

Seismic reflections

Listening out for the Falklands jungle drums

Interest in Falklands oil exploration has dwindled during 2011 as investors limit exposure to the frontier region. However, with Rockhopper nearing the end of its extended Sea Lion appraisal campaign, a second discovery having been confirmed in the shape of Casper, and most critically the Leiv Eiriksson drilling rig coming over the horizon to start drilling in the South Falklands Basin, we expect interest to pick up significantly in the new year. Enthusiasm may not reach the peaks of 2010's hysteria, but the region continues to offer some of the cheapest proven oil in the ground along with excellent upside for the frontier exploration investor.

Press coverage dries up

Column inches during 2010 became as inflated as valuations when Rockhopper bagged its maiden discovery at Sea Lion. However, more recently front page spreads have been replaced with only the briefest of mentions. Indeed, confirmation last month of a second discovery in the shape of Casper was greeted in one leading trade journal with a paltry one inch of text and 36 words.

Investors take flight

Despite the almost heroic efforts of Rockhopper to fully appraise its Sea Lion prospect, with eight appraisal wells almost all on prognosis and two flow tests driving resource estimates up to 389mmbbls, the interest in the North Falklands Basin has continued to wane. Most recently close neighbours Desire and Argos effectively declared they had failed to raise funds to drill additional holes before the Ocean Guardian rig leaves for the North Sea in the new year. Although geologically completely different, this malaise has also spread to the South Falklands Basin where Borders and Southern and Falkland Oil & Gas have suffered despite having still to spin the drill-bit on any of their top assets.

Bullish sentiment set to return?

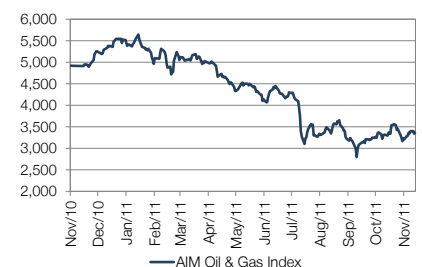
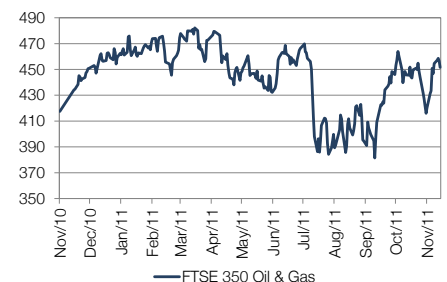
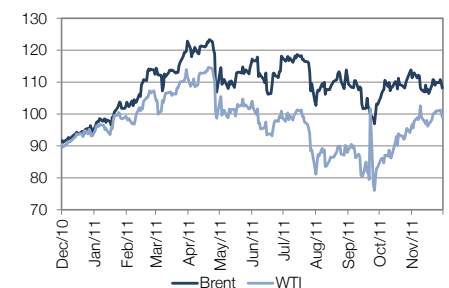
With the imminent arrival of the Leiv Eiriksson in January 2012 to drill two wells each for Borders and FOGL, we expect to see the column inches start to return. Both companies are true elephant hunters, with FOGL in particular targeting the biggest of the prospects in Loligo at 4.5bn barrels. Both companies offer excellent upside potential with Borders trading at \$0.6/bbl of post-drill resources and FOGL as low as \$0.2/bbl on the same basis. Coupled with this is Rockhopper nearing the end of its appraisal campaign after which a data room will be opened and a CPR prepared to either entice equity partners or secure reserve-based lending. We look to all of this contributing both to greater interest and a more bullish sentiment for a region that has suffered unduly in difficult markets.



Analysts

Ian McLelland	+44 (0)20 3077 5756
Colin McEnery	+44 (0)20 3077 5731
Peter J Dupont	+44 (0)20 3077 5741
Elaine Reynolds	+44 (0)20 3077 5700
Krisztina Kovacs	+44 (0)20 3077 5700

oilandgas@edisoninvestmentresearch.co.uk



For institutional enquiries please contact:

Andrew Chesny	+44 (0)20 3077 5746
Gareth Jones	+44 (0)20 3077 5704

institutional@edisoninvestmentresearch.co.uk

Exhibit 1: Best and worst performers

1 week					
No.	Best performers	% change	No.	Worst performers	% change
1	URALS ENERGY PUBLIC COMPANY	51.0%	1	XCITE ENERGY	(18.7%)
2	PETRO MATAD	23.8%	2	FRONTERA RESOURCES CORPORATION	(16.7%)
3	AMERISUR RESOURCES	17.9%	3	MAX PETROLEUM	(12.5%)
4	PETROCELTIC INTERNATIONAL	15.3%	4	SOUND OIL	(11.3%)
5	PETRONEFT RESOURCES	8.8%	5	ENEGI OIL	(10.3%)

1 month					
No.	Best performers	% change	No.	Worst performers	% change
1	URALS ENERGY PUBLIC COMPANY	45.3%	1	LENI GAS AND OIL	(47.7%)
2	PETRO MATAD	35.6%	2	EUROPA OIL AND GAS	(42.4%)
3	PRESIDENT PETROLEUM	30.3%	3	SOUND OIL	(37.2%)
4	FORUM ENERGY	28.4%	4	XCITE ENERGY	(36.8%)
5	AMERISUR RESOURCES	26.9%	5	BOWLEVEN PLC	(28.4%)

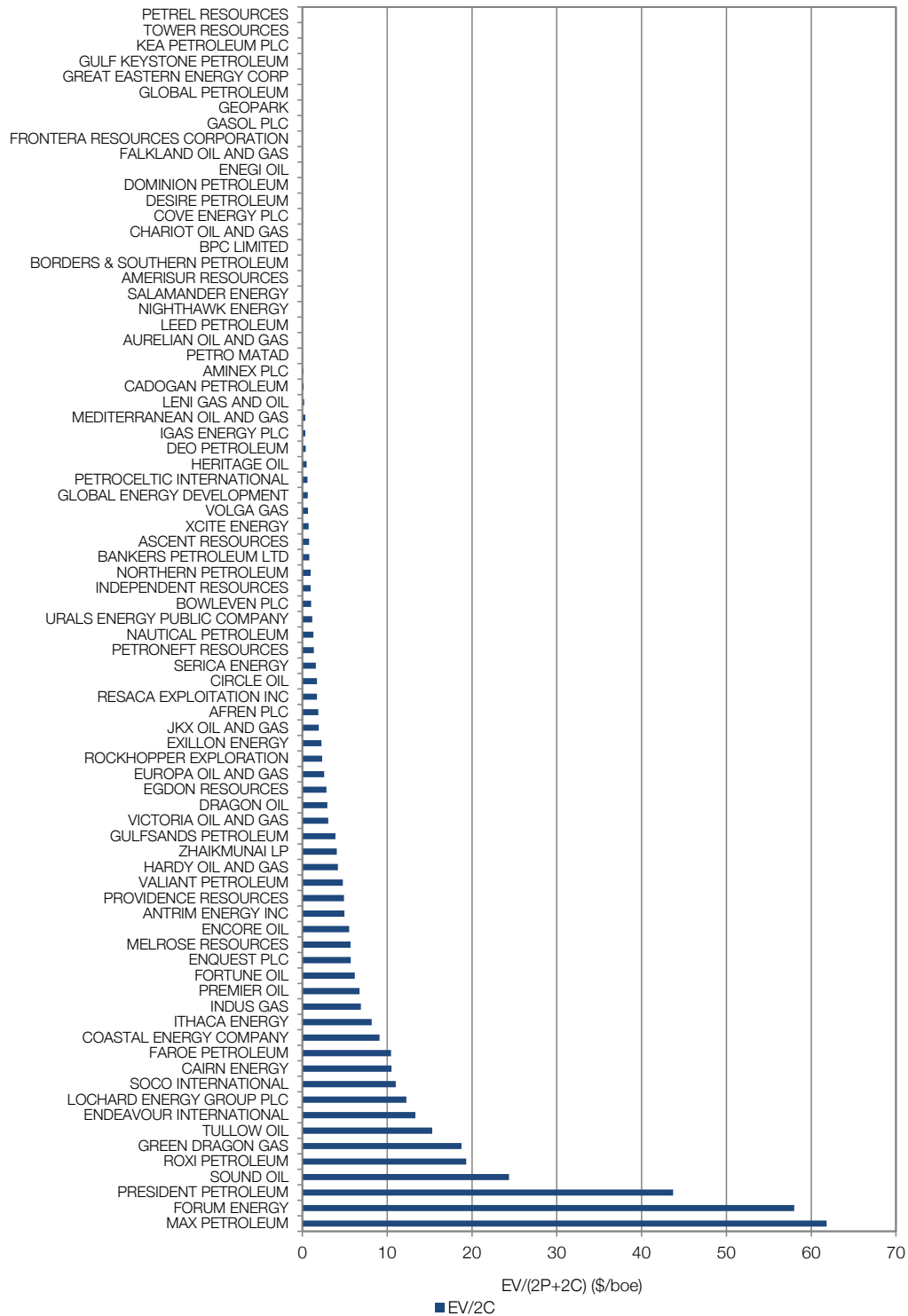
3 months					
No.	Best performers	% change	No.	Worst performers	% change
1	DOMINION PETROLEUM	70.4%	1	LENI GAS AND OIL	(69.6%)
2	PETROCELTIC INTERNATIONAL	50.8%	2	AURELIAN OIL AND GAS	(63.1%)
3	ENCORE OIL	46.7%	3	AMINEX PLC	(55.1%)
4	FORUM ENERGY	41.9%	4	EUROPA OIL AND GAS	(51.0%)
5	GLOBAL ENERGY DEVELOPMENT	41.1%	5	BOWLEVEN PLC	(47.5%)

6 months					
No.	Best performers	% change	No.	Worst performers	% change
1	COASTAL ENERGY COMPANY	105.4%	1	PETRO MATAD	(82.6%)
2	PRESIDENT PETROLEUM	96.2%	2	LENI GAS AND OIL	(82.4%)
3	FORUM ENERGY	36.8%	3	FRONTERA RESOURCES CORPORATION	(79.1%)
4	GLOBAL ENERGY DEVELOPMENT	36.8%	4	BOWLEVEN PLC	(77.9%)
5	INDEPENDENT RESOURCES	36.2%	5	AURELIAN OIL AND GAS	(69.8%)

1 year					
No.	Best performers	% change	No.	Worst performers	% change
1	COASTAL ENERGY COMPANY	130.0%	1	LENI GAS AND OIL	(83.7%)
2	CADOGAN PETROLEUM	57.7%	2	FRONTERA RESOURCES CORPORATION	(80.4%)
3	GLOBAL ENERGY DEVELOPMENT	45.3%	3	BOWLEVEN PLC	(78.6%)
4	ANTRIM ENERGY INC	31.6%	4	EUROPA OIL AND GAS	(76.0%)
5	SOUND OIL	29.1%	5	PETRO MATAD	(74.9%)

Source: Bloomberg

Exhibit 2: EV/2P + 2C rankings



Source: Bloomberg, company releases, Edison Investment Research

Edison Investment Research is a leading international investment research company. It has won industry recognition, with awards both in Europe and internationally. The team of 80 includes over 50 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 350 companies across every sector and works directly with corporates, fund managers, investment banks, brokers and other advisers. Edison's research is read by institutional investors, alternative funds and wealth managers in more than 100 countries. Edison, founded in 2003, has offices in London and Sydney and is authorised and regulated by the Financial Services Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584).

DISCLAIMER

Copyright 2011 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. This communication is intended for professional clients as defined in the FSA's Conduct of Business rules (COBs 3.5).