

# Seismic reflections

## Closing bell for the 27<sup>th</sup> UK licensing round

At 2pm on 1 May 2012 the Department of Energy and Climate Change (DECC) closed the bid submission for the 27<sup>th</sup> licensing round. With an estimated 20bnboe recoverable left on the UK Continental Shelf, there is still significant upside available to the oil and gas companies involved in the UK and to the shareholders that invest in them. Over the last decade we have seen a gradual decline in the amount of integrated oil company (IOC) activity in the North Sea, which is being replaced by small-/mid-cap public and private companies.

### What is on offer?

The DECC's 27<sup>th</sup> licensing round allows oil and gas companies to submit bids to the government to win licences to explore for hydrocarbons in offshore UK. While most of the attention is on the North Sea, the DECC also offers licences for other regions around the UK, such as the English Channel and the Irish Sea. Announced on 1 February 2012, the 27<sup>th</sup> round offers 2,800 blocks, with bids submitted by 1 May 2012. We expect the announcement of the first tranche of awards by the end of 2012. The 27<sup>th</sup> round follows the successful 26<sup>th</sup> round in 2010, which issued 190 licences – the most since offshore licensing began in 1964. With around 60% of the country's energy demands currently met by domestic supply and with the industry directly and indirectly employing around half a million people, oil and gas activity in the UK Continental Shelf will continue to be a significant asset to UK plc.

### Who is involved?

IOCs like BP and small-caps like North Sea Energy all participate in the licensing rounds. Analysis of the awards in the 26<sup>th</sup> round confirms our belief that many IOCs have withdrawn from the North Sea and more small-/mid-cap public and private companies have moved in. In the 26<sup>th</sup> round IOCs accounted for c 24% of the block awards, with public small-caps and private companies (sub \$1bn) taking c 57% of the licences on offer. While IOCs go elephant hunting off the coast of West and East Africa, the resources left remain commercial for small-/mid-cap operators. However, the North Sea is still attractive to IOCs and larger independents through potential large discoveries, with the deep sea area West of Shetland receiving the most attention.

### New kids on the block

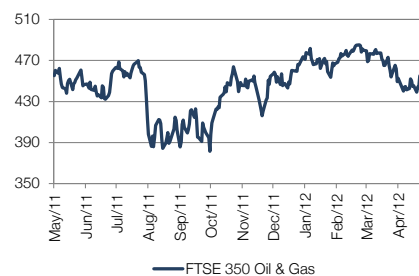
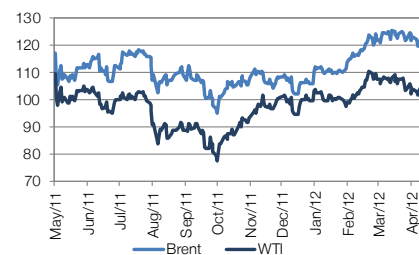
With a move away from large IOCs taking most of the licences, the rounds have become more competitive with a larger number of small-/mid-cap public and private companies competing for the acreage. Dana's management team – reincarnated as the Parkmead Group – is likely to be a one of the new faces in the 27<sup>th</sup> round. We expect companies with busy work programmes, such as Premier (the Solan, Huntindon and Rochelle projects) and Enquest (the Alma & Galia and Kraken project), to replenish the hopper but they may not feature as heavily as they have done in previous rounds.



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**Exhibit 1: Best and worst performers**

1 week					
No.	Best performers	% change	No.	Worst performers	% change
1	FORUM ENERGY PLC	17.2%	1	ENDEAVOUR INTERNATIONAL CORP	(25.0%)
2	TOWER RESOURCES PLC	16.8%	2	PETRO MATAD LTD	(16.7%)
3	CADOGAN PETROLEUM PLC	14.1%	3	FRONTERA RESOURCES CORP	(11.7%)
4	NIGHTHAWK ENERGY PLC	11.3%	4	LOCHARD ENERGY GROUP PLC	(9.6%)
5	CIRCLE OIL PLC	10.3%	5	HARDY OIL & GAS PLC	(9.5%)

1 month					
No.	Best performers	% change	No.	Worst performers	% change
1	FORUM ENERGY PLC	171.7%	1	AMINEX PLC	(36.6%)
2	IGAS ENERGY PLC	52.6%	2	FRONTERA RESOURCES CORP	(32.0%)
3	FALKLAND OIL & GAS LTD	52.3%	3	PRESIDENT PETROLEUM CO PLC	(26.1%)
4	BORDERS & SOUTHERN PETROLEUM	34.0%	4	ROXI PETROLEUM PLC	(25.8%)
5	GEOPARK HOLDINGS LTD	16.9%	5	ENDEAVOUR INTERNATIONAL CORP	(22.6%)

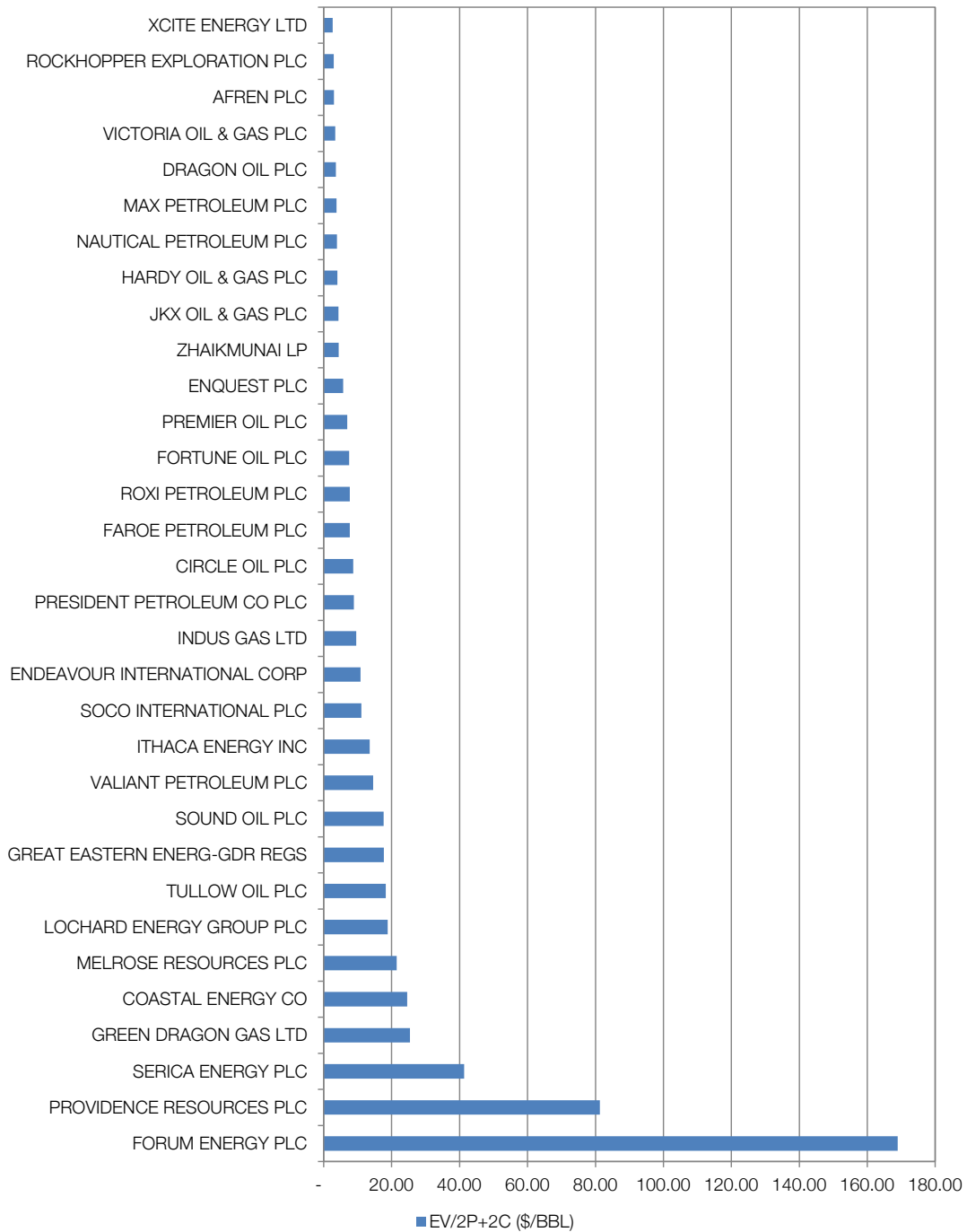
3 months					
No.	Best performers	% change	No.	Worst performers	% change
1	FORUM ENERGY PLC	171.7%	1	EXILLON ENERGY PLC	(48.7%)
2	PROVIDENCE RESOURCES PLC	103.5%	2	PETRONEFT RESOURCES PLC	(48.1%)
3	FALKLAND OIL & GAS LTD	61.2%	3	FRONTERA RESOURCES CORP	(44.5%)
4	COVE ENERGY PLC	60.7%	4	ROXI PETROLEUM PLC	(41.0%)
5	NIGHTHAWK ENERGY PLC	52.8%	5	ANTRIM ENERGY INC	(40.7%)

6 months					
No.	Best performers	% change	No.	Worst performers	% change
1	FORUM ENERGY PLC	294.7%	1	PETRONEFT RESOURCES PLC	(70.9%)
2	PROVIDENCE RESOURCES PLC	201.8%	2	FRONTERA RESOURCES CORP	(56.3%)
3	COVE ENERGY PLC	160.9%	3	EXILLON ENERGY PLC	(55.0%)
4	AMERISUR RESOURCES PLC	86.5%	4	SOUND OIL PLC	(51.3%)
5	KEA PETROLEUM PLC	82.1%	5	ROXI PETROLEUM PLC	(41.0%)

1 year					
No.	Best performers	% change	No.	Worst performers	% change
1	FORUM ENERGY PLC	240.9%	1	PETRO MATAD LTD	(90.4%)
2	COASTAL ENERGY CO	182.4%	2	FRONTERA RESOURCES CORP	(89.2%)
3	COVE ENERGY PLC	149.3%	3	PETRONEFT RESOURCES PLC	(87.0%)
4	DESIRE PETROLEUM PLC	103.9%	4	SOUND OIL PLC	(72.9%)
5	PROVIDENCE RESOURCES PLC	94.8%	5	EXILLON ENERGY PLC	(70.6%)

Source: Bloomberg

**Exhibit 2: EV/2P + 2C rankings**



Source: Bloomberg, company releases, Edison Investment Research

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