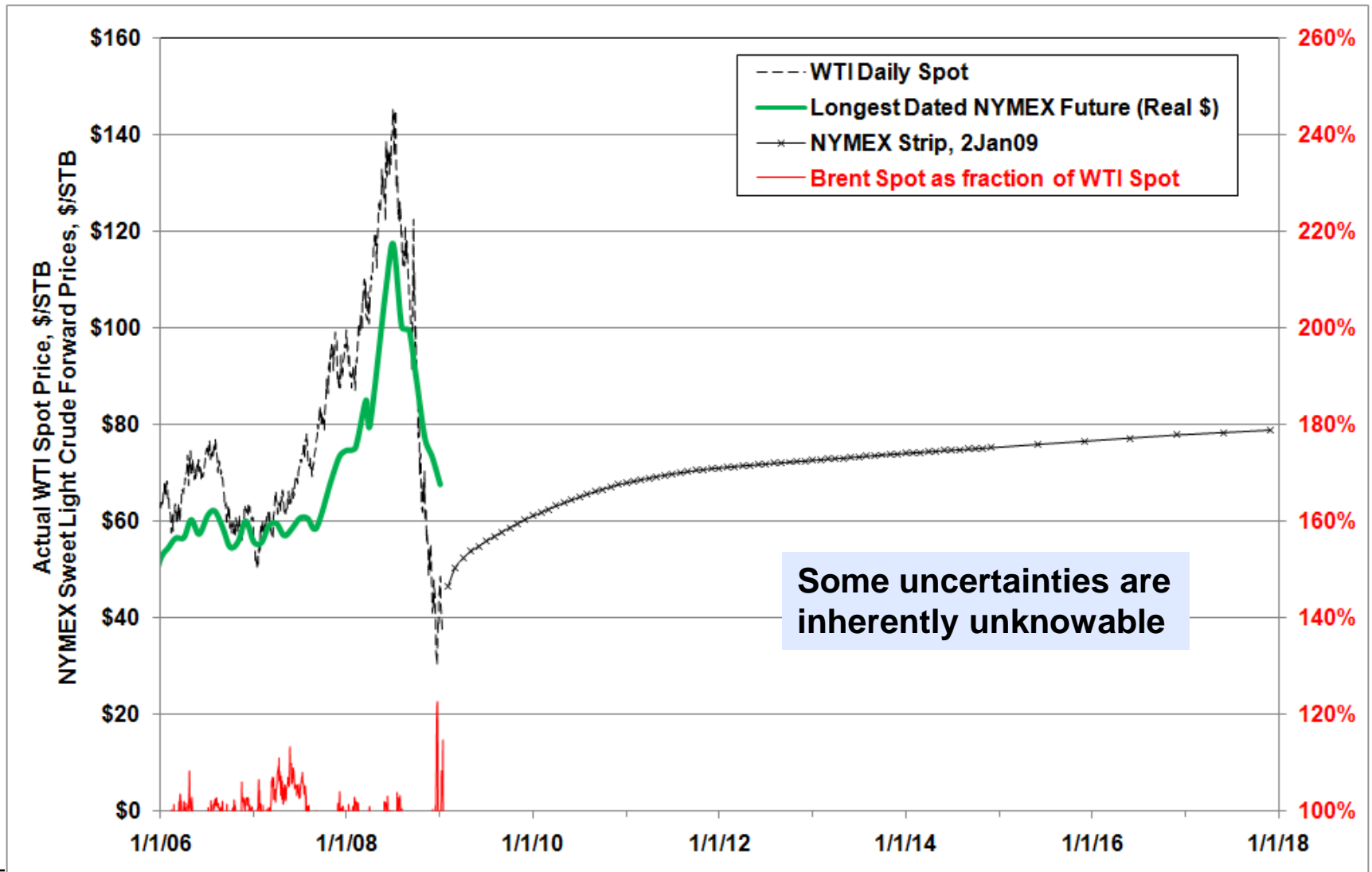

Balancing Risk & Aligning Interest; An Analysis of Surface Risk

Ian Cross, Moyes & Co

A&D Summit, IQPC, London, March 2009



Yesterday & Today Business Risk



Discussion

- Surface Risk
 - Identify, assess & rank
 - Selected examples
 - AIM-listed companies
 - NW Europe
- Management
 - Alignment of interests to mitigate risk
 - Managing through the challenges

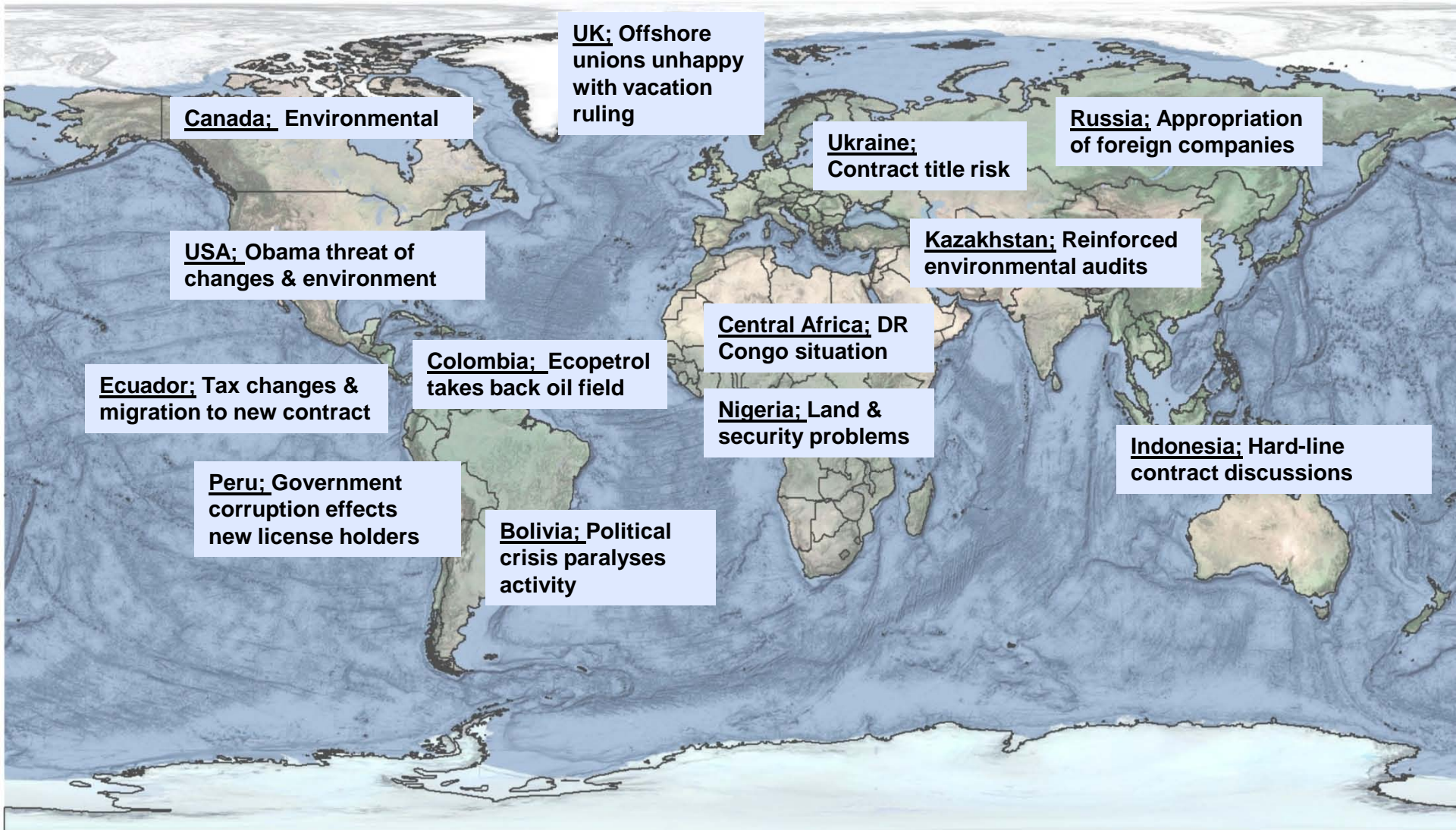


World Order 2008

- Wave of resource-based nationalism
- Expansion of NOCs role as E&P companies
- Lower Risk Tolerance for exploration projects
- Emergence of natural gas
- Enforcement of anti-corruption standards
- Terrorism
- Climate change & pollution management
- Communications have improved



Selection of Current Issues



Canada: Environmental

UK: Offshore unions unhappy with vacation ruling

Ukraine: Contract title risk

Russia: Appropriation of foreign companies

USA: Obama threat of changes & environment

Kazakhstan: Reinforced environmental audits

Ecuador: Tax changes & migration to new contract

Colombia: Ecopetrol takes back oil field

Central Africa: DR Congo situation

Nigeria: Land & security problems

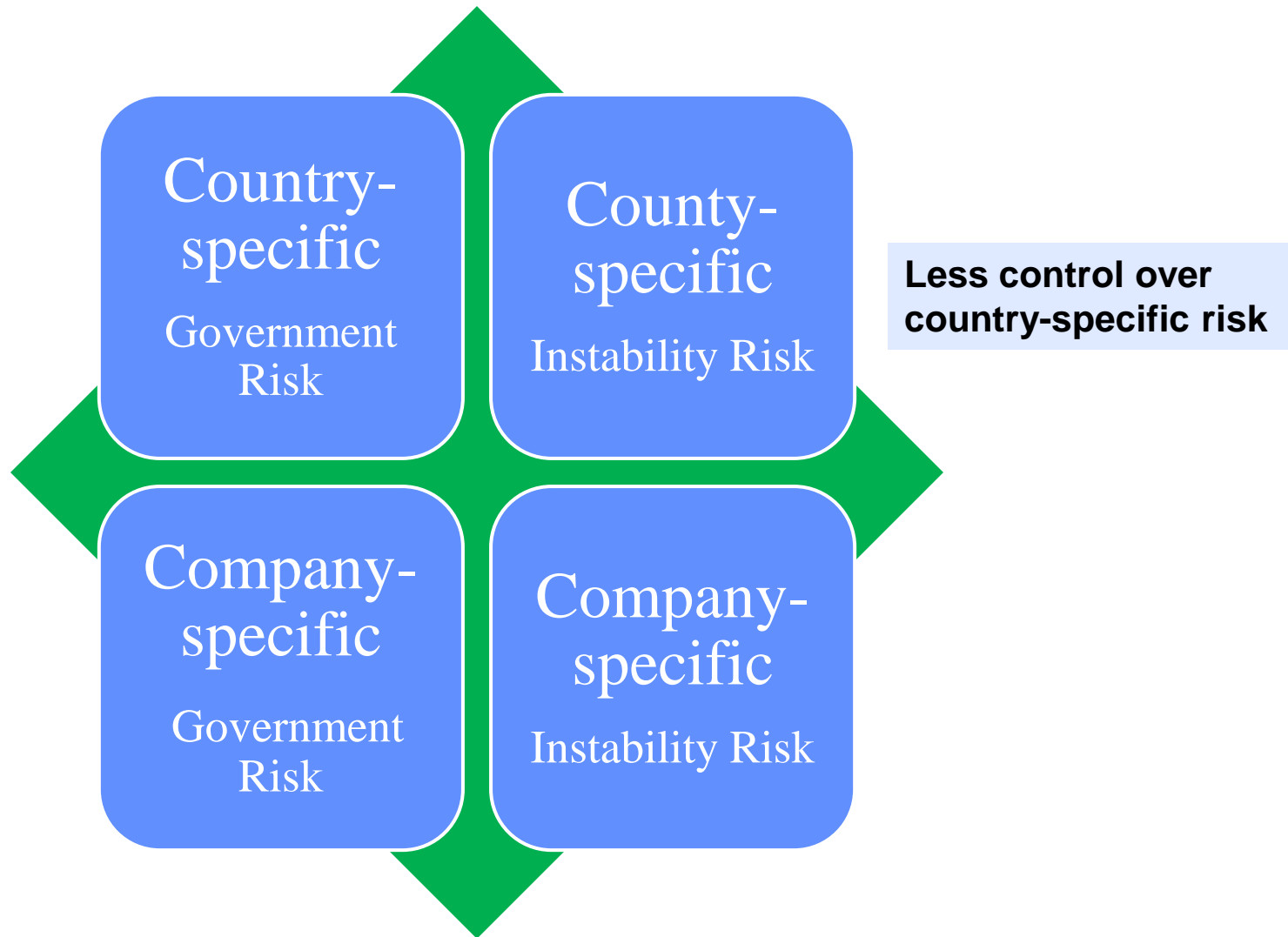
Peru: Government corruption effects new license holders

Bolivia: Political crisis paralyzes activity

Indonesia: Hard-line contract discussions



Surface Risk Challenges



Country & Company-specific Challenges

Country

Government Risk	Instability Risk
Bureaucracy	Leadership/political succession
Nationalism	NOC competition
Expropriation	Mass strikes
Contractual stability	Riot/war
Infrastructure & markets	
Currency	

Company

Government Risk	Instability Risk
Property rights	Facility disruption
Boundary claims	Kidnapping
Breach of contract	Boycott
Equipment approval	Sanctions
Permits	
Environmental	
Illegal state & organised activities	

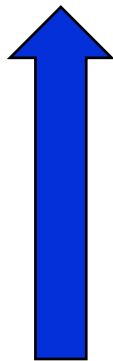
Adapted from Berlin et al (2003)



Perception of Risk Varies

Example of a Risk Ranking

1. Pakistan
2. Nigeria
3. Iran
4. Venezuela
5. Indonesia
6. Ukraine
7. Philippines
8. Thailand
9. Saudi Arabia
10. India

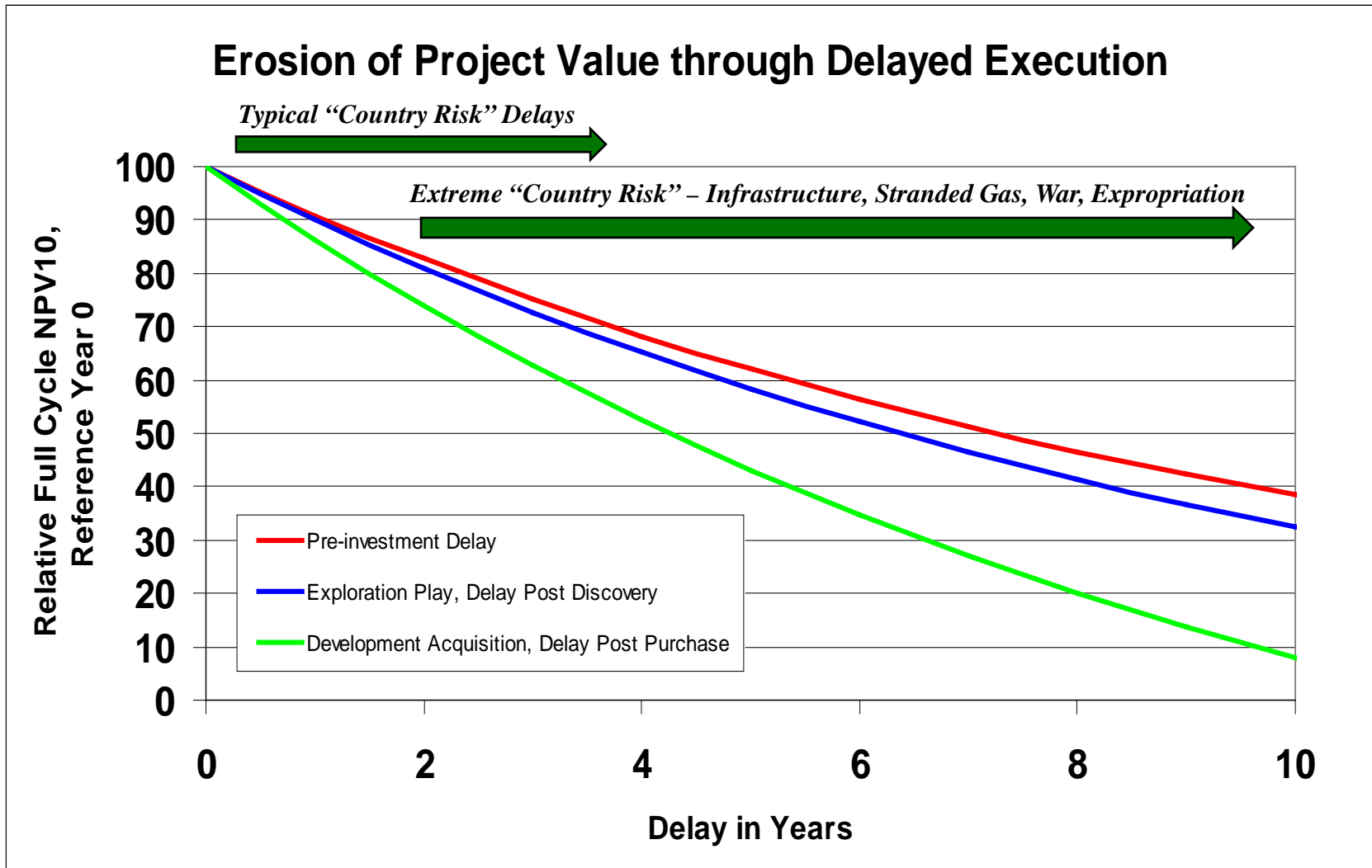


- Tolerance varies depending on nature & options to mitigate, reduce & absorb
- Not uniform within a country
- Georgia, Myanmar, Sudan?
- Other Latin America?
- Indonesia, Philippines, Thailand attract investment!

Source; Leading analysts global risk index (October 08)

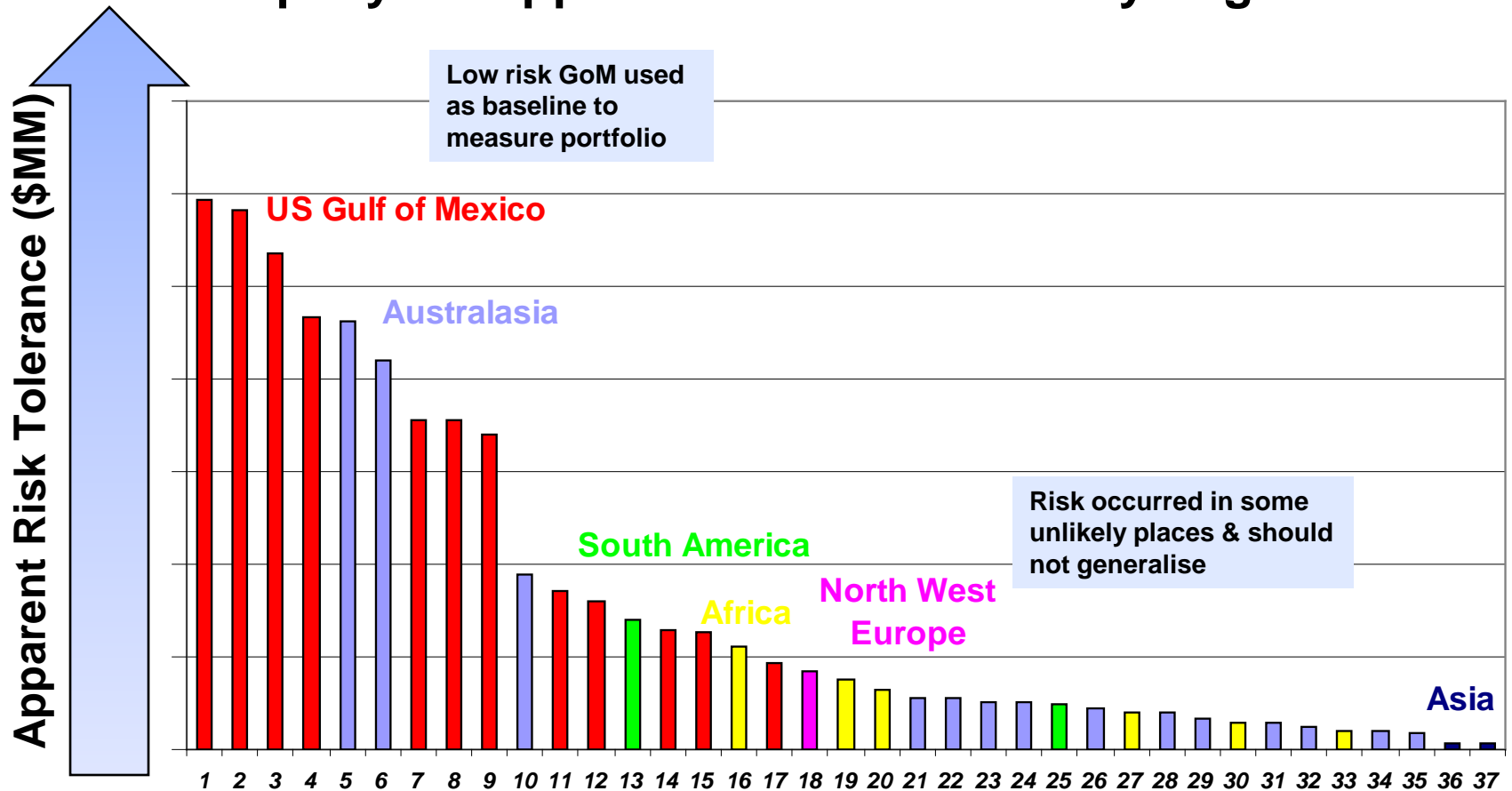


Surface Risk; Effect On Project Financial Performance



Portfolio Management

Company X - Apparent Risk Tolerance by Region



First Calgary Petroleum (Algeria)

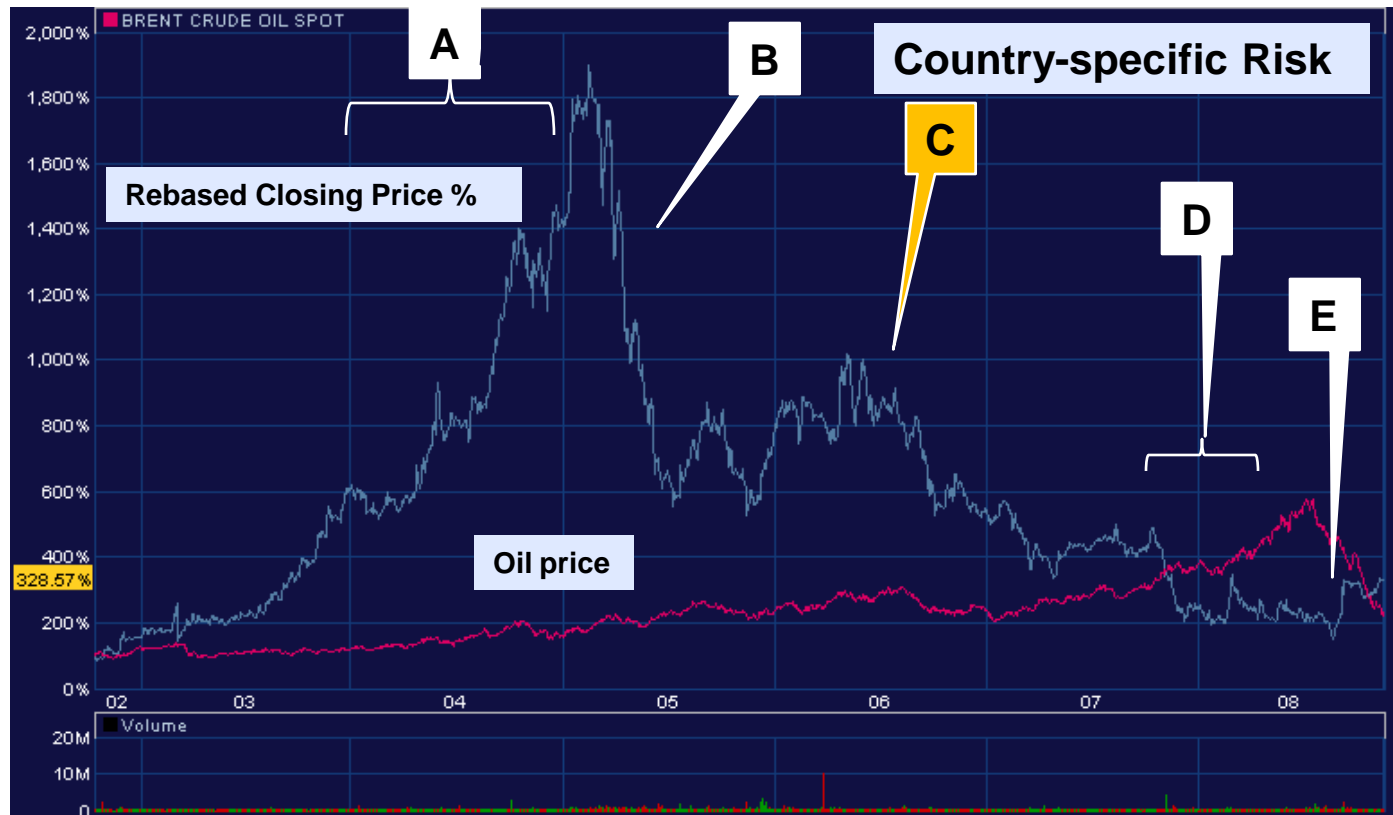
A – 2004: Reserves increased; speculation of bidding war related to sale or partnership

B – Feb – June, 2005: Speculation of faltering sale or partnership process, partners walk

C – July 2006: Algeria announces wind fall tax

D – Q4, 2007 & Q1, 2008; Reserves downgraded

E – Sept, 2008: ENI agrees to acquire FCP



White Nile (Sudan)

A – April 2005: WN announced it had entered into licensing agreement in August 2004 & assurances of title given

B – April 2005: Overhyped Regal well effect AIM

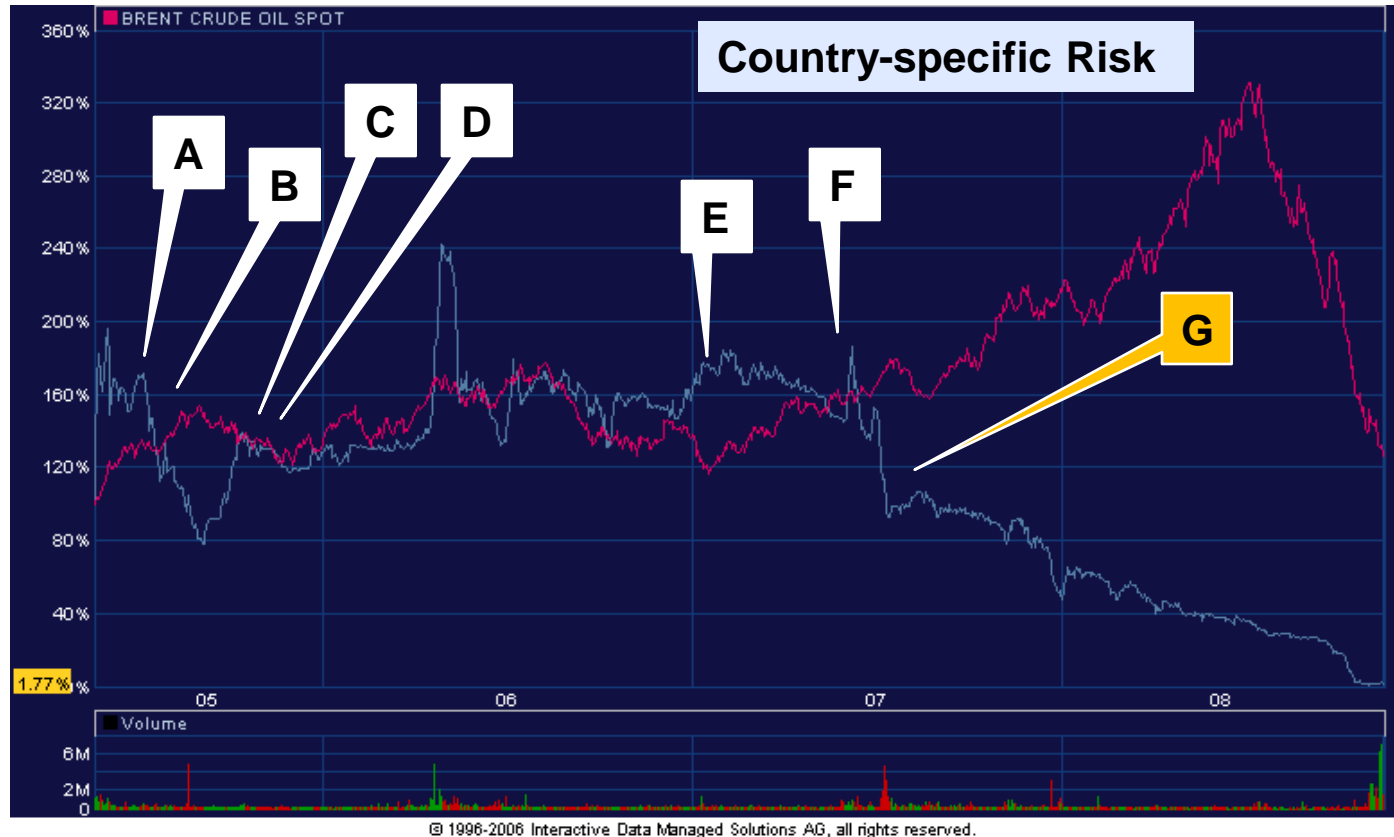
C – August 2005: VP of country & strong WN supporter killed

D – Sept 2005: Total SA threatens legal action over claims to license

E – Jan 2007: WN ordered to disclose documents

F – May 2007: Indications license resolution possible

G – June 2007: Resolution made by the NPC to remove WN from disputed block.



Regal Petroleum (Ukraine)

A – April 2005: Overhyped Greek well downgraded

B – May 2005: Access to pipeline in Ukraine questioned

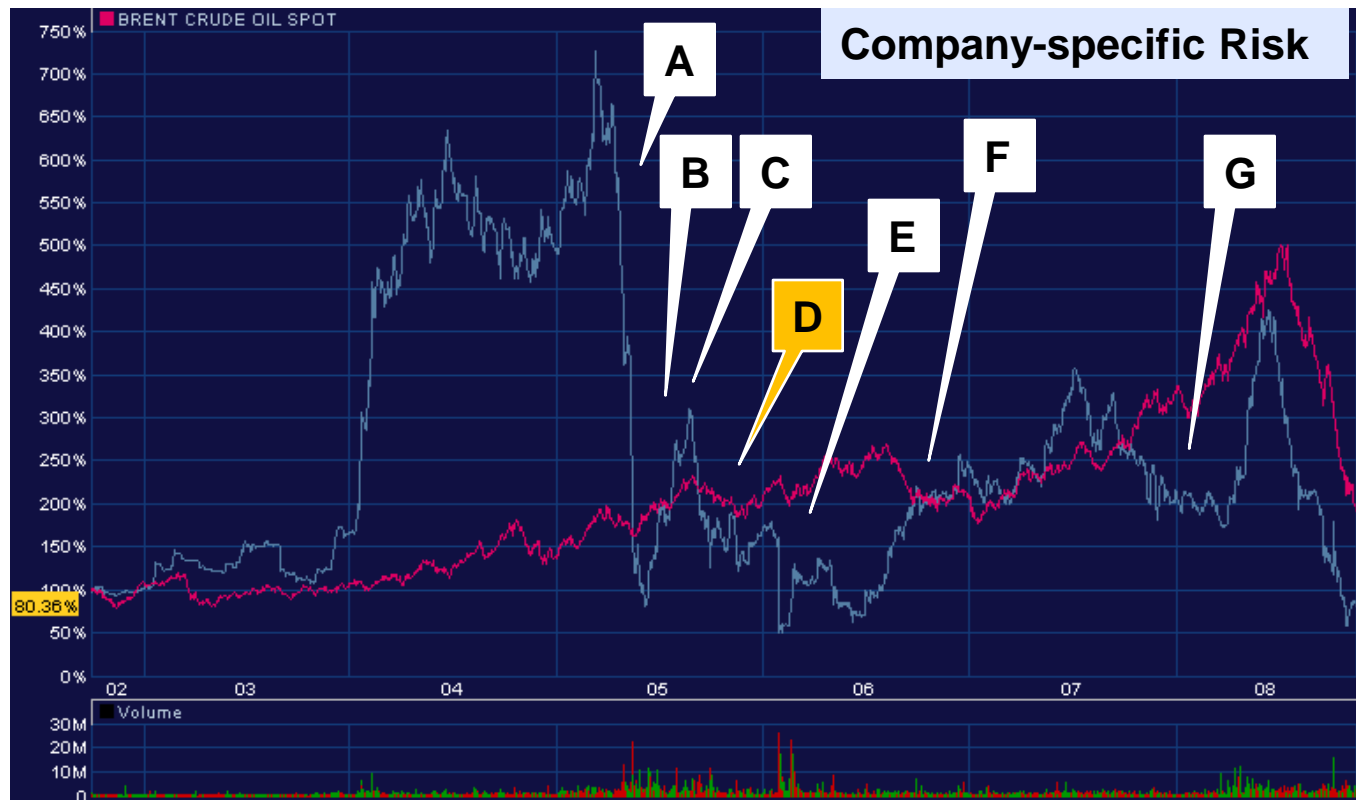
C – June 2005: Chairman resigns; positive market reaction

D – Q3 & Q4, 2005: State firms question validity of Ukraine licenses & RP lose appeal

E – Q1, 2006: Local Ukraine partner engaged

F – Dec 2006: Kiev court dismisses claims against RP

G – Nov 2007: New CEO; improved credibility: market confidence in management



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Victoria Oil & Gas (Kazakhstan)

A – Dec 2005: Completed the acquisition of the remaining shares in SeverGas-Invest, the owner of its Kaz license

B – May 2006 : Civil claim against title of license

C – Feb 2007: New CEO

D – FY 2007:

- Price concerns, restricted to selling oil into the domestic market, for local price
- Drilling success rates did not meet the strike rate that the VOG expected and hoped for

E – Oct 2008: Wins court decisions relating to a rival claim to its license



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Changes UK Fiscal System

1975; Three tiers; Royalty, PRT & CT introduced

1978; PRT increased to 60%

1979; PRT increased to 70%

1981; New duty (SPD) introduced

1983; SPD abolished, PRT increased to 75%, special conditions for NNS

1988 Special conditions extended to SNS & onshore

1993; PRT adjustment & other changes

2002; Royalty adjustment & new supplementary charge introduced

2004; PRT adjustment & incentive (EES) introduced

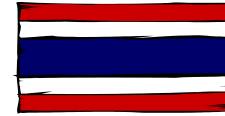
2008; Reforms aimed at older assets, PRT adjustment



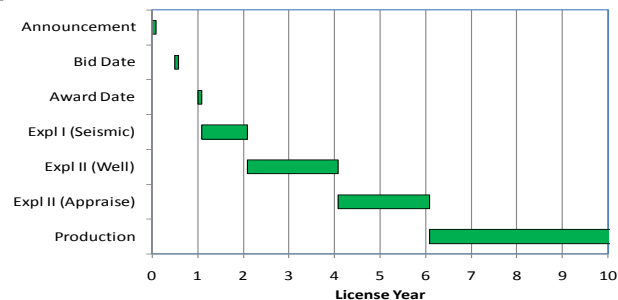
UK v Thailand Bid Rounds



- 21st round opened Feb 2003
- Closing date 8 May 2003
- Winners informed July 2003
- 27 new entrants
- 88 licences to 62 companies



- 18th round opened July 2000
- 87 blocks
- Bids submitted 15 Aug 2000
- Negotiations end Sept 2002
- Awards made May 2003
- 7 concessions awarded



Corrib Gas Pipeline

1996; Discovered by Enterprise Oil, offshore Ireland

2001; Initial planning submitted

2004; Permission granted to Shell & work started

2005; Work temporarily suspended & mediation process set up

2006; Safety review published, mediation collapse & protests

2007; More protests & jailing of 'Rosssport Five'

2008; Application submitted & withdrawn

2009; Revised applications submitted by Shell



*Bocado v Star Energy (2008)**

- Onshore UK licence awarded in 1980 in Surrey
- Two wells drilled horizontally under Oxted Estate in 1986
- Production began in 1990 at Palmers Wood
- Rig spotted in 1992 & questions asked by lawyer
- Bocado (Mr Al Fayed) became fully aware in 2006
- Claimed for damages for trespassing
- Bocado awarded 9% of income between 2000–2007, & 9% of future income

*Sources; Various UK newspapers



*Total Gorgoglione Concession Suspended**

- Tempa Rossa oil field was expected to come on stream 2007
- Initial delay in obtaining final permits
- 2006: Total signed an agreement to develop the field
- 2008: corruption and bribery investigation
- February 2009: Judge authorized the suspension of license
- Total to challenge the one-year suspension
- Peak output was expected to reach 50,000 b/d in 2010-11, already two years behind schedule



*Sources; Various European newspapers



Surface Risk; Observations

- Industry could do a better job of anticipation
- Where there is a history expect it
- Generally countries are open to negotiation
- All political systems have been successfully worked with
- Instability/conflict of government often a catalyst to problems
- Correlation between risk acceptance & technical prospectivity



Surface Risk; Management

- Assess the legitimacy of the authority
- Incorporate strong arbitration language into contracts
 - But be prepared for it not to work!
- Awareness of indigenous people as opposed to citizens
 - Indigenous are deprived & are encouraged to be activist
- Diversified portfolio of assets, region & product
- Balance technical & commercial risk
- Identify risk & expense
- Learn from history
- Manage the media



Summary

- Surface risk can be objectively assessed on a consistent basis
- Alignment helps mitigate surface risk
- Company-specific risk can be managed
- Less control over country-specific surface risk
- Larger companies can better absorb major event
- Events can be catastrophic for smaller player

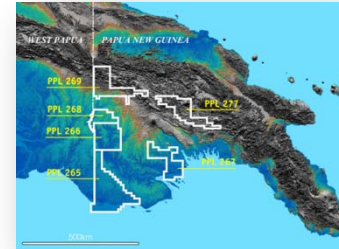


Current Mandates, March 2009



New Guinea Energy

Evaluation and farmout of six onshore Papua New Guinea PPLs



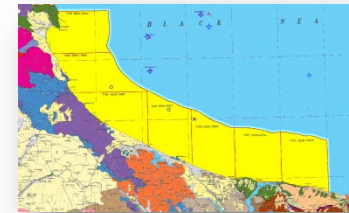
Sun Resources

Farmout of onshore Thailand license L20/50



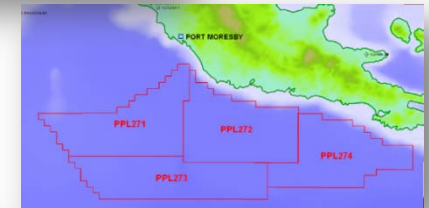
Sherritt International Corporation

Farmout of seven offshore Turkey licenses, Black Sea



Blue Energy

Farmout of four offshore PPLs in the Eastern Gulf of Papua



Seha Corporation

Sale of interest in Sarkramabas and West Bozoba Concessions, Pre Caspian Basin, Kazakhstan

