

Seismic reflections

East Africa: Ready to roar?

The East African offshore play has proven to be extremely prolific, with gas discoveries off Mozambique, Tanzania and Kenya. While exploration continues, much of the frontier drilling has finished, leaving appraisal and development as the next steps. As a result, we believe many investors will look for the next exploration province. One candidate is East Africa onshore, which we wrote about in our 1 June report *East Africa: More to explore?* Exploration is still in its early stages. A number of basins are the subject of frontier drilling in the coming quarters, leaving considerable uncertainty, but also potentially high rewards. Ngamia-1 found over 100m of net pay in multiple zones and Africa Oil has seen a 2.5x rise in its share price since April 2012 and 5x since January.

Offshore has seen considerable success, now for onshore?

Offshore basins have been proven up and massive gas discoveries have made companies such as Cove Energy and Ophir perform very strongly in the last 12 months. Onshore drilling is still to start in earnest (Kenya has only had 28 exploration wells drilled and only two since 1992). While Africa Oil has enjoyed huge share price appreciation in 2012 there are alternatives for investors to examine. Kenyan onshore acreage is dominated by Africa Oil and Tullow but other players in the region include Marathon, Afren, Simba Energy, Taipan Resources, recent entrant Bowleven and Vanoil (private). Horn Petroleum, Range Resources and Red Emperor have recently been joined in Somalia by Genel, where analogues from Yemen indicate considerable potential.

Lots of oil potential yet to be targeted

Tullow's CEO has stated that Kenya's oil potential may be greater than Uganda (2.5bn boe resources found). According to pre-drill estimates for H212 and 2013, Tullow is targeting more than 750mboe (mean) with a gross upside (p10) of nearly 2bn boe in its Kenyan and Ethiopian acreage. In addition to this, a CPR performed by Sproule for Simba Energy in the Mandera-Lugh basin (Block 2A, Kenya) has stated a gross unrisks prospective resource of 445mboe. Block 1 and 2B (Kenya) could contain a further 1.1bn boe according to Afren and Sproule.

Catalysts will continue throughout 2012 and into 2013

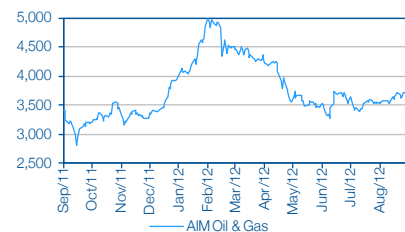
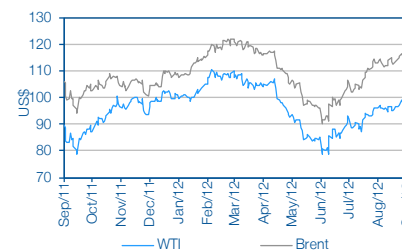
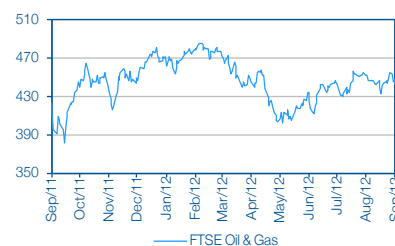
We expect Tullow to spud PaiPai-1 (Kenya) in the next few weeks. This will follow up the shallow Ngamia-1 discovery, and foreshadow further exploration by the Tullow/Africa Oil combination with seven further wells being drilled in 2012/2013. Afren is acquiring 2D and 3D seismic over some of its blocks and plans to drill a well in 2013, while Simba Energy is looking to farm-out its 100% position in Block 2A Kenya.



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Exhibit 1: Best and worst performers

1 week					
No.	Best performers	% change	No.	Worst performers	% change
1	EUROPA OIL & GAS HOLDINGS	107.1%	1	LENI GAS & OIL PLC	-35.7%
2	PETREL RESOURCES PLC	55.9%	2	FORUM ENERGY PLC	-16.5%
3	NIGHTHAWK ENERGY PLC	23.7%	3	XCITE ENERGY LTD	-11.5%
4	AURELIAN OIL & GAS PLC	14.9%	4	INDEPENDENT RESOURCES PLC	-10.6%
5	GEPARK HOLDINGS LTD	9.4%	5	BAHAMAS PETROLEUM CO PLC	-10.2%

1 month					
No.	Best performers	% change	No.	Worst performers	% change
1	EUROPA OIL & GAS HOLDINGS	85.1%	1	CHARIOT OIL & GAS LTD	-74.6%
2	PETREL RESOURCES PLC	43.2%	2	RESACA EXPLOITATION-DI	-50.6%
3	BORDERS & SOUTHERN PETROLEUM	35.2%	3	LENI GAS & OIL PLC	-40.3%
4	XCITE ENERGY LTD	28.6%	4	BAHAMAS PETROLEUM CO PLC	-36.1%
5	NIGHTHAWK ENERGY PLC	27.3%	5	SOUND OIL PLC	-33.0%

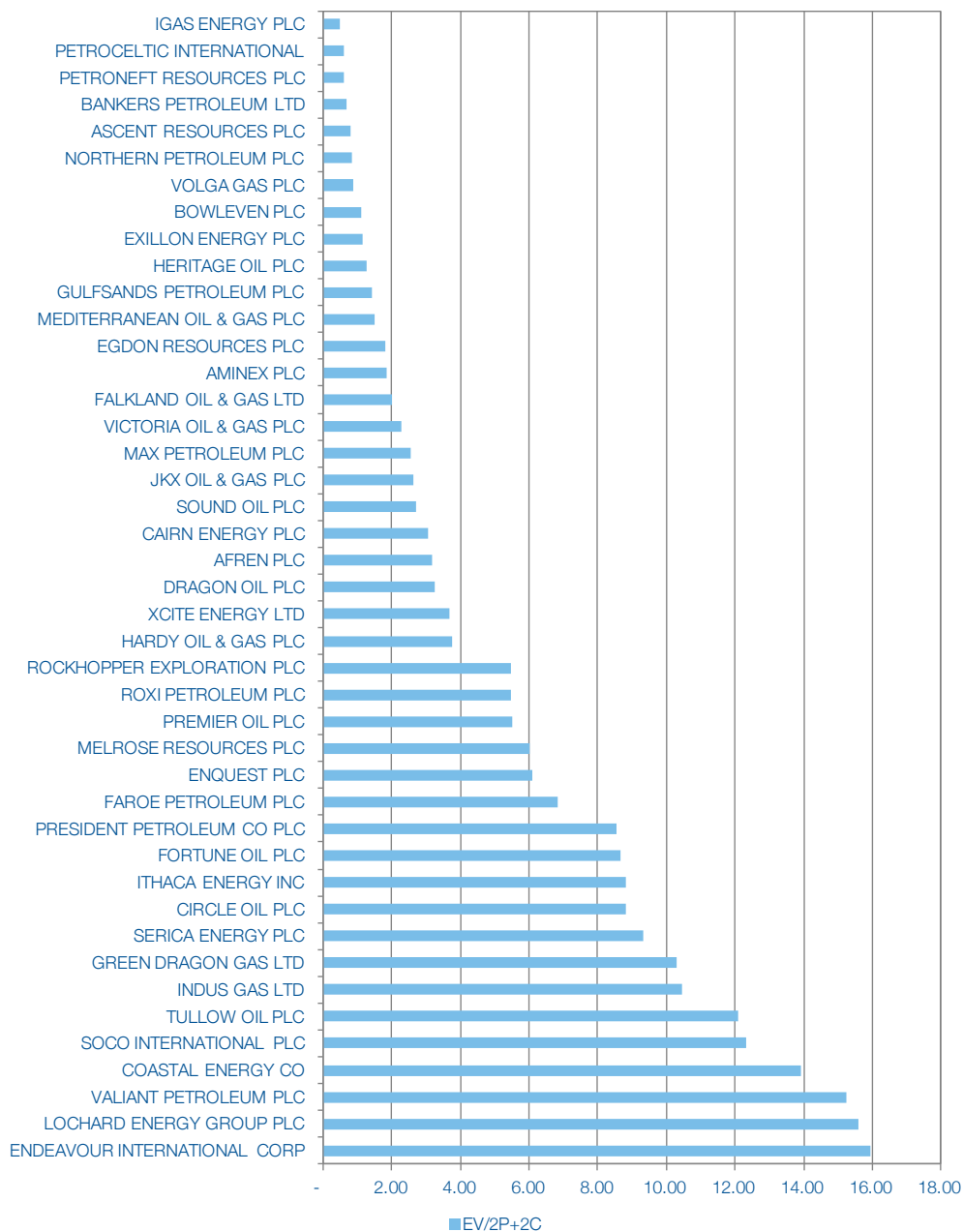
3 months					
No.	Best performers	% change	No.	Worst performers	% change
1	EUROPA OIL & GAS HOLDINGS	74.0%	1	CHARIOT OIL & GAS LTD	-70.1%
2	BANKERS PETROLEUM LTD	63.8%	2	BORDERS & SOUTHERN PETROLEUM	-66.1%
3	MEDITERRANEAN OIL & GAS PLC	61.0%	3	SOUND OIL PLC	-61.7%
4	HERITAGE OIL PLC	59.2%	4	MAX PETROLEUM PLC	-55.0%
5	PETREL RESOURCES PLC	43.2%	5	INDEPENDENT RESOURCES PLC	-53.1%

6 months					
No.	Best performers	% change	No.	Worst performers	% change
1	MEDITERRANEAN OIL & GAS PLC	106.5%	1	CHARIOT OIL & GAS LTD	-84.0%
2	IGAS ENERGY PLC	43.8%	2	INDEPENDENT RESOURCES PLC	-81.0%
3	GEPARK HOLDINGS LTD	38.5%	3	SOUND OIL PLC	-73.2%
4	AMERISUR RESOURCES PLC	34.3%	4	MAX PETROLEUM PLC	-70.8%
5	HERITAGE OIL PLC	30.0%	5	LENI GAS & OIL PLC	-70.6%

1 year					
No.	Best performers	% change	No.	Worst performers	% change
1	AMERISUR RESOURCES PLC	121.0%	1	SOUND OIL PLC	-83.4%
2	INDUS GAS LTD	78.4%	2	CHARIOT OIL & GAS LTD	-79.4%
3	KEA PETROLEUM PLC	70.7%	3	RESACA EXPLOITATION-DI	-78.3%
4	PETROCELTIC INTERNATIONAL	65.9%	4	PETRO MATAD LTD	-76.7%
5	COASTAL ENERGY CO	62.9%	5	PETRONEFT RESOURCES PLC	-74.2%

Source: Bloomberg

Exhibit 2: EV/2P + 2C rankings



Source: Bloomberg, company releases, Edison Investment Research

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