

Lessons learned from the recession for oil and gas companies (so far)

World Junior and Independent Oil and Gas Congress
London, November 2009

Keith Myers

Our perspective



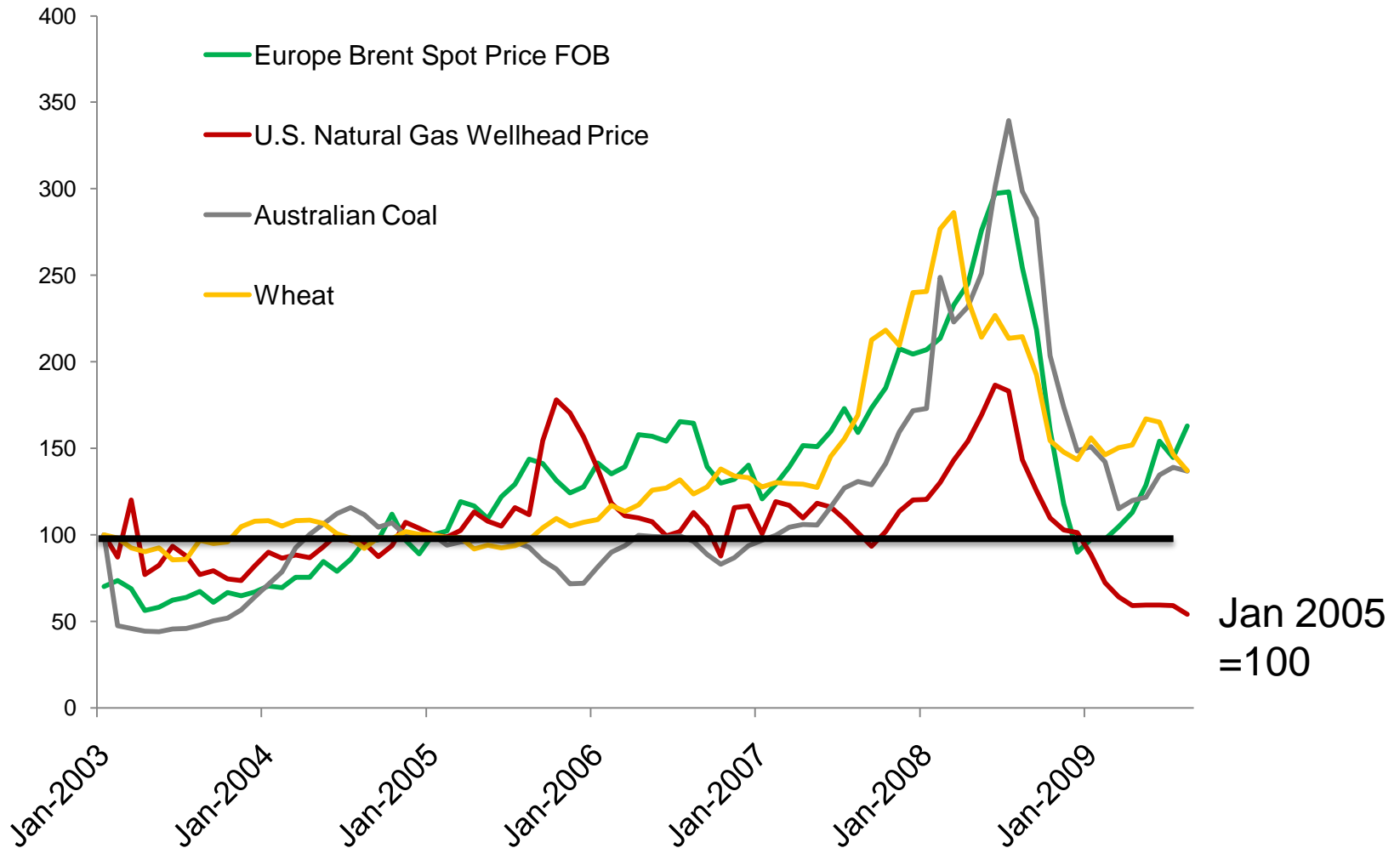
- Oil industry professionals who provide independent advice on smaller E&P companies to both financial investors and oil companies
- The REP30 companies are 30 E&Ps in the ~\$0.5-\$10bn market cap range with assets mainly outside of North America
- We focus on assets and E&P performance

Agenda

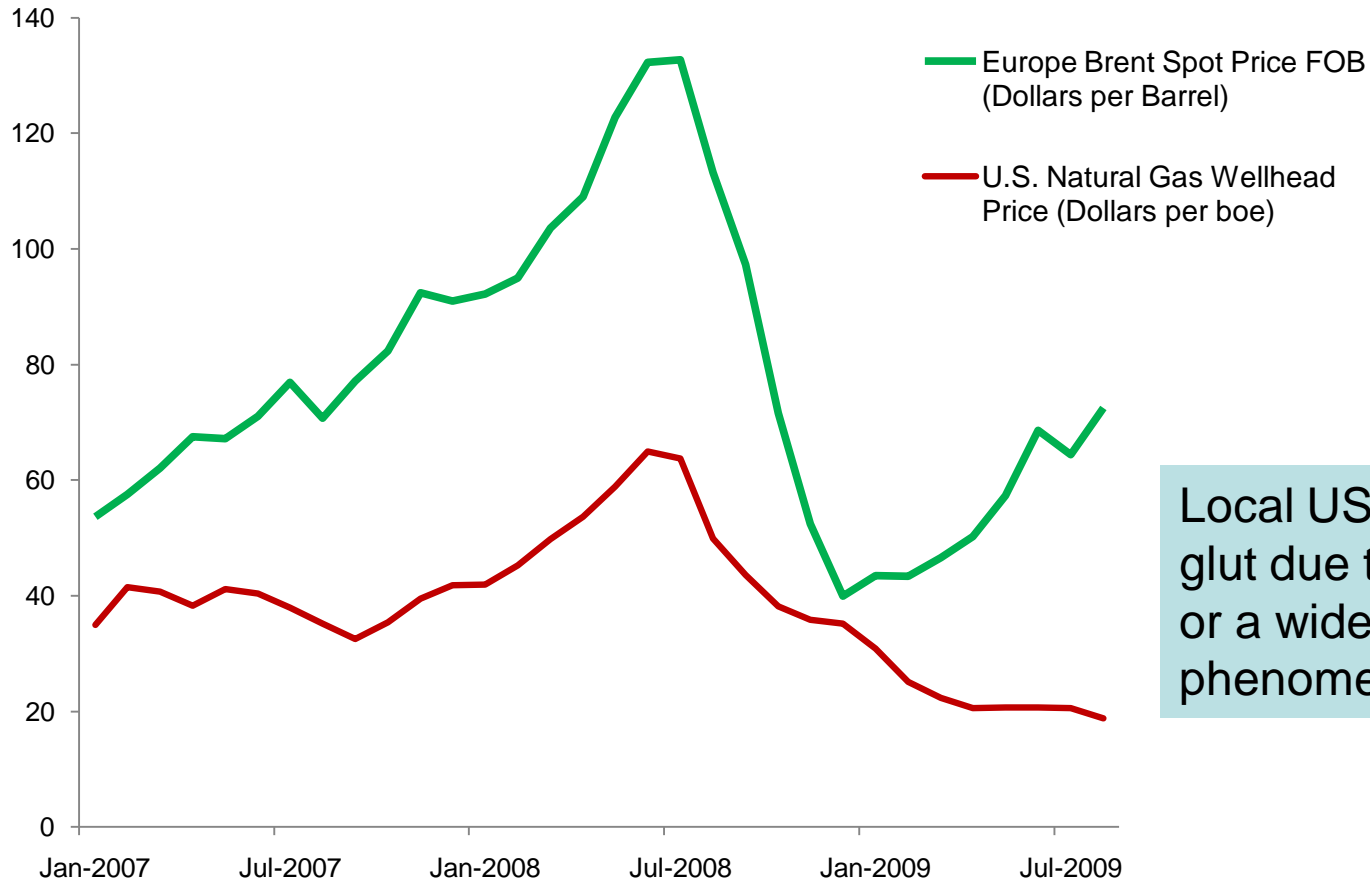


- The oil markets – forever blowing bubbles
- The M&A market – consolidation, what consolidation?
- E&P Company Performance - opportunity or bust?
- Lessons Learned

Forever Bursting Bubbles.....



Oil and gas market divergence



Local US gas supply glut due to shale gas or a wider phenomenon?

M&A Markets

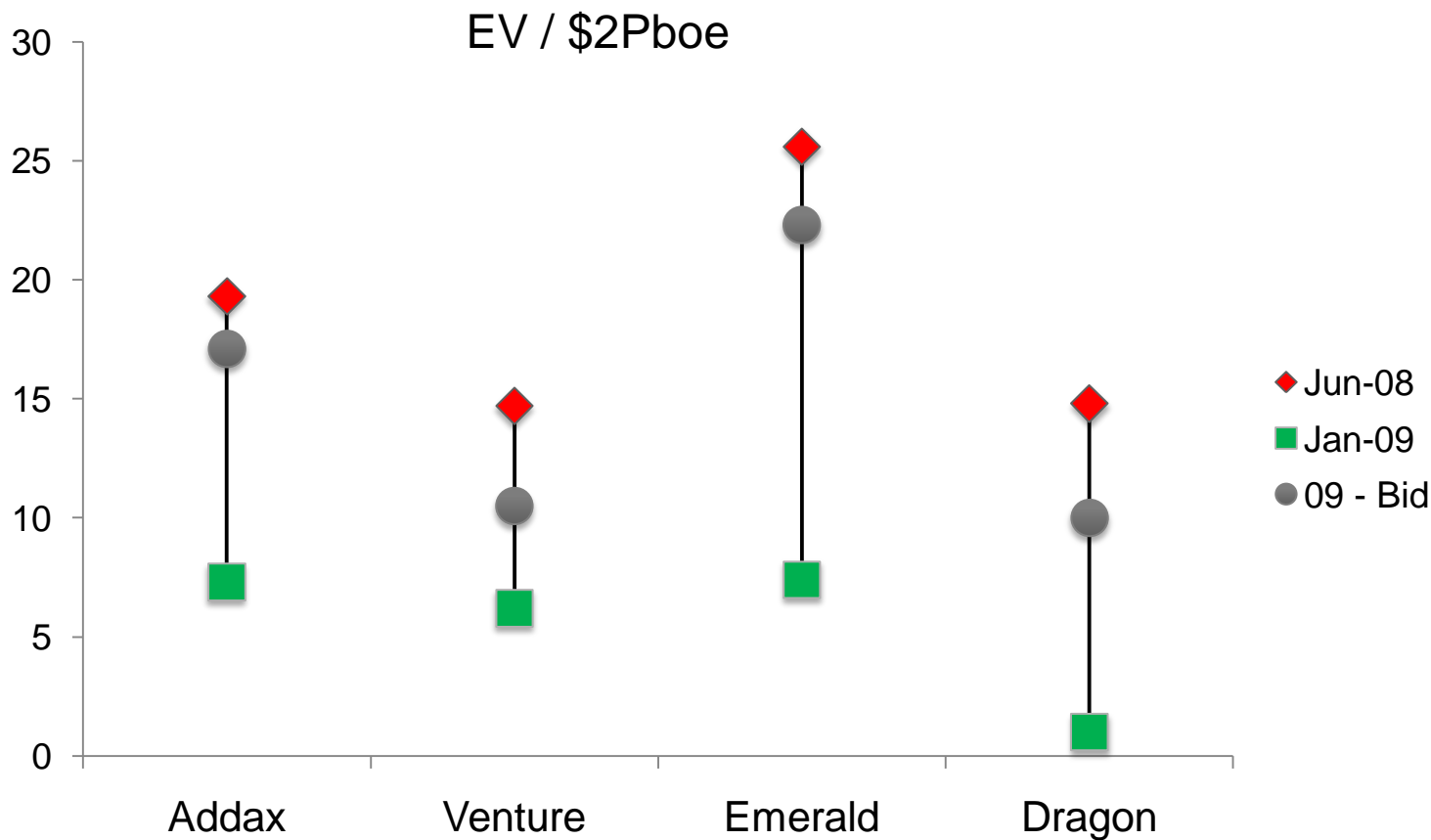
Consolidation – What
Consolidation?

Number of corporate transactions in \$0.5-10bn range did not change much



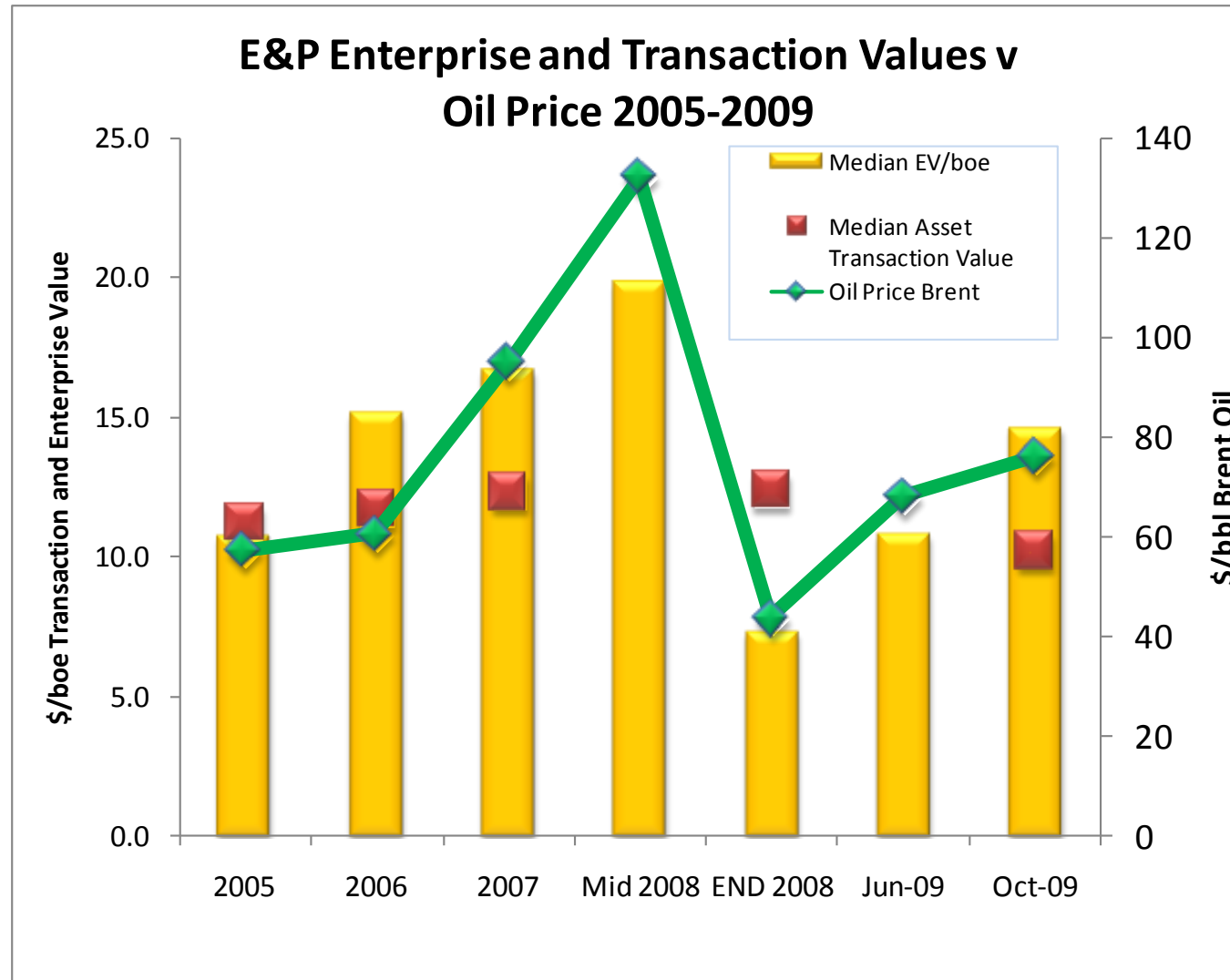
| Year | Buyer | Seller | EV \$m | Location | Deal Type | Prod boed | 2P Reserves | \$ 2P boe |
|------|-------------|---------------|--------|-------------|-----------|-----------|-------------|-----------|
| 2009 | ENOC | Dragon | 2962 | Turkmen | A | 25700 | 296 | 10.0 |
| | Sinochem | Emerald | 870 | Syria | A | 8000 | 57 | 15.5 |
| | Centrica | Venture | 2545 | UK | A | 45000 | 243 | 10.5 |
| | Sinopec | Addax | 9170 | W. Africa | A | 135000 | 537 | 17.1 |
| | Premier | Oilexco | 505 | UK | A | 13700 | 40 | 12.6 |
| 2008 | Wintershall | Revus | 740 | Norway | A | 6100 | 92 | 8.2 |
| | Sinopec | Tanganyika | 1800 | Syria | A | 15000 | 329 | 5.5 |
| | ENI | First Calgary | 865 | Algeria | A | 0 | 114 | 7.6 |
| | ONGC | Imperial | 2400 | Russia | A | 6000 | 920 | 2.6 |
| 2007 | Citadel | Rally | 898 | Egypt | P E | 6000 | 104 | 8.6 |
| | ENI | Burren | 3500 | Congo, Turk | A | 34000 | 210 | 16.7 |
| | Noreco | Altinex | 750 | Norway | M | 9000 | 35 | 22 |
| | P. Rubiales | P. Stratus | 703 | Columbia | M | 2000 | 115 | 6.1 |
| 2006 | Dana Gas | Centurian | 1020 | Egypt | A | 38000 | 97 | 10.5 |
| | Addax | Pan Ocean | 1400 | Gabon | A | 10000 | 68 | 21 |
| | Tullow | Hardman | 1100 | Maur/Uganda | A | 6000 | 105 | 10.5 |
| | Lundin | Valkyries | 689 | Russia | A | 5000 | 47 | 14.7 |

2009 acquisitions – market overreaction on downside



REP calculations

Average transaction values hold steady



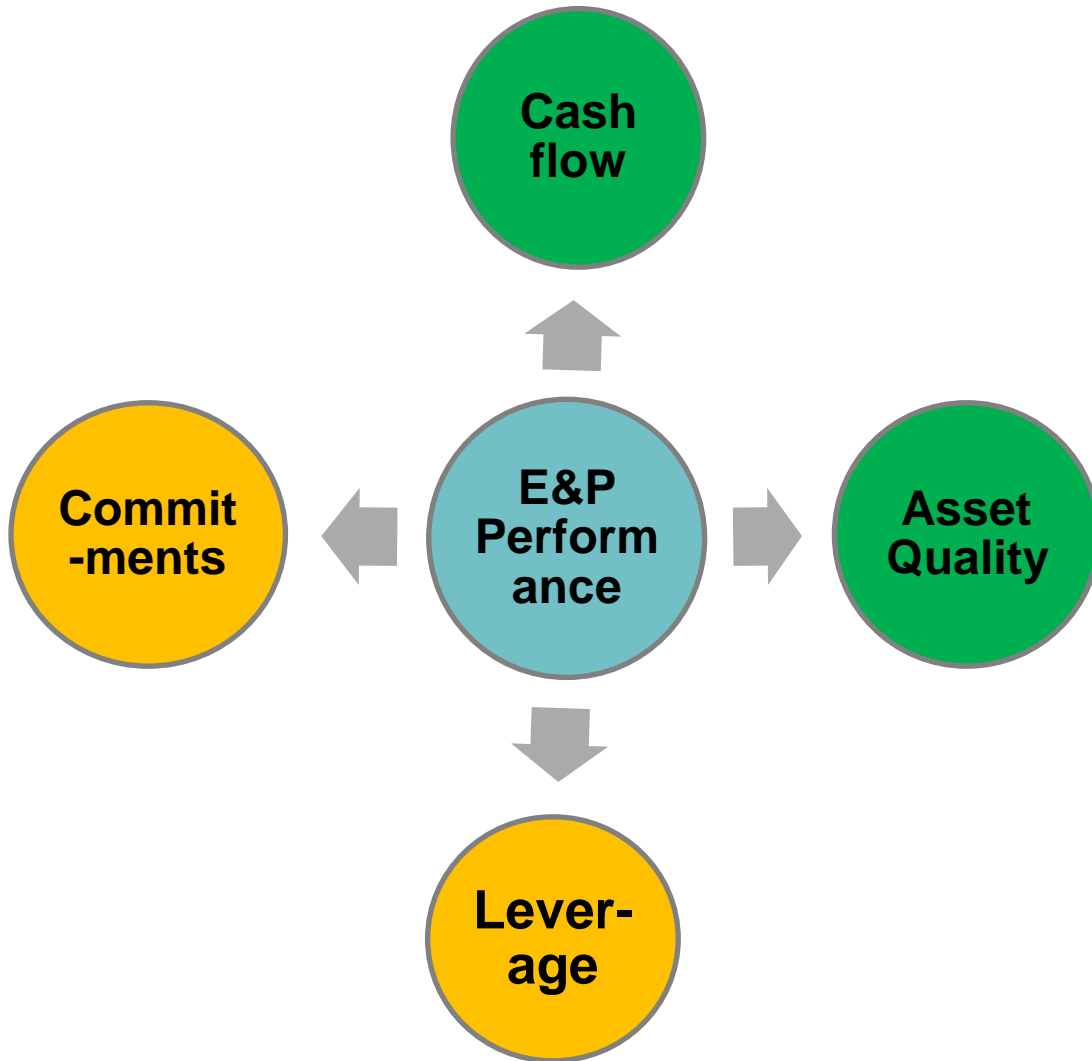
2009 E&P Sector Performance

Opportunity or Bust?

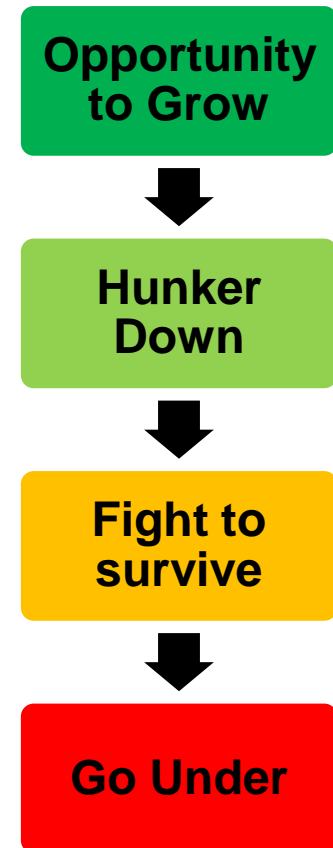
2009 – opportunity or bust?



Key Attributes



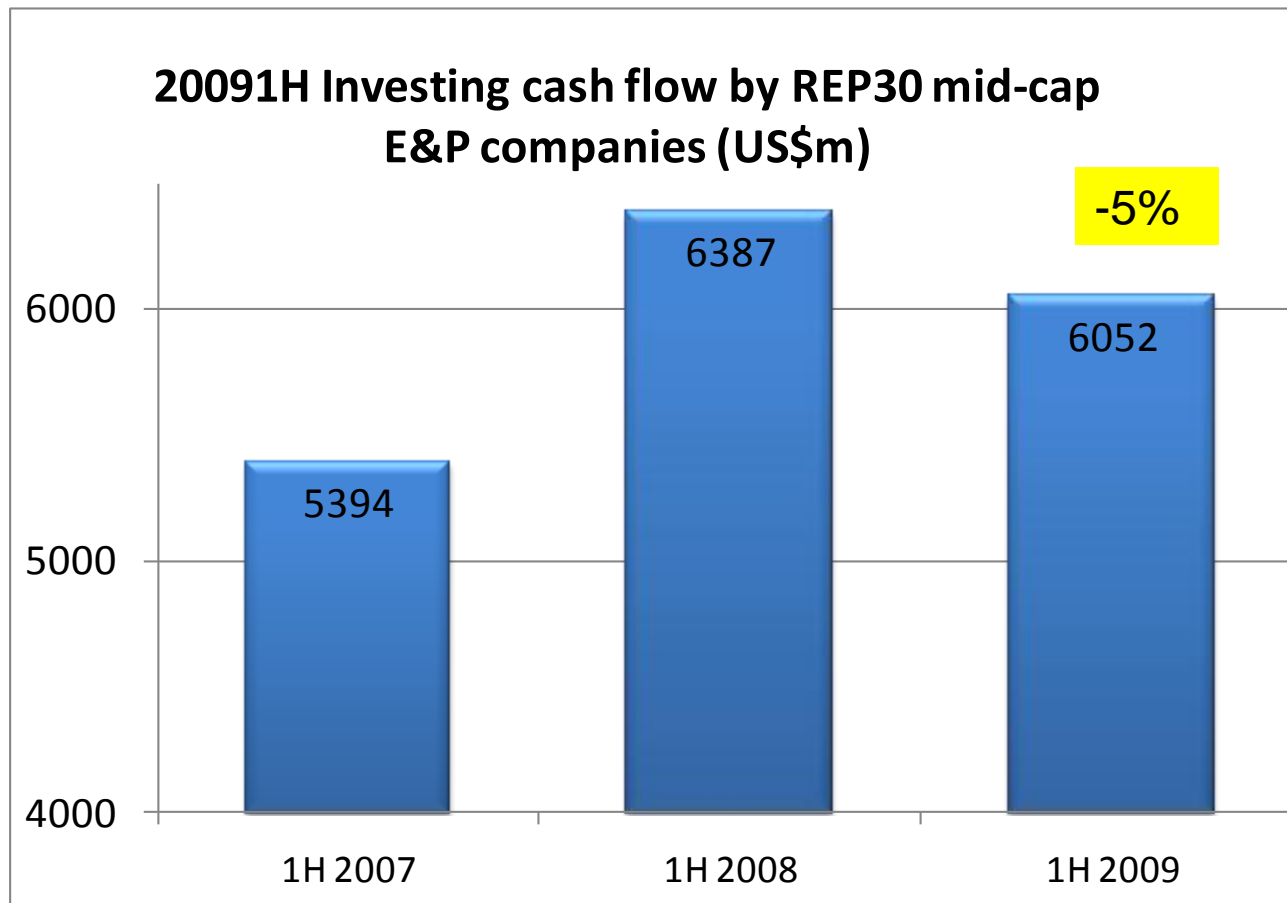
Options



E&P Investment fell overall by 5% in 1H 2009

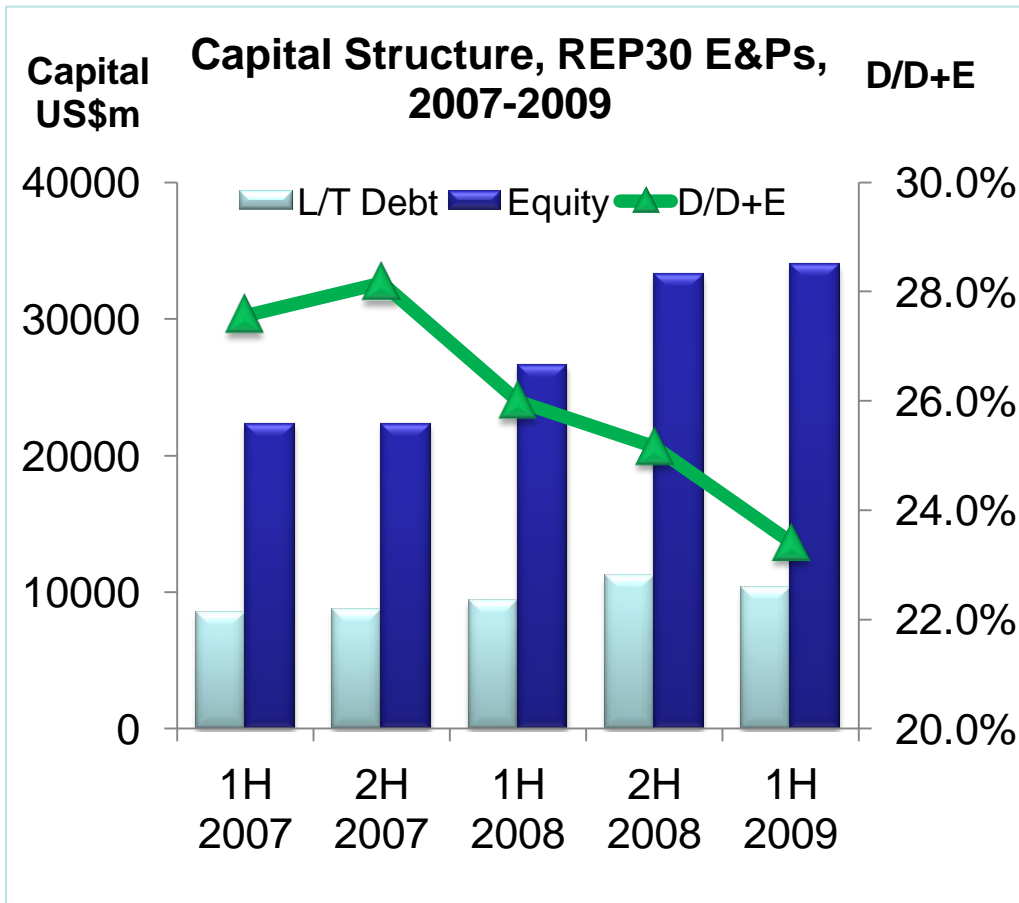
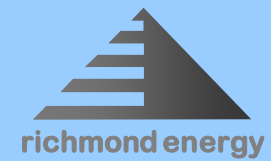


- Overall Investing Cashflow -5% in 1H2009 compared to 1H2008
But some companies spent more than last year



Total net investing cashflow for REP30 mid-cap E&P companies, excluding OGX

Mid-Cap Sector has deleveraged through 2008 and 2009

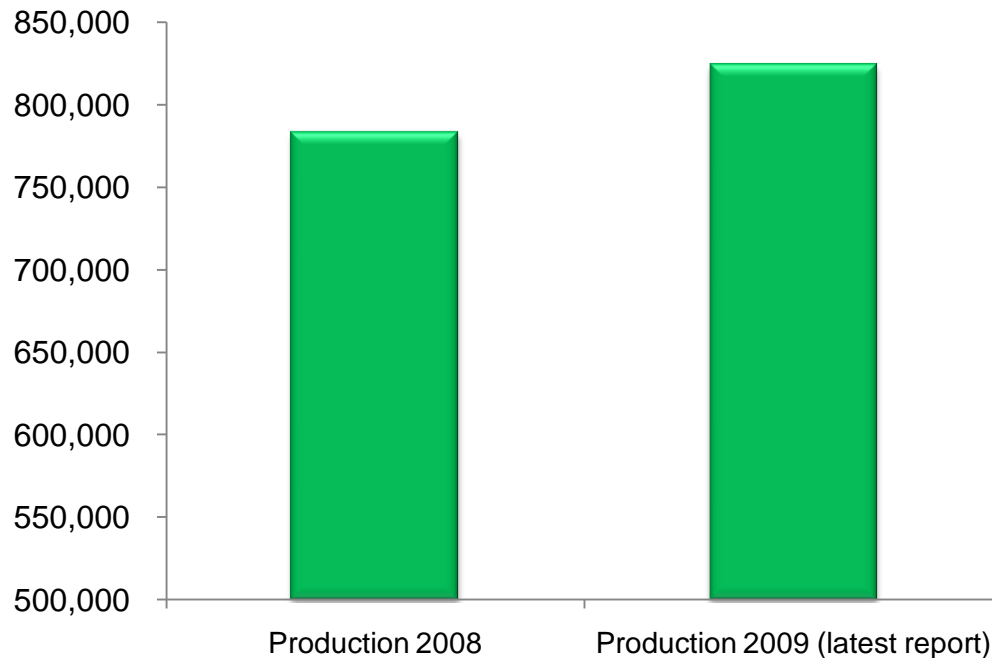


- Deleveraging started in 2008 and has continued through 2009
- Total debt decreased by \$800m (7%) in 1H2009
- Equity Investors Ride to the rescue - \$3.7bn new equity raised in 1H 2009 by REP30

Production continued to grow



**REP30 Total Production
boepd**



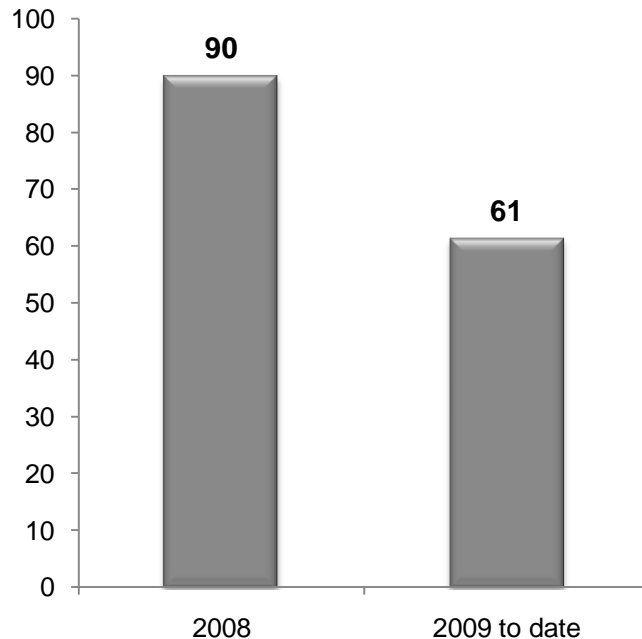
- 50% of companies reported higher production with output - up 5% over 2008 overall
- But investors are much more interested in reserves than production

A third less exploration in '09 – 50% of discovered volume down to one company

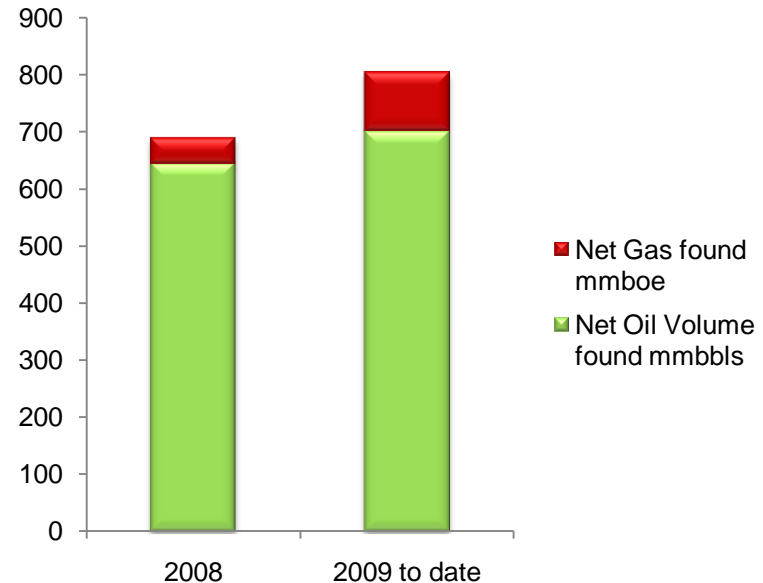


- 32% fewer net exploration wells drilled in 2009
- More than 50% of total discovered volume in 2009 down to one company.

Net Expln Wells REP30 companies



Net Discovered Commercial Volumes (REP estimates)

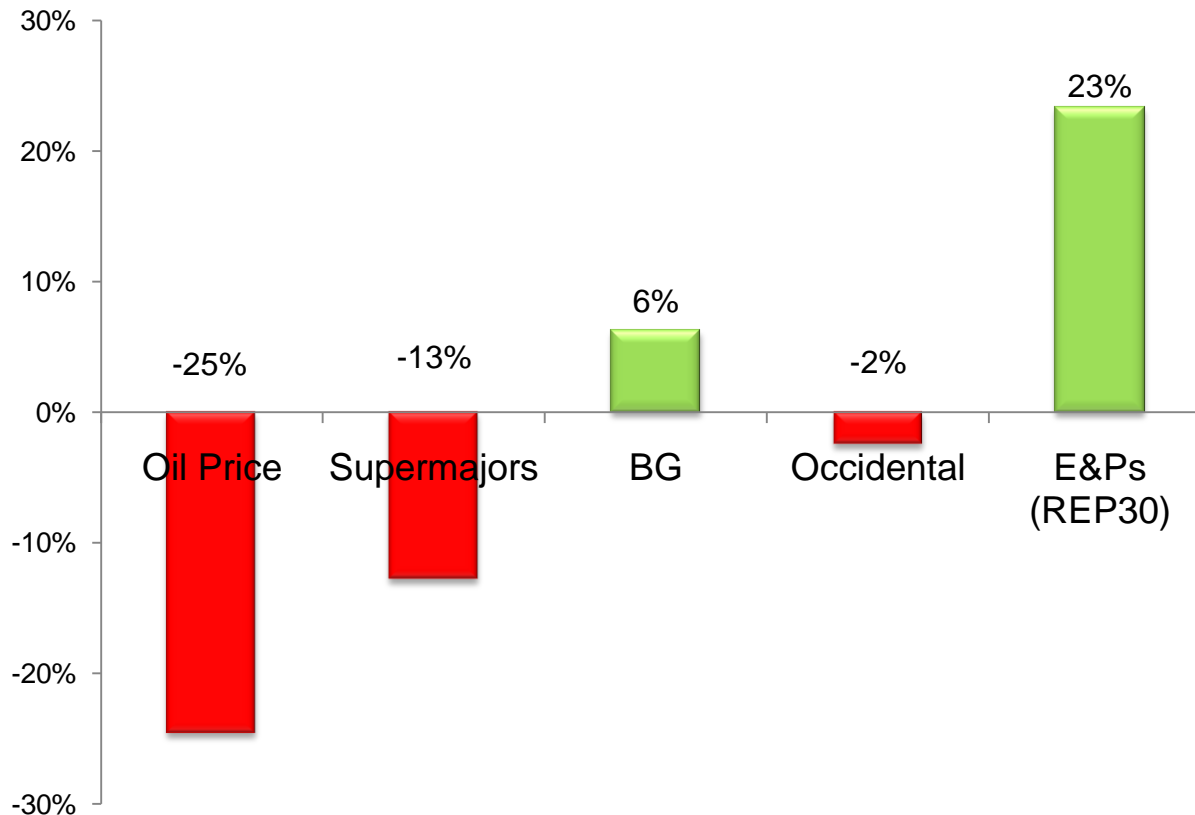


Asset Values 2008-2009



E&P equities have outperformed other oil assets through the cycle

Average Change 2008-2009 USD terms



Lessons from the recession for E&Ps



- Commodity markets are dysfunctional - a fool or a knave to predict future oil prices
- Recession can bring opportunity - cashflow and quality assets are king
- Manage commitments and maximise flexibility. Overheads are too high in some E&Ps
- Recessions don't necessarily lead to merger led consolidation
- E&P equities can outperform other oil asset classes because they can grow