company’s market value was £114m, earning the company 20th place in the Oil & Gas Eye index.

- **Thalassa Energy** raised £3.1m via a share placing on AIM in July to fund the purchase of the remaining equipment required for the completion of its Portable Modular Source System, which will provide seismic technology to exploration and production companies performing oil reservoir monitoring. The company, which joined AIM with a market value of around £4.3m, hopes that its AIM listing will widen its investor base and broaden its profile among its oil services peers.

- **BPC Limited** rejoins AIM, raising no monies, following its reverse takeover by AIM-listed Falkland Gold & Minerals. The company holds exploration licences offshore the Bahamas, and is seeking industry partners to contribute funding for exploration and evaluation work.

- **San Leon Energy** joined AIM at the end of the quarter by way of an introduction, raising no funds. The company, with a market capitalisation of £100m on joining AIM, holds a portfolio of oil and gas exploration assets in the Netherlands, Morocco and the USA. Its admission to AIM was motivated by the prospect of accessing capital and raising future finance, both equity and debt, for the development of its assets.

**Market exits:**

- **Anzon Energy** delisted from AIM in September, following its merger with AIM-listed peer, ROC Oil, a deal first proposed in June. The enlarged company will have a portfolio of producing, development and advanced exploration projects in Australia, China, Africa and the North Sea, and a pro forma market capitalisation of A$1.2b (approximately £540m), according to ROC’s offer announcement.
Oil and gas companies continue to raise capital on AIM – for now; for some

Oil and gas companies raised a total of £286m in Q3 2008 from new and secondary issues – an unexpectedly healthy amount that compares favourably with quarterly amounts raised over the last 18 months. In this respect, the sector was the exception to the rule, as oil and gas companies continued to secure secondary fundraising throughout the month of September, a month that for many other sectors proved a relative dearth. The £36m raised in the last month of the quarter, as the impact of the credit crunch really began to hit hard, is in stark contrast to the £6m raised by mining companies in the month, and accounted for 43% of all fundraising on AIM.

Indeed, across the quarter, total fundraising by oil and gas companies accounted for 35% of fundraising across AIM, compared to 16% last quarter, and 5% in Q3 2007. The £56.4m raised by the IPOs of Resaca Exploitation and Thalassa Energy accounted for 30% of funds raised by all new issues on AIM.

Fundraising across the AIM market as a whole saw a decline. Capital raised from new issues, at £190m, was down 68% on last quarter and 90% on the same period a year ago, with the number of new issues at its lowest level since Q1 2003. There were just six IPOs during Q3 2008, compared with 48 in the same period last year. Funds raised from secondary issues across the market totalled £637m, compared with £1.4b last quarter and £1.6b in Q3 2007.

The largest secondary fundraisings in the oil and gas sector were by Ithaca Energy, Circle Oil, Gulf Keystone, Antrim Energy and Regal Petroleum.

► Ithaca Energy successfully raised gross proceeds of £38m on AIM and the TSX-Venture Exchange to fund ongoing development at its North Sea Jacky and Athena projects and the completion of its acquisitions of the Beatrice and Stella oilfields. The company anticipates that the combination of the equity placing and a US$240m bank loan will fund the company through to production at Jacky and Athena, expected at the end of this year and next, respectively.

► Gulf Keystone raised £25.1m via a fully subscribed placing of shares to fund further exploration of the company’s HPH gas permit in Algeria and the drilling of an additional well in Kurdistan.

► Antrim Energy raised a total of £26.5m to fund ongoing appraisal of the Fyne field in the North Sea and working capital requirements.

► Regal Petroleum raised £20.5m through the placing of 8.4m new ordinary shares with institutional investors to finance the up-front costs of rig mobilisation in the Ukraine, to secure two additional rigs for drilling activity in the region and to fund its 2D seismic drilling programme and drilling of certain prospects adjacent to the company’s recent gas discovery in Romania.
Oil and gas funds raised as a proportion of total funds raised on AIM
Source: Ernst & Young

Quarterly trend of funds raised on AIM – oil and gas, and all sectors
Source: Ernst & Young analysis of AIM market statistics
## New Issues

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<th></th>
<th>Oil &amp; Gas</th>
<th>Oil &amp; Gas</th>
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## Further Issues

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<th>Oil &amp; Gas as % of All AIM</th>
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<tr>
<td>No. of Cos/ Issues</td>
<td>Funds Raised (£m)</td>
<td>No. of Cos/ Issues</td>
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## Total Issues

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<th>Oil &amp; Gas</th>
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<th>All AIM</th>
<th>Oil &amp; Gas as % of All AIM</th>
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<tbody>
<tr>
<td>No. of Cos/ Issues</td>
<td>Funds Raised (£m)</td>
<td>No. of Cos/ Issues</td>
<td>Funds Raised (£m)</td>
<td>No. of Cos/ Issues</td>
<td>Funds Raised (£m)</td>
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**Funds raised on AIM to Q3 2008**

Source: Ernst & Young, AIM market statistics

New issues include placings, introductions, transfers and re-admissions (money-raising and non-money-raising)
### Oil & Gas Eye index constituents at start of each quarter

*Source: Ernst & Young, Thomson Datastream*

<table>
<thead>
<tr>
<th></th>
<th>Q2 2008</th>
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<tr>
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<td>BowLeven Plc</td>
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<td>First Calgary Petroleum Inc</td>
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<td>Green Dragon Gas Ltd</td>
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<td>Valiant Petroleum Plc</td>
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<td>Volga Gas Plc</td>
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### Exits

- Hardy Oil & Gas Plc
- Star Energy Group Plc
- Sterling Energy Plc
- EnCore Oil Plc
- Energy XXI (Bermuda) Ltd
- Faroe Petroleum Plc
- Max Petroleum Plc
- Desire Petroleum
- Providence Resources Plc
- Antrim Energy Inc
- Providence Resources Plc
- Urals Energy Public Company Ltd
- Volga Gas Plc
- Chariot Oil & Gas Ltd

### Entrants

- Desire Petroleum
- Solana Resources Ltd
- Valiant Petroleum Plc
- Chariot Oil & Gas Ltd
- Indus Gas Ltd
- Maple Energy plc
- Providence Resources Plc
- Energy XXI (Bermuda) Ltd
- Faroe Petroleum Plc
- Geopark Holdings Ltd
- Resaca Exploitation Inc
For further information on the Ernst & Young Oil & Gas Eye, or any associated services from Ernst & Young please contact:

<table>
<thead>
<tr>
<th>Name</th>
<th>Email</th>
<th>Phone</th>
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</thead>
<tbody>
<tr>
<td>Alec Carstairs</td>
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<td><a href="mailto:mlynchbell@uk.ey.com">mlynchbell@uk.ey.com</a></td>
<td>+44 (0) 20 7951 3064</td>
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</tbody>
</table>

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Ernst & Young's Oil & Gas Eye monitors the performance of the AIM oil and gas companies on a quarterly basis. As well as reporting the index itself, Oil & Gas Eye provides regular analysis and commentary on activity driving the AIM market.

The Oil & Gas Eye is constructed on the same basis as the major indices with a normal value of 1,000 assigned to the index levels as 1 January 2004. It is calculated using the top twenty AIM listed oil and gas shares by market weight representing around 57% of the total AIM oil and gas universe.

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To receive copies of the Oil & Gas Eye please contact Victoria Lea on +44 20 7951 9051 or email vlea@uk.ey.com, to receive copies of the Mining Eye please contact Julia Davies on +44 20 7951 4250 or jdavies@uk.ey.com

For more information, please visit
www.ey.com/uk

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