

## **North Sea, Hype or Hydrocarbons?**

- We are initiating coverage on 11 companies. We rate Antrim Energy (AEN CN, AEY LN) a Speculative Outperform and Bow Valley (BVX CN), Oilexco (OIL CN, OIL LN), Revus Energy (REVUS NO), Faroe Petroleum (FPM LN) and Granby Oil and Gas (GOIL LN) all as Outperform.
- We believe that these companies each have sustainable business models, which significantly increases the probability that investors will participate in the theoretical upside. AEN, BVX, OIL and REVUS all have current production to fund exploration. GOIL has production assets due onstream in 2007, while FPM has an extensive portfolio of material exploration to allow it to run the risks of exploration.
- Despite the growing maturity across the North Sea, the United Kingdom Continental Shelf (UKCS), the Norwegian Continental Shelf (NCS) and Dutch North Sea (DNS) continue to attract a wide range of industry participants.
- In Norway, the KonKraft initiative has led to changes in the tax system to enable smaller companies and new entrants to explore on an equal fiscal footing similar to larger and established players. In the Netherlands, the long standing small fields policy is encouraging a new generation of companies to search for gas. In the UK a number of new initiatives – Promote Licences, Frontier Licences and the Fallow Acreage policy have reduced the upfront financial burden and encouraged a raft of new entrants.
- The aim of this report is to review the different business models being adopted by the companies regardless of where they are listed. We have reviewed and outlined the activities of 28 companies (including 5 of the new breed of private equity financed companies (one of which went public as we completed the report) and carried out a detailed valuation and initiated coverage on 11 of the companies.
- A number of pure exploration companies listed on the UK's AIM market in 2005 and attracted investors with the potential upside of drilling success. However after a number of high profile disappointments, there is a question mark over the market's willingness to continue to fund such companies.
- Our recommendations are biased towards companies with existing or near-term production, which will enable the companies to continue to finance their exploration and development programmes, or at the very least have some control over the timing of when they seek additional funding from the market place.

Please see the back two pages for important disclosure information

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## North Sea Initiating Coverage

### Exhibit 1 : North Sea Research Report – Summary Valuation Matrix

Company			Antrim Energy	Bow Valley	Cirrus	Elixir	EnCore	Endeavour International	Faroe Petroleum	Granby Oil & Gas	Nautical Petroleum	Oilexco	Rewus Energy	Wham
General	Area of North Sea		UKCS	UKCS	NNS	UKCS	UKCS	All	All	UKCS	UKCS	UKCS	NCS	UKCS
	Production Status		Y	Y	Y	N	N	Y	N	N	N	Y	Y	N
Market Information	Mkt Cap	US\$ mm	130.1	399.4	36.4	22.1	95.4	214.8	182.6	42.0	234.3	888.1	295.1	26.8
	Enterprise Value	US\$ mm	94.0	422.2	na	12.1	57.8	184.6	94.6	25.1	207.1	1,128.6	268.1	10.5
Pricing information	Local Coy		C\$	C\$	C\$	p	p	US\$	p	p	p	C\$	NOK	p
	Current Price	local/sh	2.07	6.40	1.17	18.3	24.5	2.71	130.5	86.0	11.5	5.05	55.0	44.5
	Dual Listing Price	local/sh	101.5p			AUS\$0.44						241.5p		
Core Valuation	P+P Reserves	local/sh	0.60	4.34	na	-	3	5.69	-	39	11	3.68	23	-
	Cash	local/sh	0.64	0.02	na	7	10	5.51	60	35	1	0.47	5	25
	Core NAV	local/sh	1.24	4.36	-	7	13	0.18	60	73	12	4.14	28	25
Upside Valuation	RENAV 2006-07	local/sh	1.13	2.33	-	59	15	1.08	57	59	1	1.76	54	16
	Future Drilling	local/sh	-	-	na	21	5	0.05	105	82	-	-	-	59
	Other	local/sh	-	0.24	-	-	-	-	-	91	1	0.74	-	-
	Option Proceeds	local/sh	0.37	0.15	na	6	-	-	5	-	-	0.23	-	4
	RENAV	local/sh	2.74	7.08	-	93	33	1.31	227	305	15	6.88	81	103
Unrisked RENAV	local/sh	4.04	15.83	na	852	174	6.46	2,929	1,863	41	16.25	148	710	
Based on original equities	RENAV	local/sh	2.74	7.08	-	170	43	1.51	391	323	17	6.88	82	184
	Unrisked RENAV	local/sh	4.04	15.83	na	1,024	250	10.57	7,257	2,184	63	16.25	152	1,684
Value Metrics	Price to Core Value	%	167%	147%	na	262%	190%	1523%	217%	117%	92%	122%	198%	179%
	Price to RENAV	%	76%	90%	na	20%	74%	208%	57%	28%	77%	73%	68%	43%
Reserves as at June 2006	Core	mmboe	6.38	17.34	1.64	-	1.45	25.16	-	1.53	64.00	36.82	17.06	-
	Risked Exploration	mmboe	6.32	27.00	na	20.21	12.13	12.16	44.85	16.34	6.00	33.64	61.23	6.96
	Total	mmboe	12.70	44.34	1.64	20.21	13.57	37.31	44.85	17.86	70.00	70.46	78.29	6.96
Production	2006e	mboe/d	1.4	3.8	na	-	-	11.3	-	-	-	3.2	2.4	-
	2007e	mboe/d	2.3	8.1	na	-	0.2	10.3	-	0.6	-	32.5	8.4	-
Additional info	Cash/(Net Debt)	US\$ mm	46.88	1.39	na	9.97	37.56	(444.19)	88.07	16.90	27.17	89.09	27.06	16.34
	06 / 07 CF	US\$ mm	8.2 / 15.0	49.3 / 113.4	na	0 / 0	0 / 0	19.4 / 32.1	0 / 0	0 / 2.6	0 / 0	27.2 / 365	32.1 / 80.8	0 / 0
	Drilling program cost	US\$ mm	19.75 / 0	15 / 30	na	0 / 1.1	2.5 / 25.1	22.2 / 100.0	4.5 / 4.4	0.7 / 0	0.8 / 34.3	75.0 / 150.0	24.0 / 54.7	0 / 0
	Track record 2005/06 <sup>1</sup>		0 / 3	na	na	0 / 3	0 / 0	1 / 5	0 / 1	0 / 2	0 / 0	3 / 7	1 / 2	0 / 1
Comments	Adjusting Factor		na	na	na	Farmed out & risked heavily	Farm down of Golden Eagle to 15% W.I.	Incl. purchase of Talisman assets - May	Farmed out prospects	Farmed out & risked heavily	Farmed out prospects	na	production at Blåmannen Q4 2006	Farmed out & risked heavily
	Wells Booked for H2 2006 Current Activity		1	1	na	no rig	1	several	1	no rig	1	several	several	no rig
			To drill Causeway in June 2006	Two operated exploration wells in late Summer 2007	na	Nexen plan to drill Guinea project in block 15/13b in Q4 2006	Drilling Golden Eagle in Q4 2006	First production from Enoch expected 4Q 2006	drill Brugdan in July 2006	Nexen plan to drill Guinea project in block 15/13b in Q4 2006	Submit FDP for Mariner by 2007, drill Grenade in Dec 2006	Drilling Nicol field, then moving to appraise Disraeli	Looking to trade its Fram B discovery	No commitment, investigating farm-out opportunities

<sup>1</sup> successful wells / total drilled in 2005/2006

Source: Tristone

## Summary and Recommendations

Based on our review of the North Sea we are initiating coverage on 11 companies. We rate Antrim Energy (AEY CN, AEY LN) a Speculative Outperform and Bow Valley (BVX CN), Oilexco (OIL CN, OIL LN), Revus Energy (REVUS NO), Faroe Petroleum (FPM LN) and Granby Oil and Gas (GOIL LN) all as Market Outperform. In our view all of these companies offer sustainable business models for the medium term and considerable potential for share price appreciation through their exploration and development programs.

Despite the growing maturity in all areas of the North Sea, the United Kingdom Continental Shelf (UKCS), the Norwegian Continental Shelf (NCS) and Dutch North Sea (DNS), the region continues to attract a wide range of industry participants.

The “prize” in terms of the remaining recoverable resources remains large with an estimated 22-28 bn boe yet to be found. While these discoveries will be in smaller deposits, the extensive infrastructure in place facilitates development. In a world of increasing political and economic nationalism, the relatively stable political, fiscal and regulatory regimes and ready access to markets are all attractive features of the North Sea, provided oil prices remain high and the UK tax system remains flexible.

Governments and industry have recognised the challenges that increasing maturity brings and accordingly, a number of new initiatives have been introduced in each region. There is recognition that the size of some of the future discoveries and developments are no longer material enough to compete for capital with opportunities that are more attractive to the larger industry players and International Oil Companies (IOCs). Hence the focus has shifted toward how to maximise ultimate recovery and encourage the entrance of a new generation of companies to whom the opportunities are material.

In Norway, the KonKraft initiative has led to changes in the tax system to enable smaller companies and new entrants to explore on an equal fiscal footing similar to the larger and established players. In the Netherlands, the long standing small fields’ policy is encouraging a new generation of companies to search for gas. In the UK a number of new initiatives – Promote Licences, Frontier Licences and the Fallow Acreage policy have reduced the upfront financial burden and encouraged a raft of new entrants.

Investors have been offered the opportunity to participate in this new wave with a number of new companies either seeking seed capital, private equity or coming to the public markets – predominately through the AIM market in London and the TSX-V Venture exchange in Toronto, but also Oslo, the AMEX exchange, Stockholm and even the Iceland Stock Exchange/Faroese securities market

The aim of this report is to review the different business models being adopted by the companies regardless of where they are listed. We have reviewed and outlined the activities

of 27 companies (including 4/5 of the new breed of private equity financed companies (one of which went public as we completed the report) and carried out a detailed valuation and initiated coverage on 11 of the companies.

A number of pure exploration companies listed on the UK's AIM market in 2005 and attracted investors with the potential upside of drilling success. However after a number of high profile disappointments, there is a question mark over the market's willingness to continue to fund such companies. More sophisticated investors are taking a portfolio approach and balance the exploration risks of failure and success within their own fund. This could leave a number of companies seeking funds on poorer terms. Equally if companies are seen to be short of cash it is likely that the terms that can be achieved on a farm out of their exploration interests will also be undermined.

Given the inherent risks in exploration – a 10% chance of success for a wildcat to a 30-50% chance of success for “lower” risk exploration and appraisal wells, companies must have a portfolio of prospects to avoid just rolling the dice on their financial future. With rising drilling costs, some companies will find that they do not have sufficient funds to embark on a two or three well campaign and farming down their interests will be integral to their business strategy.

**Exhibit 2: Number of Wells to Drill to Achieve 50-50 Chance of Success**

Exploration Prospect Risk	10%	20%	25%	30%	40%	50%
No of Wells	7	4	3	2	2	1

Source: Tristone Capital

Even a company with a relatively low risk inventory with prospects with (independent) 30% chance of success will have to drill two wells just to have a 50-50 chance of success, drilling a third well for this company will give it a 2-1 chance of a success. Once higher risks prospects are drilled, then the number of wells required to have a 50:50 chance of success starts to increase rapidly (Exhibit 2).

Our recommendations are biased towards companies with existing production or production in the near future, which will enable the companies to continue to finance their exploration and development programmes, or at the very least have some control over the timing of when they seek additional funding from the market place. We see merit in Endeavour International's (END US MP) recent acquisition of a package of assets from Talisman. The transaction is not cheap, but strategically repositions END as a self-financing (post its immediate financing requirements) North Sea exploration and production company and will enable it to accelerate and manage the risk profile of its exploration portfolio. We would expect to see further acquisitions of producing assets as companies seek to re-balance their portfolios.

Our valuation approach has been to calculate a core asset value for the company based on its known 2P reserves adjusted for its net cash or debt position and then to estimate a risked expected monetary value of the company's exploration portfolio to calculate our RENAV (Risked Exploration Net Asset Value). However we have made one further assumption in calculating our RENAV. In most instances we have assumed that companies will farm down their interests and so have calculated our RENAV on our view of what the company's likely remaining net interest will be and have credited the company with the associated reduction in drilling costs. This approach may undervalue the company's exploration portfolio, but we believe it is more realistic and reflects the likely risk mitigation that company management will carry out, that farm-in terms tend to reflect costs and not potential value and finally that for many smaller companies farming out will significantly increase the probability of the well being drilled at all.

## **Initiating Coverage on 11 Companies**

### **Antrim Energy (AEN CN, AEY LN; Market Cap: US\$ 130 mm)**

#### **12 Month Target C\$2.75 or 130p, Speculative Outperform**

We are initiating coverage on Antrim with a Speculative Outperform and a price target of C\$2.75. With a strong lower risk producing asset base in Argentina and its higher risk, high reward Causeway prospect currently drilling we think that Antrim will Outperform over the longer term, but remain speculative over the short term. Success at Causeway could provide substantial cash flow from which Antrim could use to expand its North Sea exploration program.

### **Bow Valley Energy (BVX CN; Market Cap: US\$400 mm)**

#### **12 Month Target C\$8.00, Outperform**

We are initiating coverage on Bow Valley Energy with an Outperform rating and a price target of C\$8.00. Bow Valley has positioned itself extremely well in the North Sea with a share of production in five non-operated assets. With additional growing production and reserves in Canada, a solid management team and exploration prospects in the North Sea we believe that Bow Valley will continue to outperform most of its peers and will demonstrate further success going forward.

### **Faroe Petroleum (FPM LN; Market Cap: \$183 mm)**

#### **12 Month Target 250p target, Outperform**

We initiate coverage on Faroe Petroleum with an Outperform rating and a price target of 250p. Faroe Petroleum offers material exposure to the Atlantic Margin, one of the few high risk/high reward exploration plays remaining in North West Europe. With 100% interests in

many of its licences and a recent successful fund raising for both its entry into Norway and to build its cash reserves, we estimate that Faroe could fund an eight to ten well drilling programme. Hence we believe that the business model has a high probability of success.

### **Granby Oil and Gas (GOIL LN; Market Cap: US\$42 mm)**

#### **12 Month Target 120p target, Outperform**

We initiate coverage on Granby Oil and Gas with an Outperform rating and a price target of 120p. Despite the failure of its first two UK North Sea exploration wells, the combination of potential reserve upside in its Galoc field in the Philippines, its UK exploration portfolio and its robust finances put Granby in a strong position for potential success

### **Oilexco (OIL CN, OIL LN; Market Cap: US\$888 mm)**

#### **12 Month Target C\$7.00 or 331p, Outperform**

We recently initiated coverage on Oilexco with an Outperform rating and maintain a C\$7.00 price target. Lead by an aggressive and experienced management team, Oilexco, with its advanced stage Brenda and Nicol Fields soon to provide cash flow, is well positioned to create value in the North Sea. In addition, a large inventory of prospects, appraisal projects and a dedicated drilling rig through 2010 will allow Oilexco to continue its growth towards a full-cycle E&P firm.

### **Revus Energy (REVUS NO; Market Cap: US\$295 mm)**

#### **12 Month Target NOK 80, Outperform**

We initiate coverage on Revus Energy with an Outperform rating and a price target of NOK 80/share. Revus offers a strong high quality management team who have already established a proven track record in building a Norwegian independent and qualifying as an operator for the NCS. Revus provides a good portfolio of production assets, low risk development with additional exploration upside. While the Norwegian after tax per barrel values are low, the 78% tax relief on exploration drilling means that the risked capital is also low and provides good opportunities for capital appreciation.

### **EnCore Oil (EO/ LN; Market Cap: US\$95 mm)**

#### **12 Month Target 24p, Market Perform**

We initiate coverage on EnCore Oil with a Market Perform rating and a price target of 24p (in line with our RENAV opportunities for 2006/07). A pure exploration play, EnCore is led by a highly regarded management team responsible for the discovery of the Buzzard field. EnCore's immediate future lies with its "Buzzard look-alike" prospect in Block 18/5, which is expected to be drilled in 4Q06.

**Endeavour International (END US; Market Cap: US\$215 mm)****12 Month Target US\$2.75, Market Perform**

We initiate coverage on Endeavour International with a Market Perform rating and a price target of \$2.75, pending further clarification of its new financial structure. The acquisition of Talisman's North Sea interests is at first sight an expensive one, but the stock was already expensive and it significantly transforms END prospects and strategically is a good deal for END. However until more details of its convertible issue and expected equity issue are known, it is difficult to put hard values on the stock.

**Nautical Petroleum (NPE LN; Market Cap: US\$234 mm)****12 Month Target 15p, Market Perform**

We initiate coverage on Nautical Petroleum with a Market Perform rating and a target price of 15p. Nautical Petroleum has a very different business model as it is focussed on developing known but previously non-commercial, heavy oil fields in the North Sea. Unlike the other companies, there is little exploration risk, but rather execution risk. Nautical offers a different exposure for investors with the growth in value coming from the commercialisation of known oil reserves rather than a speculative exploration element. Hence Nautical will more likely offer steady appreciation in value than the more volatile exploration stocks.

**WHAM Energy (WAM LN; Market Cap: US\$27 mm)****12 Month Target 44.5p, Market Perform**

We initiate coverage on WHAM Energy with a Market Perform rating and a target price of 44.5p. WHAM offers an exploration play on the UK Southern Basin Gas fields. Our target price of 44.5p is based on the current core value and the risked exploration value that we expect shareholders to be exposed to over the next 12 months (41p of risked opportunities out of a total RENAV of 103p). The success and terms achieved under a farm-in programme will be critical in the evolution of our achievable RENAV and price-targets.

**Elixir Petroleum (ELP LN, EXR AU; Market Cap: US\$22 mm)****12 Month Target 14p, Underperform**

We initiate coverage on Elixir Petroleum with an Underperform rating and a price target of 14p. A pure exploration play and our RENAV value of 93p looks attractive, but against this must be weighed how much of this can be achieved without further funding. Our target price is based on the stock trading at a 100% premium to the existing core value and our view of the risk/reward of the diminishing cash balances.

**Exhibit 3: Summary Table of Ratings, Targets, Market Cap and Returns**

Company	Primary Market Symbol	Secondary Market Symbol	Initiating Coverage Rating	Current Price 1 <sup>st</sup> Market	Current Price 2 <sup>nd</sup> Market	Market Capital (US \$ mm)	Our Target Price	Upside	Core Asset Value	Current Share Premium to Core NAV	RENAV	Current Share Price vs RENAV
Antrim	AENCN	AEY LN	SOP	C\$2.07	101.5p	\$130	C\$2.75	33%	C\$1.24	67%	C\$2.74	76%
Bow Valley	BVX CN		MO	C\$6.40		\$399	C\$8.00	25%	C\$4.36	47%	C\$7.08	90%
Cirrus	CYR CN		restricted	C\$1.17		\$36						
Elixir	ELP LN	EXR AU	MU	18.25p	AU\$0.44	\$22	14p	-23%	7p	162%	93p	20%
EnCore	EO/LN		MP	24.5p		\$95	24p	-2%	13p	90%	33p	74%
Endeavour	END US		MP	US \$2.71		\$215	US \$2.75	1%	US \$0.18	1423%	US \$1.31	208%
Faroe Petroleum	FPMLN		MO	130.5p		\$183	250p	92%	60p	117%	227p	57%
Granby	GOIL LN		MO	86p		\$42	120p	40%	73p	17%	305p	28%
Nautical	NPE LN		MP	11.5p		\$234	15p	30%	12p	-8%	15p	77%
Oilexco	OIL CN	OIL LN	MO	C\$5.05	241.5p	\$888	C\$7.00	39%	C\$4.14	22%	C\$6.88	73%
Revus	REVUS NO		MO	NOK 55		\$295	NOK 80	45%	NOK 28	98%	NOK 81	68%
Wham	WAMLN		MP	44.5p		\$27	44.5p	0%	25p	79%	103p	43%

Source: Tristone

## Introduction

Despite its reputation as a maturing producing province, the UKCS continues to provide appeal as a profitable area for E&P activities. Characteristics that continue to attract and retain a varied group of companies include:

- A large number of discoveries and prospects, with over 300 fields producing 3.5 mm boe/d;
- Access to extensive infrastructure;
- Proximity to markets; and
- A relatively stable political and regulatory environment.

In the late 1990s, a joint UK Government and Oil and Gas Industry Task Force, recognising the increasing maturity of the UK North Sea, established a 2010 production target of 3 mmboe/d and investment of around £3 bn per annum. While these investment levels are likely to be exceeded, there is a risk of a significant short fall in production. Regardless, the prospectivity of the UK North Sea is not in doubt and the potential for reserves upside is clearly one of the most compelling reasons for companies to maintain or establish a presence in the region, with an estimated exploration upside of 22 – 28 bnboe (Hannon & Westwood). A number of recent initiatives designed to extract the remaining oil in place have been introduced which compliments the fact that the North Sea is well positioned with access to large and well-developed mature markets for both oil and gas. It is widely recognised both within industry and by respective Governments that the opportunities are attracting a new type of company as the Majors focus on more technical challenging plays (West of Shetlands and High Pressure High Temperature Gas).

The UK and Norwegian Governments have introduced a number of regulatory changes to encourage this new phase in the North Sea and to enable new entrants to gain access to acreage and infrastructure. The UK's attractive and stable fiscal regime has historically also been one of the main drawing factors for companies. However, that perception has been threatened by the introduction of windfall taxes in 2002 and 2005. Provided oil prices remain high though, the fiscal terms are attractive and the changes are relatively minor compared to those introduced by other regimes such as Venezuela, Russia & Bolivia.

The introduction of measures to encourage the entry of new E&P companies has been successful in both the UK and Norway. Since the North Sea also offers a liquid asset market, second only to North America, which when combined with frequent licensing rounds give companies the opportunity not just for entry, but also to also grow and diversify their portfolios. Crucially, this also presents management with a readily accessible exit route should the company decide to monetize its portfolio. Value rather than volume is the driver that is sustaining interest in the UK currently.

## Background - UKCS

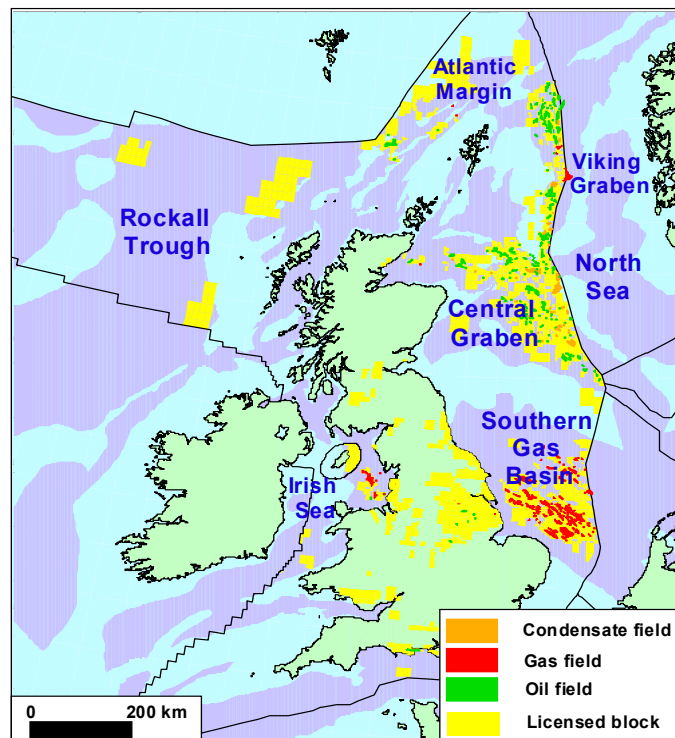
### Production

With over 34 bnboe of cumulative production and £220 bn of funds invested to date, the UK North Sea (UKCS) has been one of the major oil & gas producing regions in the world, attracting oil & gas players from across the spectrum and significant capital flows. As a hydrocarbon basin, however, its productive potential is on the decline, peaking in 1999 with approximately 4.5 mmboe/d of daily production, which is now down to ~3.5 mmboe/d. Despite the maturity of the basin and the declining production profile, the UKCS still ranks among the top twenty largest oil producers of the world (currently 14<sup>th</sup>) and in the top five for gas (currently 4<sup>th</sup>).

### Reserves

The level of remaining reserves, approximately 4.5 bnbbbls of oil and 21 tcf of gas, is significant enough to warrant continued investment from both existing players and new entrants looking for a niche. With numerous subtle stratigraphic traps still untested and the Atlantic Margin and High Pressure High Temperature (HPHT) Graben areas relatively under-explored, an estimated 22-28 bnboe remains yet to be found (Hannon & Westwood estimate). This significant upside potential is attracting both new dynamic explorers and larger more mature niche companies that are looking to ‘sweat’ assets.

### Exhibit 4: UKCS Fields and Licensed Blocks

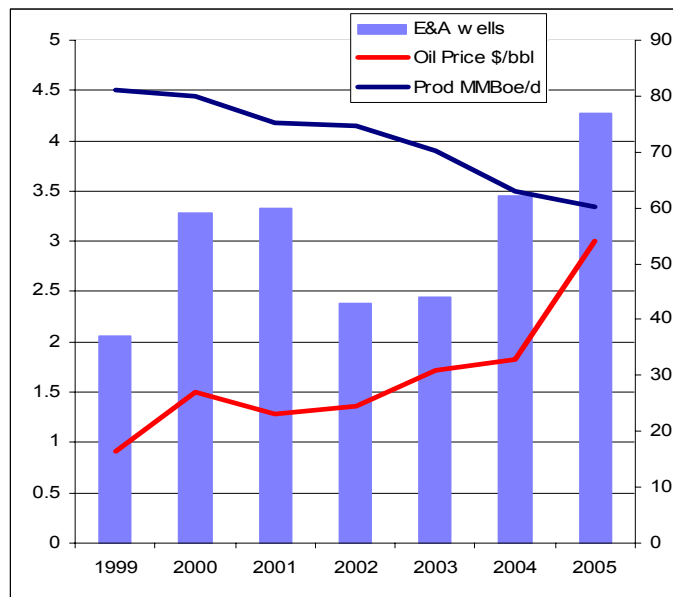


Source: DTI

## Operating Environment

The UKCS has historically been viewed as having a stable operating environment with abundant offshore infrastructure in each of its key North Sea basins. With frequent licensing rounds, there is ample opportunity to acquire exploration acreage which makes the North Sea an area with potential for a company to build and grow a portfolio through the drill bit. In addition, the escalating commodity price environment has, in recent times, acted as a counter to the inevitable maturing of the UKCS as a basin, enabling exploration, appraisal and development activity to continue to rise.

**Exhibit 5: Oil Price vs. E&A Wells Drilled**



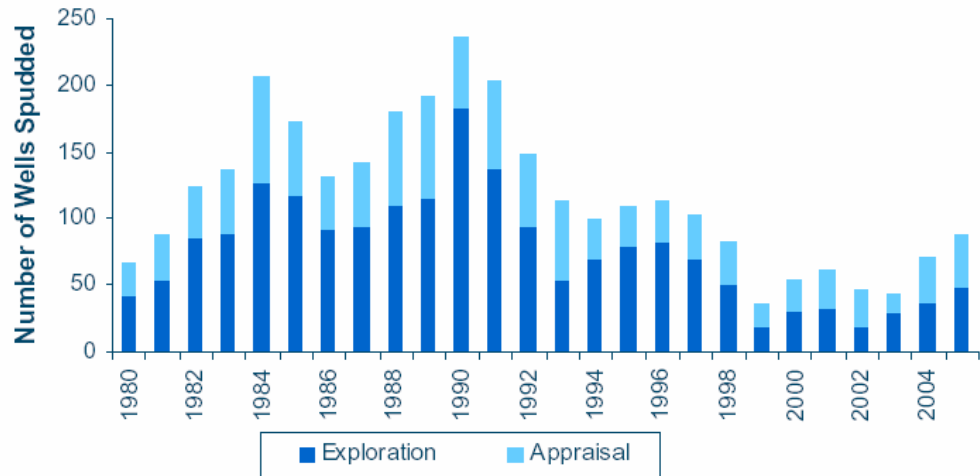
Source: Tristone Capital

## Recent Activity

Exploration and Appraisal (E&A) activity accelerated in 2005 with 77 E&A wells drilled, compared to 62 in 2004, and 44 in 2003. Development activity was also on the rise, increasing by 30% over 2004, with 230 development wells drilled in the UKCS. The 2005 licensing round (23<sup>rd</sup>) saw 99 companies, of which 25% were new entrants, participating for over 150 licenses, with renewed interest in less explored regions and a fresh focus on heavy oil. This was the highest number of applicants in 30 years. Not surprisingly, there has been a corresponding increase in investment levels, with investment reaching US\$9 bn during 2005, and expected to rise a further 30% in 2006. In 2005, the estimated cost of an average well is US\$15 mm while the low case (for a Tertiary test) ranges from US\$7.0 mm to the high case (for a deep gas condensate test) of US\$30 mm or more. The 24<sup>th</sup> licensing round is

underway and applications are due on the 15<sup>th</sup> and 16<sup>th</sup> of June 2006. The 24<sup>th</sup> round is expected to be one of the most active to date attracting a wide range of participants.

### Exhibit 6: UK E&A Drilling History



\* Includes mechanical and geological sidetracks

Source: Wood Mackenzie

### Frontier and High Impact Exploration

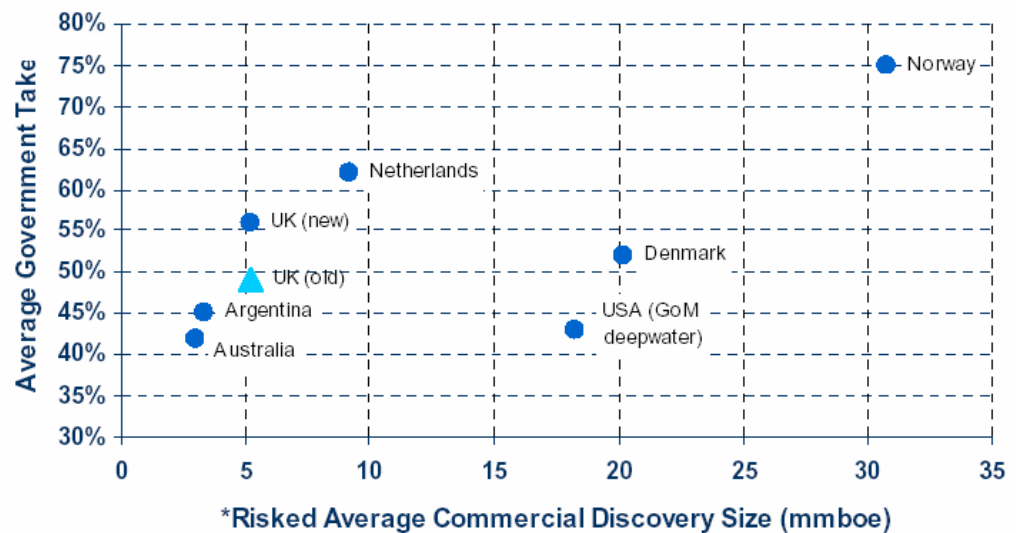
The Atlantic Margin running from Offshore Norway past the west of the Shetland Islands to the West Coast of Ireland remains one of the last areas for frontier exploration on the globe. Less than 200 wells have been drilled West of the Shetland Islands and along the Atlantic Margin. Recent high profile drilling successes include Rosebank and Cambo and development of the Laggan gas field. Extensive new seismic was acquired during 2005 and there were several new independent entrants through the UK 23<sup>rd</sup> round.

Companies are beginning to push deeper looking for HPHT targets in UKCS. Several basins in the North Sea are home to HPHT reservoirs including the Central North Sea, Fisher Bank, and West of Shetland. Typically HPHT targets are defined as reservoirs at greater than 10,000 psi pressure and 300 degrees Fahrenheit, or as a general rule of thumb reservoirs located greater than 4,000 m of true vertical depth. While the technical challenges are formidable the target sizes have pushed companies (primarily the majors and larger independents) to tackle these reservoirs. There are currently at least 12 HPHT fields in production or under development in the UKCS and at least an additional 34 undeveloped discoveries. The economic cut off limit for HPHT discoveries is hovering around 20 mmboe or 28% below the limit in 2004 driven in part by higher commodity prices and improving technology.

## Fiscal Landscape

Fields developed since March 1993 are taxed at 50% comprising Corporation Tax at 30% plus a Supplementary Charge at 20%. The marginal tax rate rises to 75% on fields which were developed prior to 1993 with the imposition of Petroleum Revenue Tax at 50% in addition to Corporation Tax and the Supplementary Charge. While the government take is considerably higher in other parts of the North Sea (eg. Norway and Netherlands), the larger average commercial discovery size in these areas has offset the higher taxation (Exhibit 7).

**Exhibit 7: Government Take vs. Average Discovery Size\***



Source: Wood Mackenzie

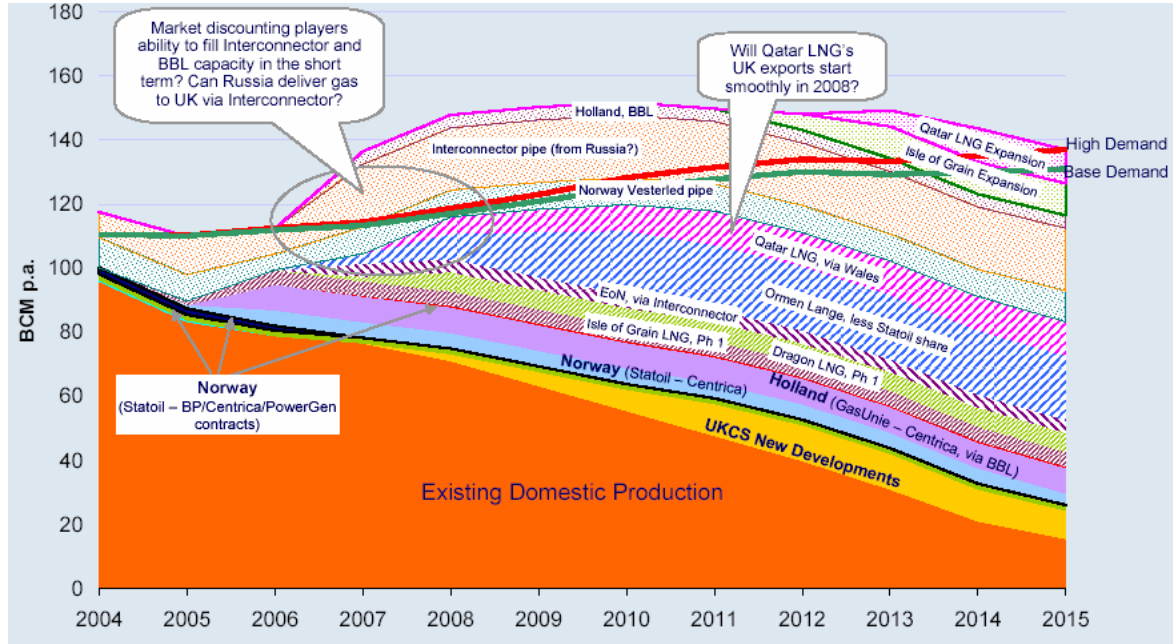
## UK Gas Supply and Demand Issues

For the first time in over a decade, the UK has become a net importer of natural gas and its self-sufficiency in natural gas production has rapidly declined. It's expected that the UK will need to import up to 40% of its natural gas to meet its energy needs by 2010. The UK experienced severe natural gas price fluctuations this past winter due to a shortage of import capacity, a lack of seasonal storage capacity and the unwillingness of Continental European suppliers to export to the UK, when they were faced with a constriction in the supply of natural gas to Europe from Russia. With LNG filling the peak demand, and the UK market in competition with the US and Far East, winter gas prices are now highly volatile and can now reach levels ten times higher than they did four years ago. Over the short term it is expected that the UK will attempt to meet its needs through both increased LNG and piped imports (Exhibit 8).

The main projected increase in natural gas imports is expected through pipelines from the Langede pipeline (Norway) carrying gas from the Ormen-Lange Field and from Continental Europe via expansion of the existing Interconnector Pipeline carrying gas sourced from the FSU. The Langede pipeline is expected to be completed and fully operational by October 2006, allowing some flexibility for Norwegian producers to divert gas supplies to the UK (from the Continent), but the main supply from the new Ormen Lange field is not expected to start until October 2007. In addition, a LNG terminal at the Isle of Grain which is already taking imports, and two terminals under construction at Milford Haven, Wales (2007) are expected to help ease natural gas supply issues.

Declines from existing fields have yet to be offset much from additional drilling and further discoveries. The picture remains bright, however for the many companies that are exploring for natural gas and have access to infrastructure to get the gas to market. Much of past exploration has focused on oil, however it is expected that more companies will evaluate their acreage for natural gas potential going forward. This has been evident in the recent activity targeting the deeper, more expensive HPHT gas condensate reservoirs in the southern Central North Sea.

**Exhibit 8: UK Gas Supply and Demand**



Source: Endeavour Petroleum

## **North Sea Challenges**

Both the production and exploration aspects of the UKCS upstream industry face a number of challenges. Higher commodity prices have added a unique set of challenges and problems that operators did not have to face in the past.

### **Declining margins**

Companies with large production portfolios, generally the majors and mid-cap independents, are faced with declining production while costs – infrastructure, rigs, subsea facilities, pipelines – are on the rise, creating a negative impact on margins. While the current price environment is concealing this problem to a large extent, a drop in commodity prices will bring it to the forefront.

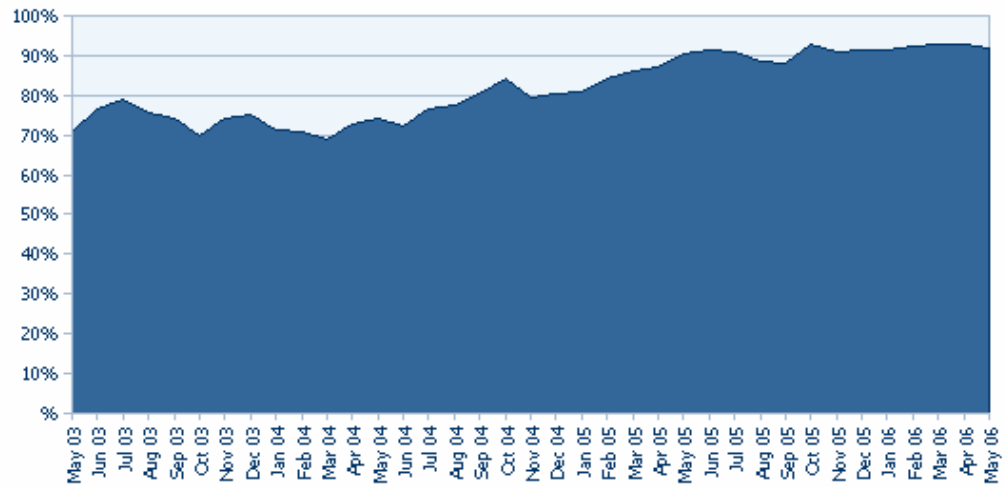
### **Decommissioning**

At present there are significant unknowns regarding the cost and extent of decommissioning in the UK. The magnitude of associated liabilities as well as related uncertainty with future fiscal treatment is seen as a potential deterrent to new investment in the UKCS. Abandonment liabilities have been pushed further out into the future by the rise in oil prices, but once oil prices stabilize, the clock will start to tick again on the impending liabilities.

Unless current activity levels are maintained, UKOOA estimates around 40% of current infrastructure could be decommissioned by 2020. In general, discovery sizes are getting smaller (20-30 mmb range) and the presence of existing infrastructure can often be the deciding factor over the commerciality of a project, thereby having a direct impact on ultimate recovery from the UKCS.

### **Rig Market Tightness**

In the short-term, the lack of rig availability is perhaps the biggest challenge faced by the industry, particularly for the smaller exploration companies. Tightness in the rig market, in this case, is symptomatic of an increasing level of E&A activity. Rig utilization averaged 88% for jack-ups and 66% for semi-submersibles in 2004, while the first quarter of 2005 saw 82% of drilling rigs located in the North Sea contracted to an operator, 75% of semi-submersible rigs booked, and 91% of jack-up rigs under contract. These utilization rates have been increasing still throughout 2005 and into the 1<sup>st</sup> quarter of 2006.

**Exhibit 9: Rig Utilization Rates – North Sea**

Source: Rig Zone

Whilst ultimately indicative of the buoyancy of the exploration sector, it also tells the story of the difficulty smaller companies are facing now in booking rig slots, and the associated expense, for their exploration programs. This situation has been exacerbated by efforts from the larger E&P companies to circumvent this potential bottleneck by block booking rigs on long-term contracts so as not to be constrained in their own drilling programs, and leasing out their equipment to smaller outfits only when there is a gap. In addition, there have been instances in which rigs have left the North Sea bound for places such as West Africa where they can secure longer term contracts.

### Discovery Size and Implications

The size of new discoveries, with the odd exception such as Buzzard, is falling. In the 1970's the average size of newly discovered fields was greater than 200 mmbbl, while today an average field is about 20 mmbbl in size. The direct implication of this is that exploration in the UK is expensive, with finding costs significantly higher than in many other countries. For example, finding costs for Norway are around 30% of those in the UK, in part reflecting the much larger size of discoveries in that country. Fortunately rising commodity prices and several DTI initiatives have temporarily mitigated much of the concern over the falling size of discoveries. Further as several of the larger firms choose to focus on exploration for larger prospects across the world, a niche market will continue to open up for smaller more nimble exploration and production companies willing to exploit smaller opportunities.

### Falling Exploration Success

Despite the poor distinction between new field, wild cat exploration and near-field potential, exploration success rates are falling. Wood Mackenzie estimates success rates of 48% for the

Southern Gas Basin and 26% for all other areas over the period 1994 – 2003. Although many of these wells were near-field step out's rather than rank wild-cat exploration wells which are thought to have had a positive bias on drilling success rates; pure exploration drilling success rates are beginning to fall. In 2005, E&P companies in the UK North Sea drilled 45 explorations wells, of which, approximately 15% or seven wells discovered new accumulations. While, based on initial results, none of these wells can be categorised as significant discoveries, the existence of near-by infrastructure and oil price outlook ensures sound economics for development of each accumulation to go ahead.

Of interest, the companies that made discoveries were established players with significant acreage positions. None of the smaller new entrants or promote companies were successful and several high profile disappointments occurred including Prometheus, Jaguar, Marquis, Hendrix, etc. Although it can be assumed that companies tend to drill their best targets first, the lack of success on the four promote wells is disappointing, but statistically non-significant. The Promote initiative has, however resulted in a commitment of at least 15 wells to be drilled over a 2 year period. Over the next two years industry and investors are going to be watching these exploration wells and their success rates closely.

## **DTI initiatives**

In recognition of the need to encourage development in a mature basin while infrastructure was still in place and the resources, such as drilling rigs and skilled labour, were available the DTI has introduced several initiatives. Most of the following initiatives have had the desired effect of increasing and promoting development and activity in the UK North Sea.

### **Promote Licenses**

'Promote' Licenses were introduced in the 21<sup>st</sup> round and provide a 2 year period in which to work up and promote the potential of the acreage, while benefiting from a 90% reduction on the rental fee, and no obligation to commit to exploration drilling or acquiring new seismic data. Entry requirements are also less rigorous, and the license can be extended for up to 2 further years. At the end of this, conversion to a traditional license or relinquishment becomes mandatory.

The promote license has had a direct positive impact on exploration activity, helping to arrest the decline which started in 2000 and turned around in 2003; with activity levels increasing each year since. By the end of 2005 approximately 30 of the 21<sup>st</sup> round promote licenses had been farmed-out successfully. Although 5 promote wells were drilled all were plugged and abandoned. Approximately 20% of exploration licenses to be drilled in 2006 will be of the promote variety.

### **Fallow Initiative**

The DTI has also been encouraging companies to relinquish blocks on which they have no immediate plans to start a drilling program or which have been fallow for sometime. This “use it or lose it” measure was introduced to counter the wide-spread industry perception that the best acreage was awarded under licenses awarded in Rounds 1-4 and that this acreage was still being held by the oil majors without any active work being carried out. Interestingly, fallow acreage wells tend to outperform traditional farm-in wells.

Introduced in 2002, and now in its fifth year, the Fallow initiative has been a success when measured against its two main objectives: encouraging activity on Fallow acreage; and increasing the amount of recycled acreage in licensing rounds. A total of 61 E&A wells have been drilled on fallow blocks since the inception of the initiative, and Field Development Plans (FPDs) are being drawn up for 18 previously fallow discoveries.

Despite initial misgivings from the industry regarding the concept, the Fallow Initiative has gathered steam. A total of 175 discoveries have been designated Fallow to date, of which 73 remain on the list with 50 designated Fallow prior to 2006. These discoveries must now have significant activity agreed or be relinquished on 29 Dec '06 (the following year for the 23, 2006 discoveries).

### **Frontier licenses**

The 'Frontier' License, limited to the areas west of the Shetland Isles, allows companies to apply for larger amounts of acreage and then relinquish three quarters after an initial screening phase during which the normal rental fees are discounted by 90%. Additionally, the exploration and development periods are extended by two years over and above those stipulated for the Traditional license.

### **Stewardship Initiative & Intra-Industry Partnerships**

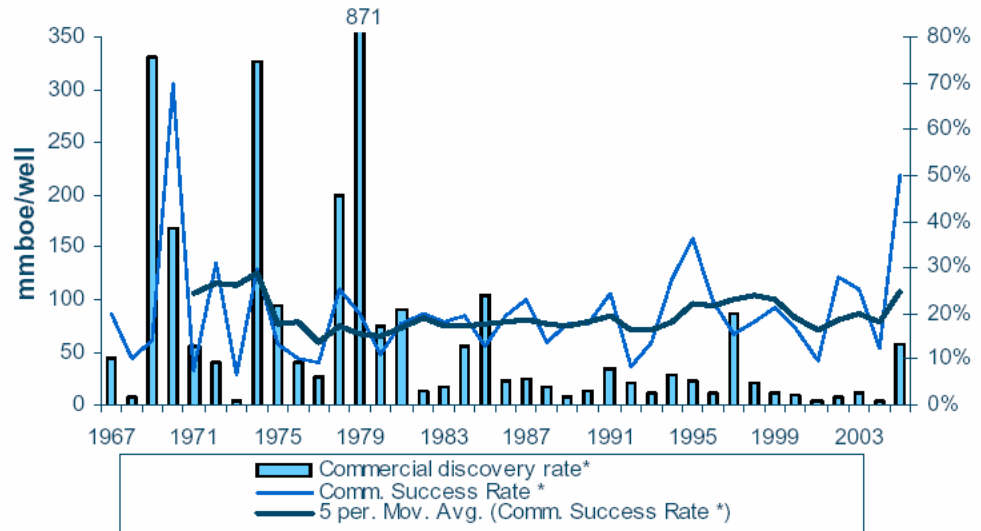
Launched by the DTI in April of this year, the stewardship initiative is aimed at assessing and where needed, improving, operator performance in the North Sea. The concept is driven by the belief that good stewardship of UKCS assets will identify opportunities and highlight new means to realize them.

Innovation in the corporate world is also a potential source of sustainability and further development within the UKCS. Intra-industry partnerships are likely to center around a targeted use of technology, improved use of subsea and supply vessels, drilling and perhaps most importantly in the short to medium-term, rig-sharing.

## Norway

Norway is the world's third largest exporter of oil and gas. The country produces over 3 mmb/d of oil and more than 8.2 bcf/d of natural gas. There is significant potential to find additional reserves and the Norwegian North Sea remains under explored when compared with the UK North Sea. The mean estimate for undiscovered resources is approximately 21 bnboe recoverable or roughly equivalent to what has been produced to date and could be substantially higher as Norway drills up its reserves.

**Exhibit 10: Norway Success Rates and Discovery Sizes**



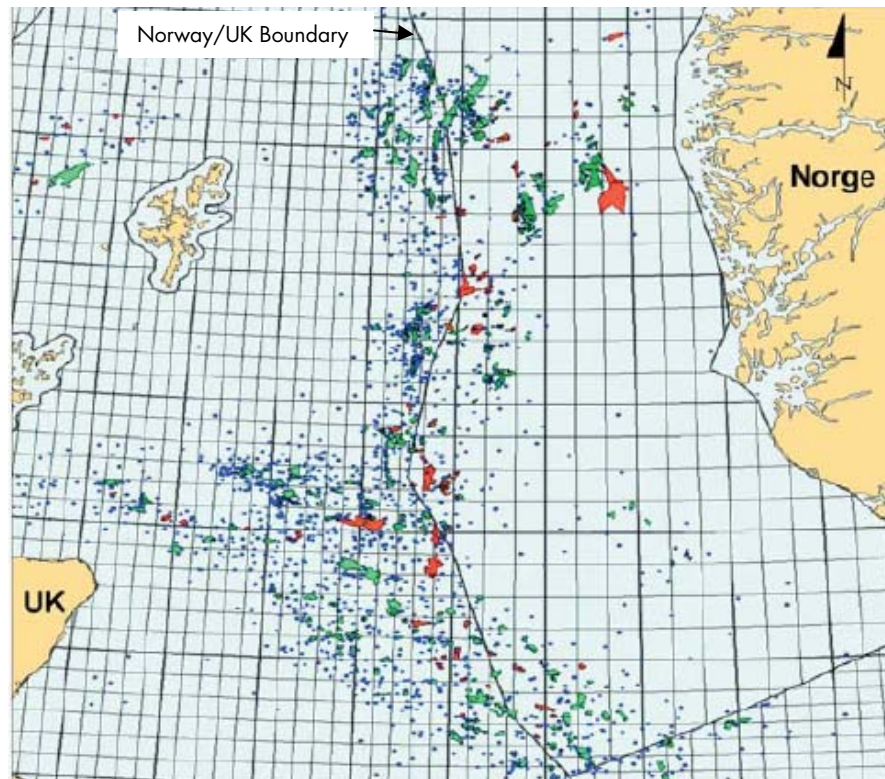
Source: Wood Mackenzie

The Norwegians continue to enjoy an outstanding exploration success rate of approximately 25%, and up to 40% when near field development is considered, due largely in part, to the under explored nature of the Norwegian North Sea.

**Exhibit 11: Norway and UK Comparative Statistics**

	Norway (NPD)	UK (DTI)
Oil Production 2004 (mmb/d)	3.2	1.78
Gas Production 2004 (bcf/d)	7.54	9.15
Proven and Probable Oil Reserves (bnb)	8.25	6.1
Proven and Probable Gas Reserve (tcf)	91.5	29.18
Yet to Find Reserves (bn boe)	21	9
Exploration Wells Drilled (approx.)	1072	2429
Average Discovery Size (mmboe)	100	30
No of Oil and Gas Fields in production	48	209

Source: Faroe Petroleum

**Exhibit 12: Map Illustrating Number of Wellbores in Norway vs. UK**

Source: Kon-Kraft

Until the late 1990's the Norwegian "model" consisted of a wholly-owned State company (Statoil), a private sector company (Norsk Hydro) and a Norwegian independent (Saga Petroleum). The takeover of Saga Petroleum and the subsequent privatisation of Statoil undermined this model. Prior to this there was a perception that even with Saga as a partner in fields operated by majors, the Norwegian Sector missed an entrepreneurial edge.

Following the examples of the UK initiatives, the 2003 Norwegian Kon-Kraft report "Norwegian petroleum industry at the crossroads" to the Storting (Norwegian Government) investigated ways of amending the tax system to stimulate greater activity in the Norwegian sector.

One of the issues facing Norway was the fiscal system. The basic rate of onshore corporate tax is 28%, but there is a 50% supplemental offshore tax taking the marginal rate to 78%. There is a 30% uplift on investment and exploration and the majority of interest costs are tax deductible, but the basic problem was how to incentivise new start-up companies who had no cash flow.

The Norwegian authorities decided to introduce a cash rebate for companies with insufficient revenues. The authorities decided to introduce this system rather than insisting that companies offset exploration drilling costs against production revenues. There were fears that this could distort the market in production assets (or small interests in assets) by creating strong demand for production assets for tax shelter. This happened in the UK in the 1980s, when exploration companies bought production to shelter tax leading to the creation of the “Forties units” (0.25% equity interests in the Forties Field) as companies sought to shelter exploration costs and in some instances valued the production on the after tax benefits.

Under the Norwegian system, 78% of exploration expenditures are refunded by the Norwegian Government in the following year. Our understanding is that it is possible for small companies to borrow against this rebate at favourable rates with the commercial banks. (for the banks it is effectively a Sovereign Risk).

Unlike the UK however, Norway has introduced a system of “Pre-qualification” under which companies must prove they have the technical expertise and sufficient resources to be able to independently contribute to the value creation in the Norwegian North Sea. This has led to 22 companies pre-qualifying to be licensees and another 26 as operators.

### Exhibit 13: Companies Qualified to Operate in Norway

As Licensee:		As Operator:	
Aker Maritime	Oranje-Nassau	Amerada Hess	Lasmo
Altinex Oil	PA Resources	Anadarko	Lundin
Discover	Paladin	Centrica	Mærsk Olie og Gas
DONG	Pelican	BG Group	Marathon
DNO	Premier Oil	Chevron	Nexen Inc
Endeavour	Ruhrgas	DNO	Noble Energy
Faroe Petroleum	Revus Energy	DONG	OMV
Gaz de France	Sumitomo	Endeavour	Paladin
Marubeni	Ener Petroleum	Enterprise	Pertra
Mitsubishi Corp.		Gaz de France	Petro-Canada
Noreco		Hunt Oil	Revus Energy
Norske AEDC		Idemitsu	Talisman Energy
OER Oil		Kerr-McGee	Wintershall

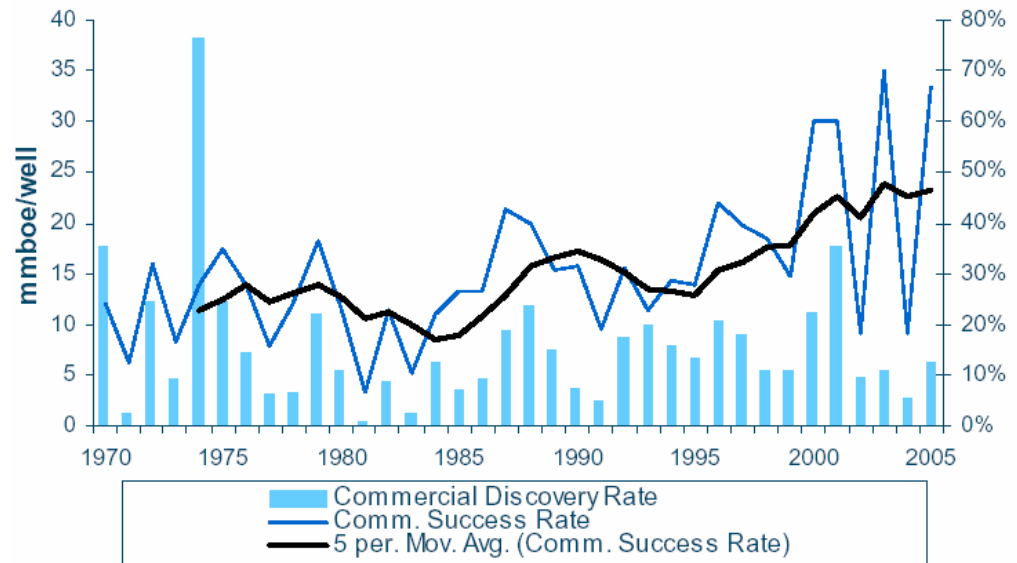
Source: NPD (As at 23<sup>rd</sup> March 2006)

In Norway, several multibillion dollar investments are under development currently including the Ormen Lange and Snohvit projects. LNG has come to the forefront at Snohvit and two large Norwegian companies (Statoil and Norsk Hydro) are said to be very keen to invest and assist in development of the massive Russian Shtokman project. Continued efforts by the Norwegian government to encourage development and the relative attractiveness of the under explored Norwegian North Sea will cause companies to continue to invest in Norway and attract new entrants to the region.

## Netherlands

The Netherlands is often overlooked in discussions on the North Sea, however a relatively significant portion of North Sea gas comes from the Netherlands. (Exhibit 15). With over 63 tcf of natural gas reserves remaining and average 2004 production of 6.7 bcf/d Netherlands has significant gas reserves. Gas production is split 60:40 between onshore and offshore fields. Its Groningen field, located onshore, is the largest natural gas field in north western Europe. The Netherlands government has capped Groningen’s production of natural gas at 2.68 tcf/yr during 2006 & 2007, and reduced the cap to 2.47 tcf/yr from 2008 to 2013 in order to maintain reserves for future use. The Groningen field continues to be used as a swing producer, although capacity has decreased enough at the field that underground storage facilities are now used in the country to meet peak winter demand. Despite this the government has had an active policy to promote small field development and encourage participants to enter the country. Success rates have been impressive for exploration drilling and have averaged 40% over the last decade while F&D costs have averaged about US\$6.00/boe.

**Exhibit 14: Netherlands Success Rates and Discovery Sizes**



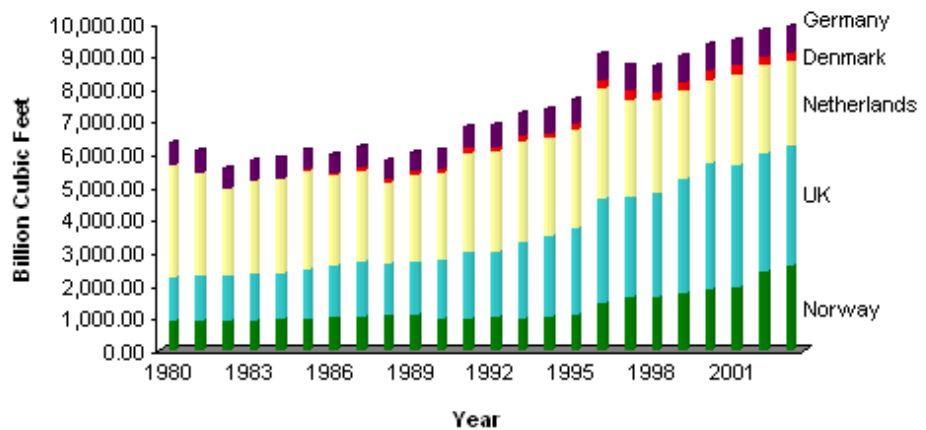
Source: Wood Mackenzie

The small fields policy, introduced by the Dutch government following the oil crisis in the 1970’s, gave priority to small field production (~200 bcf and smaller) in an effort to preserve supply for security purposes. Gasunie, the Dutch national gas utility company is obliged to purchase all gas produced from small fields on reasonable conditions and at market rates. For upstream companies this policy guarantees that they will be able to sell their gas at market

rates long before they bring their production on while still allowing them the flexibility to sell to another buyer. The small fields policy has been so successful that roughly two thirds of gas currently being produced comes from so called small fields.

The Netherlands has a stable government, stable gas industry regulation, and a low risk investing environment. The bulk of the Netherlands North Sea is accessible to jack-up rigs, which significantly reduces the cost of drilling. In addition, the country also has an extensive and readily accessible infrastructure in place, and is a guaranteed gas purchaser with a high and predictable gas pricing mechanism. Fiscal terms are attractive with a royalty rate of 0% and a taxation rate of 50% of net profits after deduction of capital investments and other costs for offshore.

**Exhibit 15: North Sea Natural Gas Production by Country**



Source: EIA

In 2005, there were six exploration wells and one appraisal well drilled on the Netherlands Shelf with a very high commercial success rate of 67%, however the average discovery size per well remained low at 6 mmbowell. Part of the reason for the low number of wells drilled over the last few years is the lack of access to drilling rigs, most of which left the region when prices collapsed in the 90's and operators cut their drilling programs.

Surprisingly, the number of companies exploring for gas remains low despite the higher chances of success and profitability of the Netherlands North Sea mainly due to the extensive acreage held by four major operators in the region. The four majors have begun to rationalize some of their land holdings and there are a few smaller, new entrants in the region who recognize that the higher success rates, dense infrastructure, low development cost and relatively accessible markets are attractive and worth the time and effort. It is unlikely that the Netherlands will ever command the attention that the UKCS or Norwegian North Sea

does, however it is expected the Netherlands North Sea will continue to be an important contributor of natural gas to the European community going forward.

## **Faroe Islands**

The Faroe Islands are located in the Atlantic Margin region in the far northwest of Europe, and remains one of the last high risk / high reward petroleum basins left under-explored in the world. After disappointing results in the first round of wildcatting in the summer of 2001, companies are approaching this year with renewed optimism following the Laggan, Cambo and Lochnagar developments on the UKCS side of the boundary. The Faroese Petroleum Administration receives applications from companies for exploration licences, the duration of which will be determined by relative prospectivity as either standard 6-year terms with a commitment to drilling at least one exploration well, or a two phased 9-year term with the opportunity to spend an initial 3 years on preliminary investigations in order to identify specific targets for future explorations wells. Exploration licences will be awarded based on defined objective criteria with emphasis placed on the work programmes that the applicants are willing to undertake and the opportunity that Faroese industry is given to participate and gain insight into these activities, to contribute to a more diversified business community. All activities related to exploration and production of hydrocarbons within the Faroese continental shelf area is tax liable under the Hydrocarbon Tax Act. Exploration and production licence holders are liable to production royalty, company income tax and special tax, which is applies in addition to the company income tax, and varies with the calculated rate-of-return.

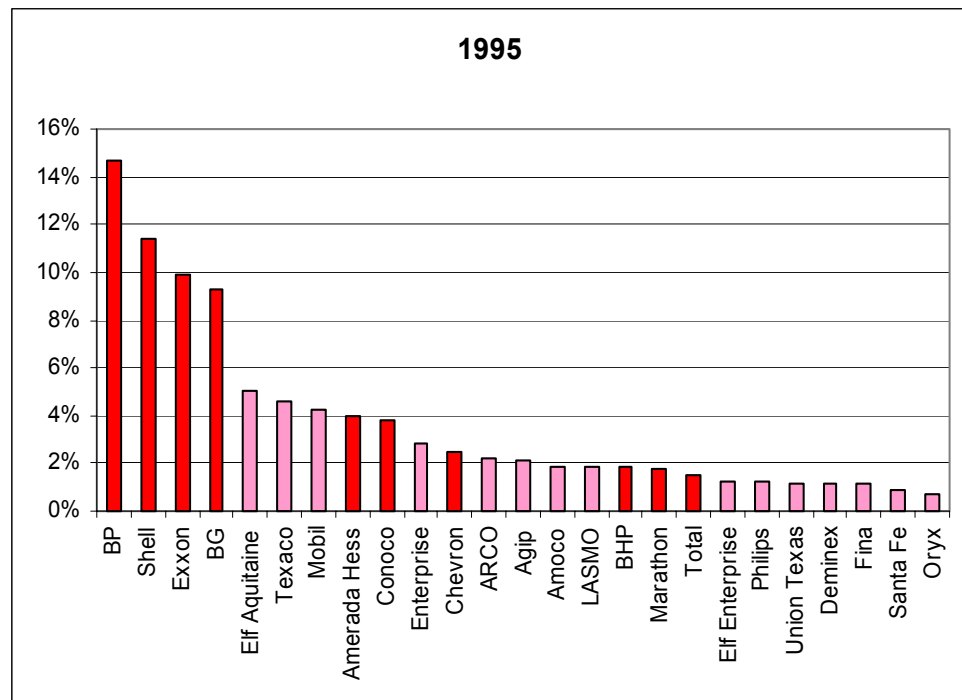
## Acquisition & Divestiture Activity

The biggest driver of change in the oil & gas landscape at the producing and development level is Acquisition & Divestiture activity (A&D). At the exploration level, farm-ins – also a form of A&D – and licensing rounds are the key drivers.

Measured by the number and size of transactions, the North Sea forms a significant component of global oil and gas asset liquidity, and is by some distance the most liquid area outside North America.

This is a reflection of the UK's maturity as a basin and the distribution of the reserve base which is concentrated heavily in the portfolios of the majors who hold 60%. As the opportunity cost of capital has risen, the majors have diverted focus and investment funds towards areas providing higher rates of return. As a result, the majority of sizeable assets or packages of assets have come to market as the majors have looked to rationalise and high-grade their portfolios. Over the past decade 14 companies have exited the North Sea, mainly as a result of general oil industry corporate activity and consolidation. e.g. Total acquired Elf Aquitaine and Fina, ENI/Agip acquired LASMO, BP acquired Amoco and ARCO and through it Union Texas (Exhibit 16)

**Exhibit 16: Top 25 UKCS Reserve Holders**



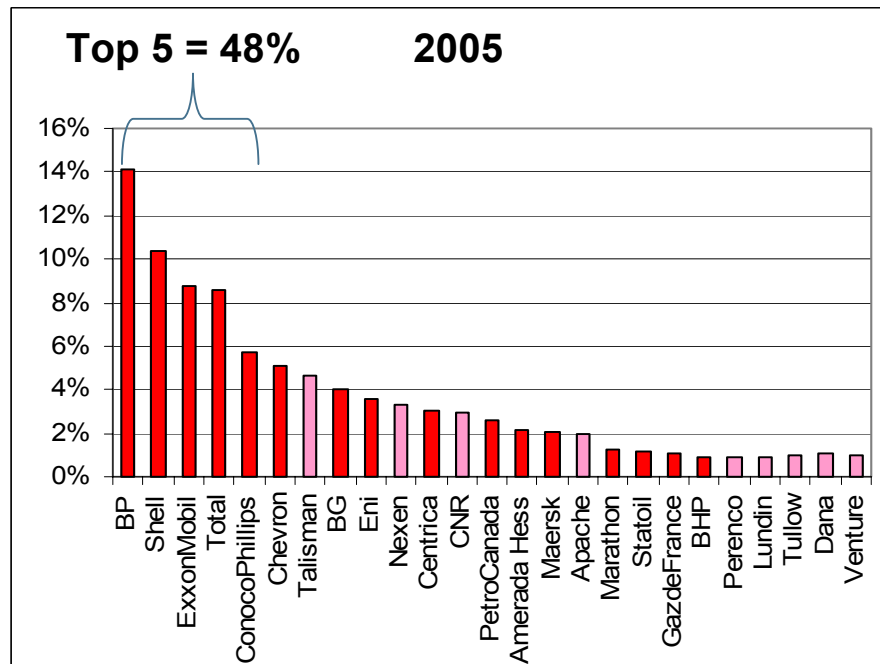
Note – pink bars indicate companies no longer active in the North Sea today

Source: Tristone Capital, Wood Mackenzie

The past decade has also seen a number of new entrants and in particular a number of new business models with Canadian and US companies, in particular, entering the North Sea hoping to maximise the recovery from some of the older mature fields and to develop new exploration plays. Talisman, Nexen and Apache have been at the forefront of this move, which has also encompassed some smaller UK & European players such as Perenco, Lundin, Tullow, Dana and Venture Production.

Divestment by the majors was kicked off in earnest with BP's sale of Montrose / Arbroath in 2002, followed by the sale of Shell's stake in that field to Energy North Sea and the Forties field to Apache by BP in 2003. Shell has been more piecemeal in its approach, divesting small non-core assets sporadically, whereas BP has gone for fewer but bigger divestments. In 2004 and 05, the mid-cap independents, EnCana and Kerr-McGee were major sellers, selling their UK portfolios in their entirety to Nexen and Maersk respectively. Despite this activity, the legacy asset positions of a small number of the large companies continue to dominate the overall asset ownership picture.

**Exhibit 17: Top 25 UKCS Reserve Holders**



Pink color indicates relatively new entrants to the North Sea

Source: Tristone Capital, Wood Mackenzie

Consequently, since 2003, A&D activity in the UK has diminished, with an increasing trend of fewer deals but higher prices. While 2003 saw approximately 40 transactions with about US\$2.4 bn transacted, 2004 and 2005 have seen reduced deal flow but higher overall transacted volumes with 28 (US\$4.4 bn) and 23 (US\$4.9 bn) transactions, respectively.

**Exhibit 18: Typical Prices and Issues for A&D Transactions**

	<b>Current Prices</b>	<b>Currency</b>	<b>Upsides</b>	<b>Issues</b>	<b>Buyers</b>
<b>Production</b>	US\$10 - 24/Boe	Cash Asset Swap	Recovery Factor Infrastructure Cost Reductions Near Field Potential Investment	Abandonment Gas Uncontracted Operatorship	Large Independents Small Independents Japanese Acquire and Exploit New Entrants
<b>Development</b>	US\$1 - 8/Boe	Cash Contingent or Royalty	Volumetric	Costs Timing or Partner Drag Subsurface Risk	Small/Med Independents  Niche Players (VPC, NPE etc)
<b>Exploration</b>	US\$0.20 - \$1/Boe	Farm-in w Promote  Cash or swap	New Plays	Subsurface Risk Rig Availability Access to Infrastructure	Various

Source: Tristone Capital

Prices paid for transacted barrels are a direct function of the assumptions being applied by buyers in competitive auctions. Within a far more competitive environment buyers of assets have had to adjust their assumptions as well as bidding tactics.

In 2000, while 100% value was attributed to Proved reserves (1P), the Probable element attracted only a 50% value (2P). In other words, bids would incorporate value attributable to 1<sup>1/2</sup> P reserves, while possible reserves (3P element) and related exploration acreage did not generally enter the equation. With a discount rate of 10% or greater and valued at a long-term oil price of US\$20 flat with no forward strip, the differences with today's assumptions are stark.

Today we are seeing the full 2P element of reserves along with some measure of 3P being valued, with an additional element of risked value being attributed to related exploration acreage. Discount rates tend to be at 8% or lower, and pricing assumptions are far more aggressive with a 3 to 5 year forward strip followed by a long-term assumption of anywhere between US\$40 to US\$55/b.

**Exhibit 19: Trend in Buyers Becoming More Aggressive**

2000		2006	
Reserves 1P	100%	Reserves 1P	100%
Reserves P2	50%	Reserves P2	100%
Reserves P3	0%	Reserves P3	some
Exploration	0%	Exploration	risked value
Oil Price	\$20 flat	Oil Price	FWD strip 36-60 months ability to hedge etc
Discount Rate	>10%	Discount Rate	<8%
Others	None	Others	evaluate all upsides both technical and commercial

Source: Tristone Capital

Strategic premiums are also being seen where companies look to eke out further value related to regional hub plays, material country entrant positions such as in the case of Maersk, synergies with existing portfolio, etc. More aggressive and non-conventional bidding tactics are also becoming more common.

**What Does This Mean for the Smaller E&P Companies?**

For companies that have built up a production base and reserves and are looking for an exit strategy there are a large number of potential exit strategies open to them. There is no shortage of firms willing to buy assets, most of which are willing to open their wallets and pay up. As the larger firms continue to rationalize their assets, smaller more nimble companies will be able to acquire property and prospects albeit at a premium price. In addition, as robust activity continues throughout all of the regions in the North Sea, focus on exploration will continue to attract a range of players from smaller under capitalized minnows to larger well capitalized companies. Should commodity prices decrease or remain flat for an extended period of time it is anticipated that the larger companies will begin to accelerate their divestitures ahead of abandonment liabilities which will increase opportunities for the smaller firms in the sector. Regardless of what happens on the commodity front the next 12 to 18 months will be an exciting time in the North Sea with a large number of high profile exploration wells scheduled to be drilled.

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**Exhibit 20 : North Sea Companies Activity Matrix**

No	Company	Research / Comment	Listing	Location					Stage of Development				Information		
				UKCS	NCS	DCS	AM	International	Production	Near-term	Appraisal	Exploration	North Sea Type	Current activity	
1	Antrim Energy	R	TSX-V ; AIM	✓				Argentina	✓					High impact	Spudding Causeway prospect this week
2	Bow Valley Energy	R	TSX-V	✓				Canada	✓					E&P	Development of Enoch field for first oil Q4 2006
3	Cirus Energy	R	TSX-V			✓		Trinidad	✓					Gas E&P	Looking to develop operations in the Netherlands.
4	Elixir Petroleum	R	ASX ; AIM	✓								✓		High impact	Partners to carry Elixir through drilling of Guinea prospect Q4 2006
5	EnCore Oil	R	AIM		✓			Western Sahara (SADR)			✓			E&A	Apache planning to drill Golden Eagle prospect in Q4 2006
6	Endeavour International	R	AMEX	✓	✓	✓			✓					E&P	Consolidate Talisman acquisition
7	Faroe Petroleum	R	AIM	✓	✓		✓					✓		High impact	Drilling Bruggdan well in July 2006
8	Granby Oil & Gas	R	AIM	✓				Philippines		✓				E&A	Partners to carry Granby through drilling of Guinea prospect Q4 2006
9	Nautical Petroleum	R	AIM	✓				France			✓			Heavy oil	Progress Mariner FDP
10	Oilexco	R	TSX-V ; AIM	✓						✓				E&P	Appraising Disraeli in Q3 2006
11	Revus Energy	R	OSX		✓				✓					E&P	Plans to drill Astero and to submit PDO for Yme & Fram B in H2 2006
12	Wham Energy	R	AIM	✓								✓		Gas E&A	Seismic survey of block 47/12 in Q4 2006
13	Altinex Oil	C	OSX	✓	✓	✓	✓	Oman, Denmark, Germany	✓					E&P	Consolidate Denerco acquisition
14	Atlantic Petroleum	C	ICEX	✓			✓				✓			High impact	Drilling Bruggdan well in July 2006
15	Genesis Petroleum	C	AIM	✓								✓		E&A	Reviewing 3D seismic databases
16	International Frontier Resources	C	TSX-V	✓				Canada				✓		E&A	Oilexco to drill Laurel valley H2 2006
17	Island Oil & Gas	C	AIM				✓	Ireland, France	✓					High impact	In the middle of a 3 well drilling programme in Q2/Q3 2006
18	Pertra	C	OTC		✓				✓					Marginal field development	Approved to list on OSX Q4 2006
19	Providence Resources	C	IEX ; AIM				✓	Ireland, Nigeria	✓					High impact	Ongoing farmout discussions
20	Sterling Resources	C	TSX-V	✓				Romania, France			✓			E&P	Appraising Disraeli in Q3 2006
21	Stratic Energy	C	TSX-V	✓				Turkey, Syria, Morocco		✓				E&P	First gas in Turkey in Q4 2006
22	Venture Production	C	AIM	✓					✓					Marginal field development	Mimas FDP development approved
23	Fairfield Energy	C	Private	✓							✓			Marginal field development	Targeting Maureen & Crawford stranded assets for development
24	Ithaca Energy	C	TSX-V ; AIM	✓							✓			E&A	Listed on AIM & TAX-V June 2006
25	Silverstone Energy	C	Private	✓							✓			E&A	Ongoing farmout discussions
26	Valiant International Petroleum	C	Private	✓						✓				E&A	Submit FDP for West Don Field in H2 2006
27	Wimbledon Oil & Gas	C	Private	✓								✓		E&A	Ongoing farmout discussions
28	Xcite Energy Resources	C	Private	✓								✓		E&A	Qeva to carry Xcite through drilling of prospect in block 9/3b

UKCS UK Continental Shelf  
 NCS Norwegian Continental Shelf  
 DCS Netherlands North Sea  
 AM Atlantic Margin

Source: Tristone Capital

## **A Review of the North Sea Players**

This is the first of a series of regional initiating coverage pieces that highlight a specific region of the world. The North Sea is a logical place to start for several reasons including: The breadth and depth of companies active in the region, the maturity of the region, our experience and knowledge in the North Sea and the appetite for a comprehensive piece that will help the investor compare and contrast companies. Several interesting trends appeared as we started to compile information on each company and the region. Each of the companies in the North Sea ultimately believes in the significant potential of the region. Many of the companies, in fact the majority, are exclusively focused on the North Sea. Some of the firms are willing to bet their entire company on several wells which may deviate slightly from conventional theory that a diverse portfolio of assets is optimal. There are, however, few shades of grey in the North Sea as the outcomes are primarily black or white, but all it takes is one sizeable discovery for shareholders to reap the rewards. Finally, there is at least one company active in the North Sea that is suitable for each type of oil and gas investor and each risk tolerance. We start with a review of the companies on whom we have initiated coverage, for our full research views, please refer to the section commencing on page 58.

### **Antrim Energy (AEN CN, AEY LN; Market Cap: US\$130 mm)**

Antrim, run by Stephen Greer, has been active in the United Kingdom since 1995. With a mix of lower risk long-life producing assets in Argentina and high impact UK exploration Antrim continues to maintain a balanced portfolio of assets for development. Despite several setbacks in their North Sea exploration drilling program which resulted in three plugged and abandoned wells (one well in each of the Clanachben, Prometheus, and the Bennachie prospects) Antrim managed their risks well and farmed down the bulk of its financial obligations while retaining adequate working interests in each well.

The company maintains that exploration in the North Sea is a risky business, but continues to investigate opportunities in the region and plans to spud the Causeway Prospect during the week of June 5<sup>th</sup> 2006. The well, drilled laterally, will target oil bearing Jurassic sandstones at a depth of 3,400 metres and take approximately 7 weeks to drill and test. The company is paying 59% of costs for a 65.5% working interest in the well which is an aggressive move; we would have preferred to see Antrim farm down its position at Causeway further. We do, however, recognize the impact success at Causeway would have on Antrim's share value if the well were to develop as planned. Regardless of what happens at Causeway the company is well positioned with its Argentinean and North Sea properties and we expect significant growth in reserves and production over the next 12 to 18 months with the potential for substantial upside in Argentina.

**Bow Valley Energy (BVX CN; Market Cap: US\$400 mm)**

Bow Valley operates in two main areas, the UK North Sea and Canada. Beyond the reasonably steady 25% annual growth rate of its Canadian assets, the main focus of the company lately has been the North Sea. Led by Rob Moffat, Bow Valley has concentrated on development projects in the North Sea for the near term which will generate cash flow that it can use to fund exploration over the longer term. The recent addition of Nick Fairbrother and the opening of a Windsor office have signalled the company's intentions of being a long term player in the North Sea.

Of Bow Valley's five development assets in the North Sea, one, the Kyle Field (14.3%WI), is currently producing approximately 714 boe/d net to the company. Bow Valley has three development Blane (12.5%WI), Enoch (12% WI), and Chestnut (15.1% WI) that it expects will be on production over the next 12 months. Initial production from the three fields is expected to be approximately 5.5 mboe/d net to the company. The fifth development, the Ettrick Field (12% WI), is expected to produce 2.2 mboe/d net to Bow Valley and be on production sometime in the first half of 2008.

With significant production (up to 8 mboe/d in additions over the next 24 months) from 5 separate development projects in the North Sea we expect cashflow of ~US\$100 million in 2007. This cash flow will allow the company to either make acquisitions, participate in farm-in's, drill exploration wells or make serious bids on blocks of land in the UK and Norway. It is likely that Bow Valley will combine several strategies to increase its access to exploration acreage and seek more meaningful stakes in its projects as it grows in size.

Very well balanced from a risk, cashflow, and production standpoint, Bow Valley is on the road to becoming one of the most recognized smaller firms in the North Sea for the right reasons. Although investors have begun to realize this and have pushed Bow Valley's share price to premium levels, we feel that significant value remains in the story and look towards the company's next stage of aggressive exploration for much of its upside.

**Cirrus Energy (CYR CN; Market Cap: US\$36 mm)**

Cirrus was founded in June 2002 by David Taylor and Robert Carter in order to pursue international oil and gas exploration opportunities. In April 2005, Cirrus Energy received environmental approval to drill up to 29 wells in the Coora Field in Trinidad. Cirrus drilled two wells in the Coora Field in July and October 2005 respectively. Although the initial drilling results were favourable from a resource perspective, operational problems with the drilling rig caused the company to halt their drilling program.

In November 2005, Cirrus acquired a 24% interest in the Block A15a exploration licence on the Dutch continental shelf. Concurrently, Rudy Weerheym was appointed Managing Director of Cirrus Energy Netherlands and Wim Korndorffer was appointed as a director of Cirrus Energy. Cirrus, operator (60% WI), applied for an exploration licence for offshore

block Q14, a large (~120 bcf) lower risk exploration target that shows up well on 3D seismic, in Sept/05, and expects to be awarded the block in mid 2006 L16b was also awarded to Cirrus (30% WI) in Feb/06. Cirrus recently announced it will acquire Wintershall's operated interests in two blocks also in the Netherlands, targeting Triassic sand targets, the M1a (47.5% WI – 150 bcf of tight gas) and M7 block (13.75% WI – 50 bcf).

With a strong management presence in the Netherlands, operational success in Trinidad and a successful track record of acquisitions in the Netherlands Cirrus is on its way to becoming a full cycle E&P company. We are currently involved in an equity issue for Cirrus and are restricted from publishing estimates or recommendations.

### **Elixir Petroleum (ELP LN, EXR AU; Market Cap: US\$22 mm)**

Elixir Petroleum is a dual-listed company – ASX and AIM – that explores for oil & gas in the UK North Sea. It has a good geographical spread within the UK North Sea, with assets located across the Central, Southern and Northern North Sea areas. Led by Russell Langusch (MD), Elixir's strategy is based on high impact exploration wells, and as such represents a high-risk, high-reward investment opportunity. It aims to manage its risk exposure through a combination of farming-out a level of equity on drilling prospects and reducing its cost exposure as a result, as well as balancing technical risk across areas, play types, and technological applications.

The company has experienced setbacks on all three of its wells drilled so far - Munes, Marquis and Jaguar – and is in need of an exploration success that will endorse its strategy. The magnitude of potential resources that each asset in Elixir's portfolio exposes it to, however, means that success on any one well could potentially be a 'company-maker'.

With no booked reserves as yet, our core value comprises of just the cash, and Elixir currently trades at an almost three-fold premium to that. Our RENAV estimate indicates the potential upside to the portfolio, where Leopard, Panther and Guinea prospects are the main drivers of that potential upside. The company has stated that they do not believe there to be interdependency between Leopard and Panther and the dry Jaguar well. While we broadly agree with this evaluation, we do believe them to be conceptually very similar.

The Guinea prospect is Elixir's most firm drilling target in terms of stated schedule, and is set to be spudded in the 4<sup>th</sup> quarter of this year following a recently concluded double farm-out to firstly Albion Petroleum, and then to Nexen, who will operate, and Gas Plus. Elixir is also looking to farm-out its NNS licenses which contain the Leopard and Panther prospects, to generate drilling activity in those prospects as well.

**EnCore Oil (EO/ LN; Market Cap: US\$95 mm)**

EnCore is an upstream exploration & appraisal company that was established in late 2005 as a private enterprise and which went public through a reverse takeover of Oil Quest Resources in Feb '06 to list on AIM. Led by Alan Booth, former chairman & MD of EnCana (UK), its focus is on high impact wildcat exploration, mixed in with the development of previously abandoned discoveries for which the economics have improved considerably in the current price environment. Its strategy is to take exploration discoveries to the project sanction phase and then monetise their equity.

One of EnCore's main strengths lies in the management and its proven track record. Almost exclusively drawn from ex EnCana (UK) and Enterprise Oil, the team has experience working with each other in the past. Furthermore, they have an established track record, building EnCana (UK) into a US\$2 bn plus venture in the UK upstream sector. EnCore's main asset is Golden Eagle which is located in close proximity to the management team's previous discovery, Buzzard. Indeed, one of the main reasons EnCore acquired this license was to attempt to prove further similar play types to Buzzard in the North Sea.

The core value of the company currently lies in two tested onshore gas discoveries acquired as part of the Oil Quest reverse take-over– Westerdale and Kirkleatham (20% interest in each) – and cash balances of approximately US\$37.5 mm. The shares, not unexpectedly, are trading at a substantial premium to the core value. In the Central North Sea (CNS), EnCore has a 95% interest in Block 21/24, where there could be an extension of the Tay sands play that has been successful for Oilexco in Block 21/23. EnCore's other major play in the CNS is its interests in Blocks 21/29b and 21/30. These contain a number of Eocene structures, where oil has been found, but question marks remain on the trapping mechanism and the level of the oil water contact. EnCore acquired these assets in an opportunistic deal from Petro-Canada, for whom they were non material. The prospects were previously extensively worked by Shell, but ownership interests were not aligned and EnCore believes it can bring an integrated approach to the prospects for the first time.

The "Golden Eagle" prospect on Block 18/5 in the Outer Moray Firth is the company's main asset and forms a core part of our Risked Exploration Net Asset Value (RENAV). EnCore and its partners Apache (operator) and Samson acquired this block in the 23<sup>rd</sup> licensing round, the first time that the block had been offered since the discovery of Buzzard (Blocks 19/5a, 19/10 20/1s and 20/6). EnCore will have its costs carried by its partners through the firm committed work programme – drilling the 18/5-G prospect in the second half of 2006, a side-track well to test the 18/5-S prospect and acquisition of 3D seismic data, subject to the results of the initial well.

While the company has no current production, if the further appraisal of Westerdale and Kirkleatham is successful, production would be expected to commence sometime in late 2007. Remaining value comes from the exploration portfolio, of which the onshore assets are the main contributor, primarily the Hurst Castle prospect which is considered an analogue to

Wytch Farm. While EnCore is primarily focused on the North Sea, the company took an opportunistic acreage by signing a formal Production Sharing Contract and associated Assurance Agreement with the Government of the Saharawi Arab Democratic Republic ("SADR") for a 100% working interest in the offshore Laguera block licence in the Western Sahara. The block is adjacent to Mauritania and has low retention costs.

### **Endeavour International (END US; Market Cap: US\$215 mm)**

Endeavour is a US based AMEX-listed company that was created in early 2004 with the specific purpose of finding and developing oil & gas reserves in the North Sea. The company was borne as a result of the merger of Continental Southern Resources, Inc., a domestic US E&P player, and North Sea New Ventures Inc. (NSNV), a privately-held company which the two founding partners of Endeavour originally formed to launch their exploration strategy. Endeavour's strategy revolves around extracting cash flow and upside from mature producing fields, while targeting higher impact reserves from previously discovered prospects and wildcat exploration. Current production, of approximately 2.1 mboe/d, is based in Norway but going forward will increase to approximately 12 mboe/d as a result of the start-up of the Enoch (UK) field and completion of its acquisition of a UK package of Talisman's producing assets.

Historically, the company has looked to the acquisition route to create cashflow for the company through small, opportunistically-acquired stakes in mature, declining production, while looking to build its exploration portfolio through the licensing rounds and satellite exploration targets. This is partly a reflection of the nature of the management team led by Bill Transier and John Seitz, which brings considerable business development and commercial experience gained in major E&P companies in the US (Ocean Energy and Anadarko), as well as the technical know-how.

Prior to May '06, Norway was the company's production base with small equities in the mature Brage and Njord fields acquired from Lundin through the OER vehicle, while the exploration portfolio, the main value driver for the company, was concentrated in the UK. Endeavour then further supplemented its production base going forward by acquiring Petro-Canada's 10% interest in the Enoch field, straddling the UK / Norway median line, which is expected to come onstream by Q4/06. Separately, the company looked to build strategic partnerships, and in an innovative move acquired rights to use a 3-D seismic database from Petra, which it uses as an effective prospecting tool to identify drilling locations. Management feel that as a result, they are in a unique position in terms of access to comparable seismic data of this size and quality in the North Sea.

Endeavour's recent acquisition of a package of North Sea assets in a competitive auction, further proves the management's business development credentials. The package has given Endeavour materiality in terms of cashflow, and a base from which to proceed with its higher impact exploration. In terms of the kind of prices being paid per producing boe in the UK North Sea, Endeavour's consideration of US\$414 mm is considered to be a full price. The

deal is effective from 1<sup>st</sup> January 2006 and based on estimated accrued cash flows of approximately \$100m, we expect the final net purchase price to be approximately US\$314 mm or around US\$17-\$18/boe for 2P reserves and US\$35,000 per flowing barrel. Regardless there is a high strategic value for the company in terms of advancing its strategy of becoming the pre-eminent independent explorer and producer of oil and gas in the North Sea.

### **Faroe Petroleum (FPM LN; Market Cap: US\$183 mm)**

Faroe is an AIM-listed company that has established a niche for itself as an explorer focused principally along the Atlantic Margin, and a complementary, secondary focus on selected opportunities in the North Sea. The management team, led by Graham Stewart (CEO) is technically strong with both Faroese and British backgrounds, and has experience working in the UK and along the Atlantic Margin as part of larger organisations. Faroe is included in our analysis, as an Atlantic Margin play with some Central North Sea exposure.

Initially the North Sea focus was limited to exploration acreage in the Moray Firth area of the Central North Sea (CNS), but recently, Faroe has expanded its operations into Norway – firstly, with the acquisition of the ex-Paladin Norway team and the opening of an office in Stavanger; and secondly, through pre-qualification as a license holder. This places Faroe in a good position to expand its asset base in the next APA licensing round, where it will be teaming up with two other companies. Between them they are targeting 3 separate areas, which they will all participate in.

Faroe's principal portfolio interests lie in its 11 Atlantic Margin licences, with 5 in the Faroes and 6 in the UK West of Shetlands. Faroe operates 4 of the licences - 2 in each of the UK and the Faroes. Faroe has a 100% interest in 4 of its licenses and in the other licences, its partners are typically the major oil companies – Chevron, Shell, Statoil, and ENI.

Chevron's recent Rosebank/Lochnagar discovery in the UK West of Shetlands and the Marjun discovery on the Faroes' side have created considerable excitement in the industry about potential for this area. Chevron has said that it plans to drill a two to three well appraisal and exploration programme in 2006 and has already contracted a rig to evaluate the commercial potential of the Rosebank/Lochnagar discovery and the adjacent acreage. Meanwhile Statoil will drill the Brugdan well in Q3/06 in which Faroe has a 4% interest. Faroe also expects to participate in three partner operated exploration wells to the West of Shetland towards the end of this year.

The cost of drilling wells in this region is expensive at £20-£25 mm, but having raised money in 2005 and 2006, and with only limited drilling since then, Faroe is well placed financially, and has the ability to fund up to a further 8 wells without farming-out. Faroe's generally high equity positions, however, afford it the ability to leverage itself further through farm-outs such as that on Halibut North, where it retained 45% of the equity and paid 20% of the costs.

Faroes' resource potential, on an unrisks basis, is very large with its portfolio exposing it to approximately 750 mmboe of reserves on an assumed farmed-down basis. Success in any of its prospects has the potential to be a company-maker, however currently its only core asset is the cash it holds. On this basis, the share price is trading at a considerable premium to the core value.

The entry into Norway will reduce the risk in Faroe's portfolio, but production does not appear to be near on the horizon. However Faroe has the benefit of a large portfolio of material exploration interests which should attract interest from the larger oil companies and enable the company to farm down its interests. Hence we expect that Faroe should be able to benefit from de-risking its overall programme through a larger programme of high risk wells.

Faroe represents a high-risk, high-reward play on its individual assets. Some of that risk is tempered by the diverse nature of its portfolio, and the technical know-how and area-specific knowledge of the management team. With a relatively busier drilling period now approaching, the next 18-24 months will be crucial in determining whether it is able to deliver.

### **Granby Oil & Gas (GOIL LN; Market Cap: US\$42 mm)**

Granby is an AIM-listed Exploration and Development company based in the UK. Led by David Grassick (Managing Director) the exploration portfolio is focussed exclusively on the UK North Sea, while the company also holds an interest in the near-term development Galoc field, in the Philippines. Currently, Granby has no production, but this is expected to start as the Galoc field comes online in 2H/07 at approximately 600 b/d net to Granby ramping up to about 850 b/d in 2008.

The company was created through the combination of Granby Enterprises and Team Oil, two independent companies formed in 2002 which shared common management teams and ownership since June 2004. The current management team is drawn almost exclusively from Enterprise Oil, a large independent company active in the North Sea during the 1980s and 1990s, which itself was taken over by Shell. Granby raised £10 mm from a placing and Admission to AIM in June 2005.

Granby's North Sea portfolio is comprised of 23 blocks in 13 licenses, with the majority (14) concentrated in the CNS. A further 6 are located in the outer Firth of Forth and 3 in the Southern Gas Basin. The CNS and SNS portfolios are located close to infrastructure, while the outer Firth of Forth assets are of a more stranded nature. Granby tends to focus on projects that do not require a significant expenditure by the Company. The initial focus of the portfolio has been low to moderate risk shallow prospects in relatively shallow water where the drilling costs are at the lower end of the North Sea scale.

Since its inception, the management team has managed the asset portfolio and the overall related risk fairly actively, with 3 farm-ins and 2 farm-out deals, the most recent of which is a

multi-licensed farm-out. The farm-ins include Marquis, which was abandoned as a dry hole in June '05; and Galoc, where Granby holds a 9.15% interest, and which is due onstream in 2H/07.

Granby's strategy is to manage the financial exposure as well as to leverage the value of front end technical work. This is essential, as apart from Galoc, the portfolio represents a high-risk / high-reward profile. There are a number of factors in Granby's favour, however. According to its partner in the Galoc Field – Australia's Nido Petroleum, there is significant upside (almost 200%) in the recoverable reserves, a view supported by the independent consultant Wood Mackenzie, if not shared by the external reserve consultants Gaffney Cline. Only time will tell, but Granby will either benefit from some cashflow around the corner or could choose to monetise its interest by selling its stake in the field. Ultimately, a successful exploration well in the North Sea will be the turning point for investors' perception of the company.

### **Nautical Petroleum (NPE LN; Market Cap: US\$234 mm)**

Nautical is an independent exploration & development company, with a strategy centred around the acquisition, development and production of discovered heavy oil in the UKCS and other areas of the European Union. In this respect, it represents a specialist niche play in heavy oil. This has become possible due to the current price environment, allowing potential value to be seen in previously discarded heavy oil discoveries in the North Sea, which represented uneconomic returns at that particular time.

Led by Stephen Jenkins, Nautical was spun out of the privately owned Masefield Group and listed in Aug '05 on AIM through a Reverse Takeover, and has built up, through acquisitions and participation in licensing rounds, a portfolio of assets which provide good exposure to North Sea heavy oil plays. While the company has no current production, this is expected to start in 2H/09, assuming that development of Mariner goes ahead.

Mariner and the Block 9/2b prospect (Krakken) currently form the core of the valuation, however, there is a growing portfolio of assets and acreage that also have the potential to add significant value. Project sanction on Mariner by the operator Chevron is the key event to look for in the next 12 months. Mariner itself has two separate horizons - Maureen and Heimdal. The Heimdal structure is a shallower reservoir, representing a small part of the RENAV, but with the potential to have a much bigger impact, as our unrisks value shows. The Mermaid prospect (block 9/11c) lies directly south of Mariner and is considered, on a structural and stratigraphic basis, to be analogous. As a satellite development to Mariner it would have the potential to significantly improve the economics on both projects.

Overall, Nautical's portfolio provides exposure in a niche where there are fewer players, good potential upside and lower risk, especially compared to some of the other AIM-listed explorers. However, Nautical is a long, slow burn and in the absence of any news on a

Mariner Field Development Plan, represents a long-term investment. The main risk for Nautical would be rejection of the Mariner discovery by Chevron.

### **Oilexco (OIL CN, OIL LN; Market Cap: US\$888 mm)**

Oilexco is an oil and gas exploration and production company active in the United Kingdom's North Sea and the United States. The bulk of the company's exploration activities are concentrated in the Central North Sea (Outer Moray Firth), while the company's production activities are located in the Central North Sea and in Monroe County, Alabama.

Prior to 2002 Oilexco focused on higher risk, higher reward opportunities across North America and evaluated several areas around the world including the North Sea. When the Department of Trade and Industry (DTI) introduced incentives in 2001 in an effort to attract new entrants into the North Sea, Oilexco refocused on the North Sea.

The company was a successful bidder on three blocks in the 20<sup>th</sup> Offshore licensing round (2002) and was awarded two licenses in the Central North Sea and one in the Southern gas basin. Oilexco drilled the Brenda Prospect in 2003 and the Nicol Field in 2004, both of which encountered oil. After drilling 14 appraisal and delineation wells the company is on schedule in the development of its core asset, the Brenda Field, with first oil expected by early Q4/06. Close to existing infrastructure and with P+P reserves of 25.4 mmbob booked for Brenda alone, production is expected to exceed 32 mb/d of high quality crude by early 2007. The recently approved Nicol Field, with booked P+P reserves of 9.6 mmbob, is expected to be developed during Q2/06 and should come online during Q4/06 at a rate of approximately 8 mboe/d.

Further, with a contracted drilling rig, Oilexco has established a significant portfolio of exploration opportunities that give the company exposure to over 400 mmbob of unrisks reserves. We continue to like Oilexco's exploration prospects and believe that the company will demonstrate its ability to move from a developer of assets to a successful full cycle E&P company.

### **Revus Energy (REVUS NO; Market Cap: US\$295 mm)**

Revus Energy is an independent upstream oil and gas company focussed exclusively on the Norwegian Continental Shelf (NCS). It counts sub-surface technical expertise and business development as its core competencies, and looks to apply these in unlocking upside potential and accessing untapped opportunities in mature areas of the NCS. The company has a balanced portfolio ranging from production to development, appraisal and exploration assets. Revus represents a pure Norwegian play as part of our group of companies with operations in the North Sea.

Led by Harald Vabø, and comprising the ex Enterprise Oil Norway management team, the company was founded in 2002. Revus was admitted to the Oslo Stock Exchange, raising

NOK 250 mm in June '05 with a full exit by the venture capital owners 3i and Energivekst. 2005 was also the company's first year as a profitable venture, while doubling its portfolio of assets through license rounds and acquisitions, including a third production asset in Veslefrikk.

Current production averages about 2.4 mboe/d from its Murchison, Velefrik and Brage fields, and is likely to increase going forward as Blammanen, which will be produced over the Murchison platform, comes onstream in late 2006 / early 2007. The company also participated in its first exploration well, which saw a successful outcome in the form of the Astero oil discovery, which it is currently evaluating.

The next 12 months will be a busy time for Revus with considerable activity planned on Blammanen and progressing Revus' development and appraisal portfolio. Reservoir penetration on Blammanen was delayed due to remedial work on Murchison and is now expected by Jul '06 with test production a month later. PDO submissions for Yme and Fram B are planned for end '06, with the latter to be developed as a tie-back to Gjoa in conjunction with the nearby Belinda and Camilla fields. Astero requires further work to scope the full extent of the discovery and a well is expected in 2H/06. Oselvar is scheduled for appraisal in Q2/07 to determine commerciality of the project prior to any development scenario discussions. Rig slots have been booked for the potentially high impact Lie and Luno prospects in 2H/06, while 3D seismic and technical work is planned on Revus' first operated license (PL 378).

### **WHAM Energy (WAM LN; Market Cap: US\$27 mm)**

WHAM Energy is a UK based exploration company focused on gas plays in the Central and Southern North Sea. Formed in March 2003, WHAM listed on the London Stock Exchange's AIM market in September 2005, raising £9.1 mm. Its management team, led by Tom Windle (CEO), has strong technical credentials, gained over a number of years, working for Amoco (one of the major Southern Basin gas players since the 1960s) in the area that WHAM is engaged in.

It has positioned itself as a high-risk, high-reward exploration play in the North Sea, and in that respect is not too different to Elixir, Granby and to an extent Faroe Petroleum. Its portfolio of exploration assets concentrates solely on gas plays, and has the potential to provide considerable resource upside. Its high risk strategy, however, means that it will need to make good on that potential in the short to medium term.

WHAM aims to take material positions at the exploration phase in both structural and stratigraphic plays that are either under-explored or immaterial to the majors, and then look to monetise value through farm-outs at the appraisal and development stages.

Following its flotation, WHAM's first well was the Prometheus West prospect in Q4/05. The well was dry, but WHAM had farmed out its interests and hence bore no costs of the

unsuccessful well, but the result has undermined investor confidence. WHAM's remaining portfolio has yet to be drilled, and therefore our core value is based solely on the cash on the balance sheet. Considerable potential, however, does exist in the exploration assets. The upside is driven primarily by the Morpheus & Hypnos block, which also contains the mapped Endymion lead. Another license with considerable prospectivity and impact on the value is P1233. Located close to the Garrow field, under development by ATP, the license contains both structural and stratigraphic play types.

WHAM represents, as is its stated aim, a potential high-impact exploration play, which by its very nature is risky, but is able to provide, on the flip side, the potential for significant value accretion. Tightness in the rig market, however, may mean that it is a while before that potential is tested, unless a suitable farm-in partner is found.

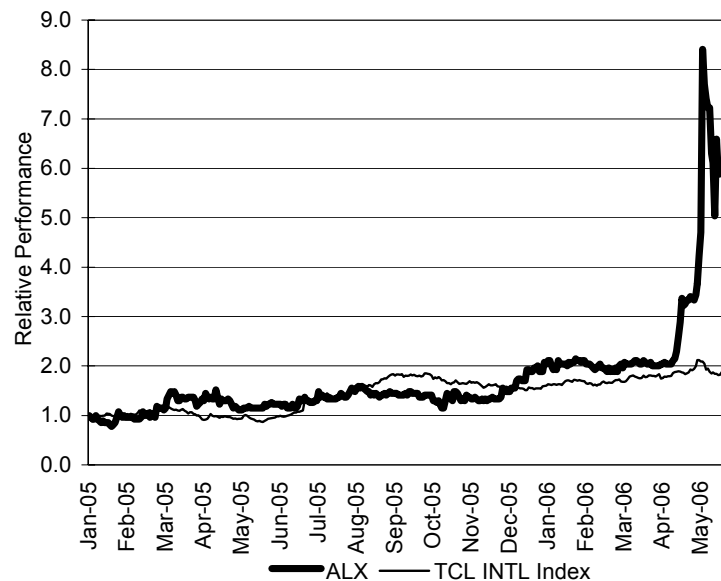
## Additional Junior Players Active in the North Sea

### Altinex Petroleum (ALX NO, US\$137 mm)

Altinex Oil, a 100% owned subsidiary of the Oslo listed Altinex ASA group, which provides services and products to the oil industry as well as having its own E&P activities. Altinex Oil was an E&P company focussing on the Norwegian Continental Shelf until mid-2006. Since its establishment in May 2004, it has already pre-qualified for the NCS and is well positioned for operatorship, and has acquired production by buying ENI's 12.26% stake in the Brage field (Norsk Hydro operated), with further production expected in Q4/06 as the Enoch field (Talisman operated) comes online. Altinex sought to build a diversified portfolio around exploration drilling of near field prospects in mature areas close to existing infrastructure, and by adding value to mature operations through the creation of upside and prolonging field life with its subsurface specialists.

Led by Brian Jepsen and Olaf Ellingsen, in May 2006 Altinex bought Danish rival Denerco Oil for Dkr2.2 billion (US\$380 mm), leaving it owning interests in 24 licences in Denmark, Oman, Norway, the UK, Germany and the Netherlands. The acquisition has increased the company's size, both in terms of production (to 12.5 mboe/d) and geophysical expertise (to 38 staff), as well as its positioning for larger roles, such as potential future operatorships. Producing reserves now stand at 30 mmboe, together with 40 mmboe in discoveries and substantial exploration potential, of which 11 prospects are expected to be drilled in 2006/07. With extensive development activities in North Sea coupled with its greater scale, Altinex has a well-balanced portfolio with which to pursue further growth.

### Exhibit 21: Altinex Stock Performance vs. Tristone Int'l Index



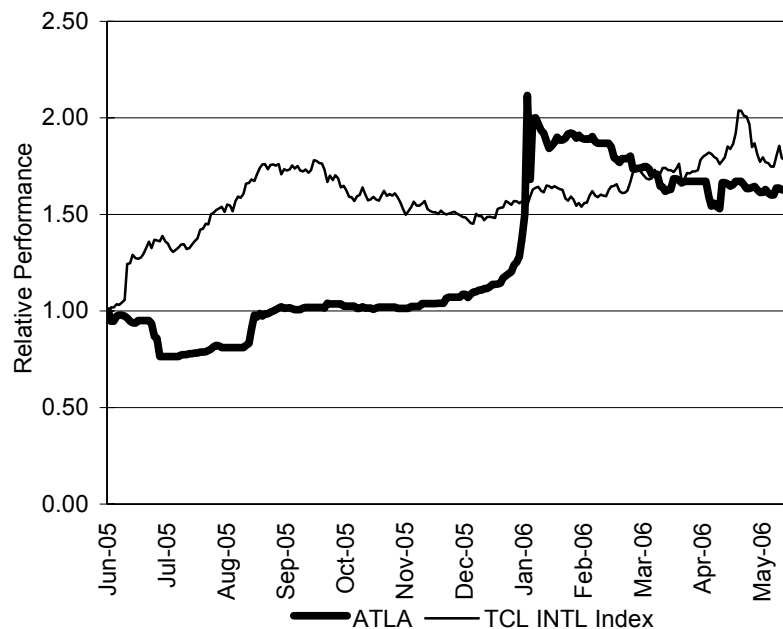
Source: Tristone Capital, Bloomberg

### Atlantic Petroleum (ATLA IR, US\$48 mm)

Atlantic Petroleum is a Faroese E&P company listed on the Iceland Stock Exchange/Faroese securities market, which currently participates mainly in exploration on the Faroese Continental Shelf and exploration and development in the UK sector of the North Sea. Formed in 1998 by a broad spectrum of Faroese businesses, the company was established in advance of the 1st Faroese Licensing Round in 1999, as a basis to grow the company into a partner to more established international companies. With Wilhelm Petersen and Teitur Samuelsen making up the management team, Atlantic Petroleum is in the process of building a balanced portfolio that will consist of high impact West of Shetland exploration and UKCS appraisal and producing assets by 2007.

Atlantic Petroleum holds minor working interests in 3 oilfields - Chestnut (15%), Etrick (8%) & Perth (4%) - in the Central North Sea alongside a large number of prospects in this area. Field Development Plan (FDP) approvals for Chestnut (Venture operated) and Etrick (Nexen operated) have been received and the projects are on schedule for first oil in Q2/07 & Q1/08 respectively. Drilling will also commence in July 2006 on the Brugdan Prospect on Licence L006 (<2%) that, if successful, is expected to present further opportunities to farm-out part of its 40% working interest in newly acquired licences L013 & L014 in the Faroes. During 2005, Atlantic also farmed-in to the West Lennox & Crosby prospect in Morecambe Bay (25%), which is currently undergoing appraisal.

#### Exhibit 22: Atlantic Petroleum Stock Performance vs. Tristone Int'l Index



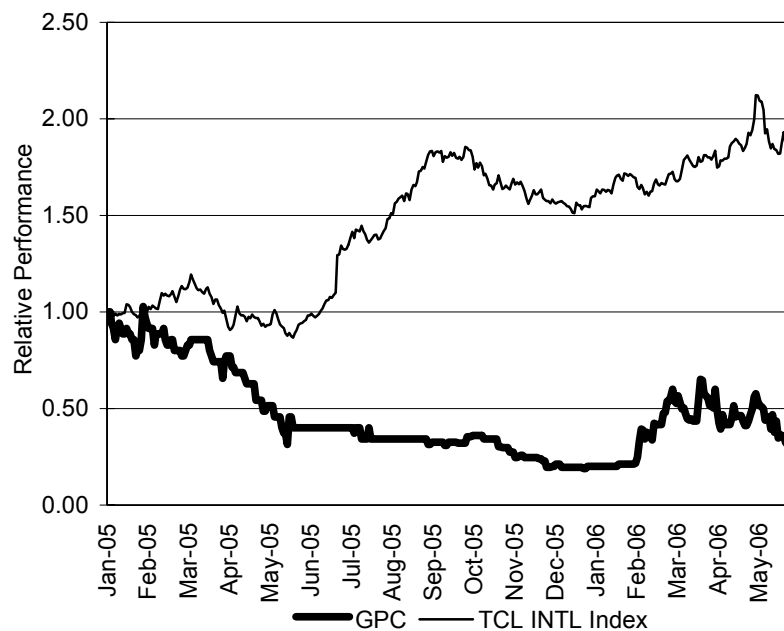
Source: Tristone Capital, Bloomberg

### Genesis Petroleum (GPC LN, US\$116 mm)

Genesis Petroleum is a North Sea focused E&A company that joined AIM through a reverse takeover of Zari Resources in late 2005, with Gerry Harrison taking over as CEO and Michael Haagaard as COO. The company was originally formed in November 2003 to exploit a non-exclusive database licence, which provided access to over 50,000 km<sup>2</sup> of 3D seismic data on the North Sea, West Africa and Brazil. In 2006 the company entered into an agreement to access a further 150,000km<sup>2</sup> of 3D seismic data on the North Sea, and established a new company (Genesis Petroleum Europe Ltd.) together with Petroleum Geo-Services to explore for oil and gas based on PGS' NW Europe Multi Client Library of seismic data.

Genesis Petroleum hold 4 licences in the Northern UK North Sea, from which it has worked up several prospects, and is looking to capitalize on its unique seismic database advantage to prospect for oil and gas in the region. Having access to 3D seismic data during the initial stages of exploration should reduce costs, both to acquire such data and in licence fees, and allow the company to identify potential joint venture and farm-in opportunities more selectively. The company plans to build a balanced portfolio of projects, through their ability to reduce exploration risk by using 3D seismic databases to determine prospectivity.

#### Exhibit 23: Genesis Petroleum Stock Performance vs. Tristone Int'l Index



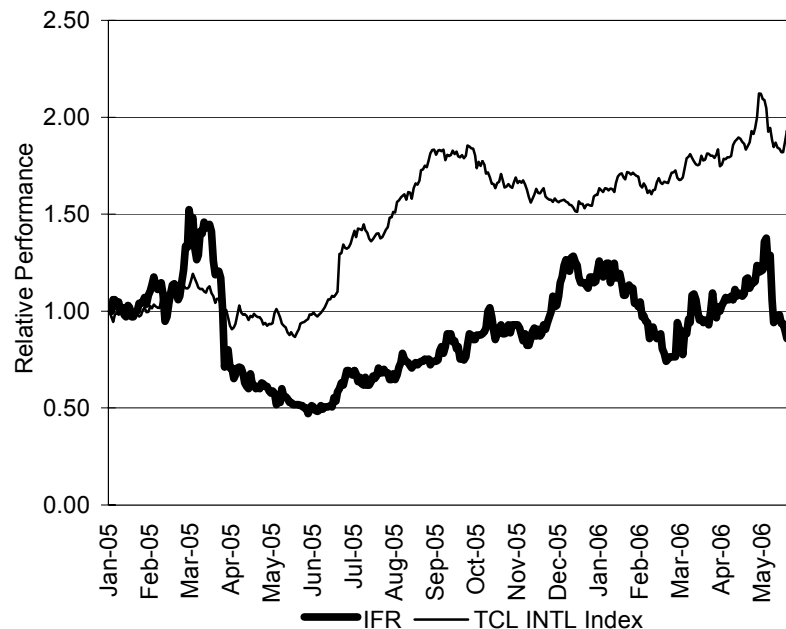
Source: Tristone Capital, Bloomberg

### International Frontier Resources (IFR CN, US\$55 mm)

International Frontier Resources Corporation is a TSX listed E&P company formed by President & CEO Pat Boswell, with operations located in the Northwest Territories, Canada and in the UK sector of the North Sea. The company was engaged in high risk, high impact exploration strategies in Canada and entered into the UK North Sea in 2005 with the acquisition of four licences through its 100%-owned subsidiary, Britcana Energy Ltd., to pursue a similar strategy. International's technical advisors, Exploration Geosciences Ltd, were also instrumental in opening up this new exploration area to the company, as they had local expertise and access to logistical support in the North Sea. The North Sea will also provide the opportunity for all year-round exploration.

On the UKCS, Britcana has a 10.4% interest in the Laurel Valley prospect in the Central North Sea Quad 14 block, which is due to be drilled in 2H/06 by the operator Oilexco, at no cost to the company. The Lytham St. Anne prospect in Quad 41/42 is located in the gas producing Southern North Sea, which the operator plans to drill when a rig is contracted. In March 2006 a joint venture agreement was signed for a 10% interest with Nippon Oil Exploration UK (operator), Hunt Petroleum, Palace Exploration and Exploration Geosciences. The joint venture will acquire new acreage, which Exploration Geosciences will evaluate and generate exploration opportunities from.

#### Exhibit 24: International Frontier Stock Performance vs. Tristone Int'l Index



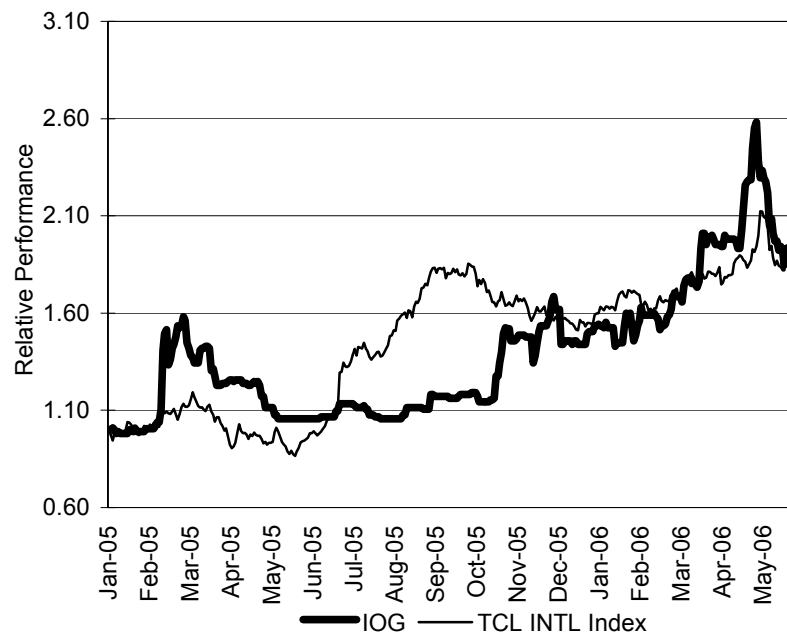
Source: Tristone Capital, Bloomberg

### Island Oil & Gas (IOG LN, US\$125 mm)

Island Oil & Gas is an Irish-based E&P company that listed on AIM in December 2004 and is active offshore Ireland in the Celtic Sea and on the Atlantic Margin. The company was founded by CEO Paul Griffiths and Jack McKinney, who have used their country experience to acquire a portfolio of assets that they are preparing to drill in 2006/07. A rig contract with a Petrolia rig started a three-well drilling programme in May 2006, consisting of two wells in the Celtic Sea on an extension of the Seven Heads gas field, and at the Old Head of Kinsale, followed by a third on the Inishbeg Prospect in the Donegal Basin. In 2007 a further 150 day drilling contract with the Petrolia rig will test prospects along the Atlantic Margin and appraise any discoveries made during the current programme.

Some of Island's portfolio was acquired from Lundin Petroleum in return for an equity stake, including a 12.5% interest in the producing Seven Heads Petroleum Lease (Marathon operated), others through farm-ins and awards. The company is also pursuing potential international opportunities, such as in the Aquitaine basin in South-West France. In May 2006, Island agreed an arrangement with its major shareholder Platinum Petroleum in two parts; a staged investment and a memorandum of understanding on Platinum's North and West Africa asset portfolio. As well as an eventual inward investment of up to £21 million in return for equity, Island will also be granted the opportunity to participate in Platinum's new exploration and production licences on a case-by-case basis.

#### Exhibit 25: Island Oil & Gas Stock Performance vs. Tristone Int'l Index



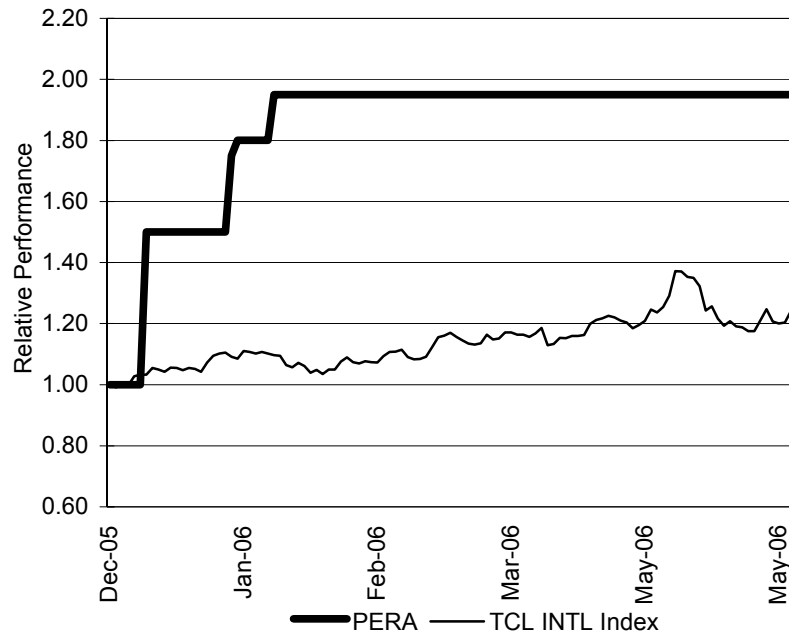
Source: Tristone Capital, Bloomberg

### Pertra (PERA NO, OTC - mkt cap not quoted)

Pertra AS was a 100% owned subsidiary of Petroleum Geo-Services (PGS) ASA from its inception in 2001 until all the assets of the company were sold to Talisman Energy in Q1/05. Pertra had originally been set-up as an E&P company to engage in small to mid-field opportunities on the Norwegian Continental Shelf. The management group re-established Pertra in March 2005, led by CEO Erik Haugane and CFO Paul Hjelm-Hansen, through the purchase of some of the previously held assets from Talisman Energy, including a 5% interest in the producing Varg Field. Funded by a restricted number of local and international investors, in February 2006, the company was converted into a public limited company, Pertra ASA, and is now listed on the OTC. The company has now approved to list on the Oslo Stock Exchange in Q4/06 in an IPO of NOK ~500 mm.

Pertra will pursue a strategy of adding value to their prospects by developing their assets through discovery to the production stage, and by also looking to operate marginal and abandoned fields, where it can utilise its experience in prolonging the field life and reserves of the Varg field. From an exploration point of view, it envisages that it will invest NOK 2 bn in exploration projects alone by 2010, with rig contracts secured for 3-5 exploration wells in 2007-9, 2 of which will be drilled next year. PDO's are also expected to be approved for the Yme & Frøy fields in late 2006 and 2007 respectively, which will also require considerable capital investment.

#### Exhibit 26: Pertra Stock Performance vs. Tristone Int'l Index



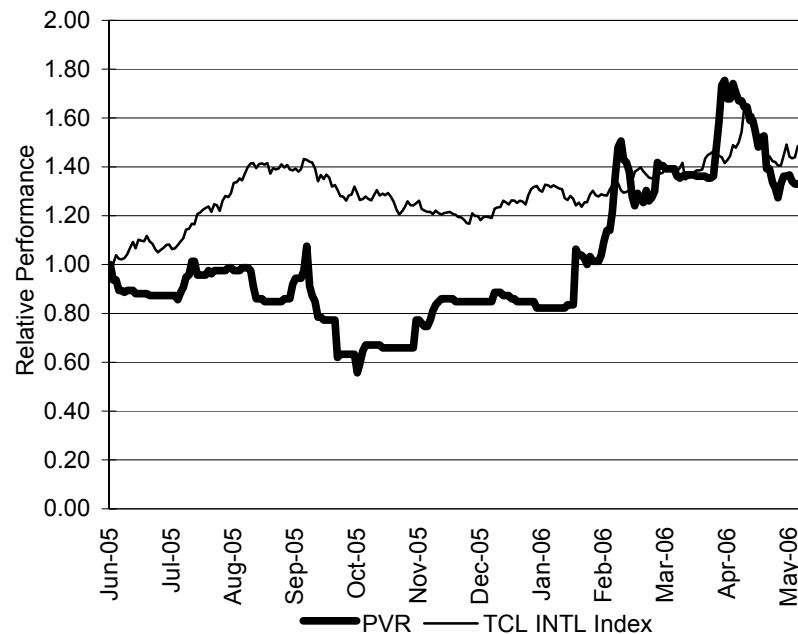
Source: Tristone Capital, Bloomberg

### Providence Resources (PVR LN, US\$106 mm)

Providence Resources is an Irish-based E&P company that is listed on both the Irish Enterprise Exchange (IEX) and the AIM (2005), which has international operations in Ireland, UK and Nigeria, West Africa. The company evolved out of the Irish portfolio of Arcon International Resources, from which it derives its links to its 45% principle shareholder, Sir Anthony O'Reilly. Providence is seeking to offset its relatively high impact Atlantic Margin exploration prospects against low risk infill drilling on its only producing asset onshore UK, whilst continuing to investigate international opportunities as with the appraisal work on its Nigerian venture.

Under COO Tony O'Done, this year has seen net production increase to ~120 b/d from the Singleton field (20%), and Providence's stake in Licence OML 113 in Nigeria increased to 7.04%. Off the west coast of Ireland in the Porcupine Basin, ExxonMobil farmed into an 80% equity interest in the Dunquin licence in February 2006 by agreeing to carry Providence (16%) through a work programme of 1500km seismic survey and dependant drilling. Ongoing farmout discussions continue; most notably the data room has also been opened in May 2006 to potential farminees into the Spanish Point project, a Porcupine basin discovery that requires further seismic appraisal.

#### Exhibit 27: Providence Resources Stock Performance vs. Tristone Int'l Index



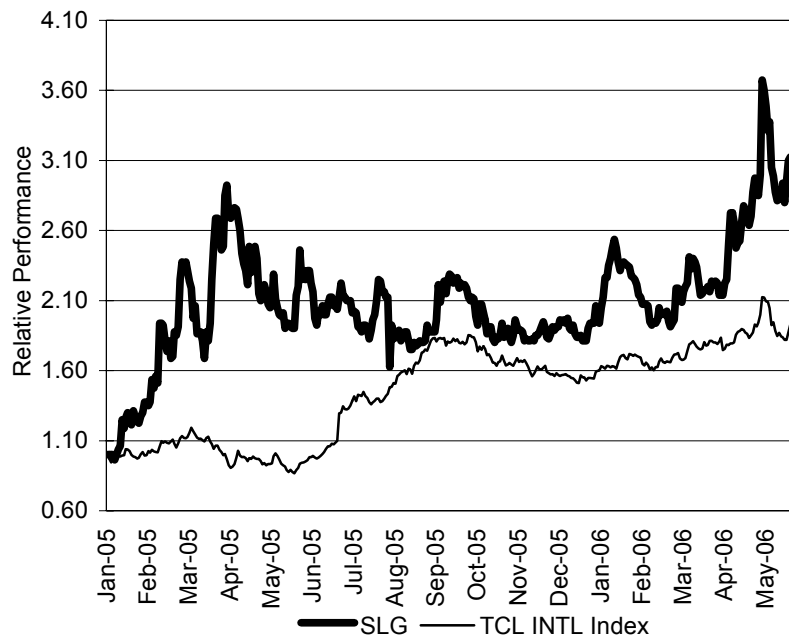
Source: Tristone Capital, Bloomberg

**Sterling Resources (SLG CN, US\$176 mm)**

Sterling Resources is a TSX listed exploration company with international operations in the UK, Romania and France, in all of which the management possess a level of local expertise. In its offshore UK operations it has sought to acquire blocks close to existing structure and to each other, such that potential discoveries can benefit from better development economics. Onshore, the drilling program has been completed, although testing remains at two of the wells. In its onshore Romanian operations, the Craiova concession will again be drilled around mid year, whilst rig availability is being assessed in regard to its offshore Midia prospect. The seismic over the Grenade heavy oil discovery continues to be evaluated in France in preparation for a high angle well to be drilled in 2H/06.

Sterling’s first offshore well on Block 21/23a (Oilexco operated) in the Central North Sea intersected oil, although the partners agreed that further appraisal drilling would be required to evaluate the flanks of the Disraeli structure. If regulatory approval is given, drilling could commence as early as July. In the Southern North Sea, attempts at securing a rig to appraise the Breagh discovery in Block 42/13 continue, as do discussions to attract further farm-in partners. Under the management team of Robert Welty & Stewart Gibson, it is an important part of the company’s model to target blocks with high initial working interests, such that risk exposure can be reduced through subsequent farm-out arrangements.

**Exhibit 28: Sterling Resources Stock Performance vs. Tristone Int’l Index**



Source: Tristone Capital, Bloomberg

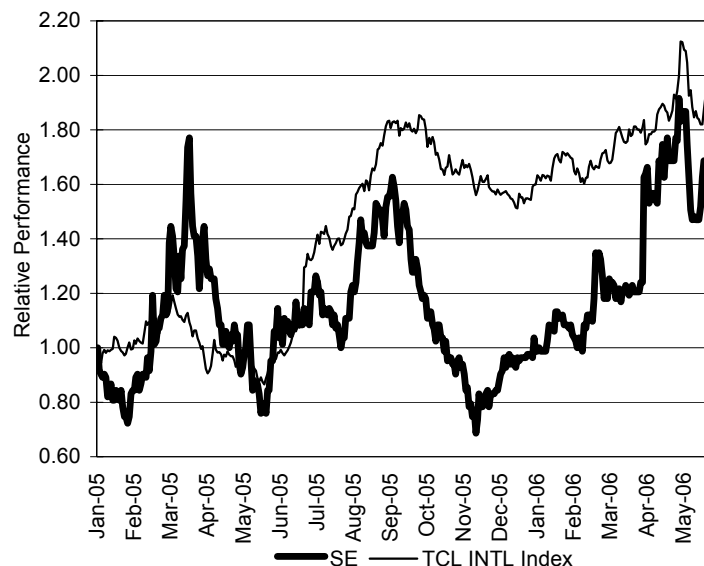
### Stratic Energy (SE CN, US\$161 mm)

Stratic Energy is a TSX listed exploration and development company with international operations in Turkey, Syria, Morocco & the UK North Sea. In its non-UK operations, the company has sought to gain early access to their assets, and their interests have primarily been related to exploration activities in these countries. Turkey is the current focus for Stratic as they are due to realise first gas production from their 12.25% interest in the Ayazli-Akkaya discoveries (Toreador operated) at the tail-end of the year, as well as appraising the deeper Akcakoca trend in 2H/06. Both Syria and Morocco are longer term projects, with extensive onshore areas that require work programmes including both seismic and drilling.

In 2005, Sir Graham Hearne (formerly Chief Executive and Chairman of Enterprise Oil) joined the board of Stratic and became Chairman and in August 2005 Kevin Watts was recruited as President and CEO. This marked the start of a change in the management team which now consists primarily of ex Enterprise Oil management. Stratic's strategy is to create significant capital growth within a three to five year time frame, by managing its existing portfolio and adding new opportunities within its current areas of interest. Given the management teams' expertise, it seems likely that Stratic's future lies more in the North Sea.

In the UK North Sea, Stratic's strategy is centred around the appraisal of small marginal oil fields that are located relatively close to existing infrastructure in the Northern North Sea and effectively rules out large investments in unproven "blue sky" concepts. Stratic holds interests in West Don (50%), Cragganmore (19%) and Cairngorm (50%), all of which show commerciality with upside reserve potential, that are currently undergoing seismic re-appraisal to determine future development. The company also holds extensive exploration acreage in the Northern North Sea, which they are seeking farm-in partners for.

#### Exhibit 29: Stratic Energy Stock Performance vs. Tristone Int'l Index



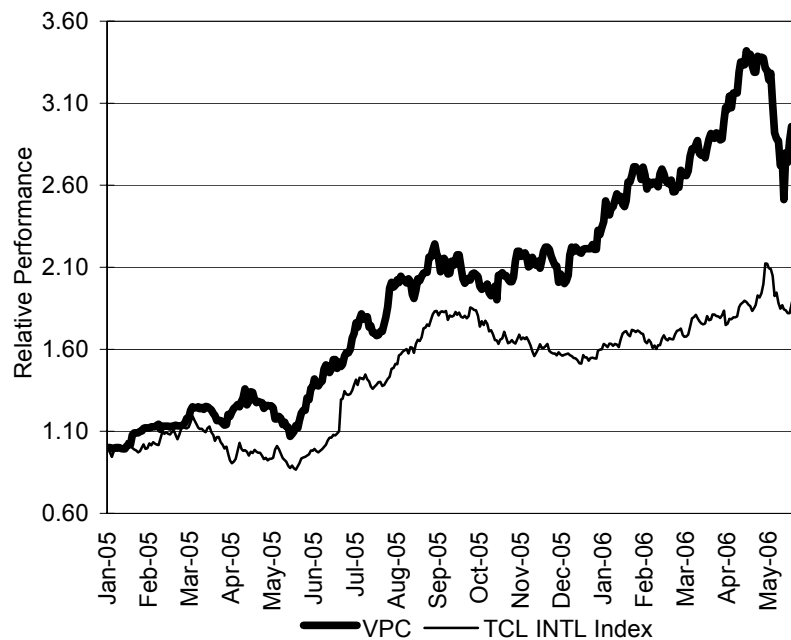
Source: Tristone Capital, Bloomberg

### Venture Production (VPC LN, US\$1,579 mm)

Venture Production is an AIM-listed oil & gas company focussing on the acquisition and exploitation of 'stranded' reserves and marginal fields on the UKCS North Sea. Formed in 1997 by its largest shareholder, Larry Kinch (9%), the company has progressively grown through acquisitions and the exploitation of its assets into a mid-sized independent operator. The current management team are chief executive Mike Wagstaff, finance director Marie-Louise Clayton and COO Jon Murphy. The underlying strategy of the company has been to employ intellectual capital, in the form of efficient management and innovative technical solutions to maximise profitability of low-risk marginal assets from the portfolios of the large integrated companies.

There are three major hubs in the North Sea, around which most of their activities are based, and an extensive activity plan for the forthcoming year aimed at developing its spectrum of opportunities and diversifying capital risk through portfolio spread. In the Central North Sea, Venture has two largely self-operated clusters of oil fields, with optimisation, step-out and development drilling programmes planned for 2006. A two year firm drilling contract is also in place for a multi-well programme on its own Southern North Sea gas assets, as well as providing leverage for creating further business opportunities. A recent emphasis on undeveloped satellite discoveries to the major hub areas is expected to continue in the current environment of paying premiums for producing assets.

#### Exhibit 30: Venture Production Stock Performance vs. Tristone Int'l Index



Source: Tristone Capital, Bloomberg

## Private Companies Active in the North Sea

### Fairfield Energy

Fairfield Energy is a UK based private E&A company that was established in 2005 from funding provided by management and a syndicate of private equity investors. Chris Wright and Mark McAllister lead the senior management at Fairfield, whilst Warburg Pincus leads a syndicate including SGAM/4D Global Energy Development Capital Fund and KERN Energy Partners I Fund among others. Fairfield is committed to using in-house expertise in near-term and development projects of stranded assets to realise value in the medium term. It is currently targeting two abandoned fields in the Central and Northern North Sea, Maureen (25.11%, Apache operated) and Crawford (52%, Petrofac operated), for development opportunities. Both fields are being appraised using 3D seismic surveys.

### Ithaca Energy

Ithaca Energy is a private Canadian E&A company that was formed in 2004 solely to focus on the oil and gas opportunities in the UK North Sea, lead by a senior management team of Lawrie Payne and Neill Carson. It has a highly diversified portfolio of licences with high working interests in a range of blocks covering over 514,000 acres. The company is planning to IPO on AIM and TSX in Q2/06 to raise approximately \$70 mm in funds to pursue its satellite appraisal and development programme. With the majority of these funds, Ithaca is looking to appraise several near field discoveries for tiebacks into existing structure in 2006/07. The company may also purchase production in an effort to fast track cash flow, with which to pursue more high impact exploration across its portfolio (*Ithaca floated on AIM and the TSX-V as we went to press (IAE CN, IAE LN)*)

### Silverstone Energy

Silverstone Energy is a UK based company founded in 2005 in a 50:50 joint venture by Storm Ventures International, a private Calgary based oil and gas company, and by Lime Rock Partners, an energy focused private equity firm. It has built upon the three blocks acquired by the Storm parent in the 22nd Round with the addition of a further 7 promote licences in the 23rd Round, including several close to the prolific V Fields and Viking areas of the Southern North Sea. Silverstone completed a farm-in on several of the blocks in this area by ConocoPhillips, BP and EOG, together with whom the Vanquish gas discovery was made on Block 49/16 in Q2/06. The senior management of Matthew Brister and Steve Horton have declared their intention to drill another prospect in 2006, with further drilling pencilled in for 2007 and beyond.

**Valiant Energy**

Valiant Petroleum is a UK based private E&P company, which was incorporated in 2004 to identify and acquire selected development and exploration opportunities in the Northern North Sea. The company was formed to take advantage of an opportunity in the West Don Field (211/18a), which plans to submit a FDP in late 2006. The existing assets include a 30% interest in the West Don Block, and a 50% interest in block 211/18c, awarded in a 2005 bid round, which contains the West Don Extension and Halibut High prospects. In addition, the company has a number of other acquisition targets, farm-ins and opportunities identified in future licensing rounds that would add to the prospect cluster in the Northern North Sea. The company has a very strong management team led by CEO Peter Buchanan, all with extensive technical experience in the North Sea, and Gordon Stollery (Chairman and CEO of Highpine Oil and Gas (HPX CN)) has agreed to join the board as non-executive chairman. Valiant's plan is to list on AIM within the next 12-18 months.

**Wimbledon Oil & Gas**

Wimbledon Oil & Gas is a UK based private exploration company that currently has an interest in 10 licence blocks in the UK Northern and Central North Sea. These consist of six 100% owned promote blocks and four traditional blocks through their collaboration with Ithaca Energy. From these interests, Wimbledon has built a portfolio of exploration prospects and leads and acquired a 10% carried interest in the Athena (Avreck) discovery in block 13/16b (Ithaca operated). The company also holds a high interest in a new prospective play fairway based on the Buzzard sands in the middle of Quad 13, which they are looking to prove out in 2007. The management team of Mike Rose, Bob Frost and Peter Ross are currently looking for investment in order to instigate a 5-year programme of exploration activity in the North Sea.

**Xcite Energy Resources**

Xcite Energy Resources is a UK based private E&A company formed by Jerry Tyson and Steve Kew, both formerly of Conoco, with over 20 years of North sea experience behind them. It was issued with a 100% holding in a promote licence for block 9/3b in the UK Northern North Sea in the 21st Round of Offshore Licensing in 2003, allowing it to work up the block for an initial period of two years. 2 prior wells had encountered net pay and a prospective structure has been mapped by seismic, such that Xcite committed to drill an exploration well on the prospect before 30 September 2007. In Q1/06, Xcite finalised arrangements for the Canadian QEVA Group to farm-in on this block, where QEVA will pay 100% of the costs to drill the well, in return for an 87.5% working interest in the whole block. Xcite will also receive 1,000,000 common shares in QEVA on the conclusion of this transaction.

North Sea Initiating Coverage

Exhibit 31 : North Sea Research Report – Summary Valuation Matrix

Company			Antrim Energy	Bow Valley	Cirrus	Elixir	EnCore	Endeavour International	Faroe Petroleum	Granby Oil & Gas	Nautical Petroleum	Oilexco	Rewus Energy	Wham
General	Area of North Sea		UKCS	UKCS	NNS	UKCS	UKCS	All	All	UKCS	UKCS	UKCS	NCS	UKCS
	Production Status		Y	Y	Y	N	N	Y	N	N	N	Y	Y	N
Market Information	Mkt Cap	US\$ mm	130.1	399.4	36.4	22.1	95.4	214.8	182.6	42.0	234.3	888.1	295.1	26.8
	Enterprise Value	US\$ mm	94.0	422.2	na	12.1	57.8	184.6	94.6	25.1	207.1	1,128.6	268.1	10.5
Pricing information	Local Coy		C\$	C\$	C\$	p	p	US\$	p	p	p	C\$	NOK	p
	Current Price	local/sh	2.07	6.40	1.17	18.3	24.5	2.71	130.5	86.0	11.5	5.05	55.0	44.5
	Dual Listing Price	local/sh	101.5p			AUS\$0.44						241.5p		
Core Valuation	P+P Reserves	local/sh	0.60	4.34	na	-	3	5.69	-	39	11	3.68	23	-
	Cash	local/sh	0.64	0.02	na	7	10	5.51	60	35	1	0.47	5	25
	Core NAV	local/sh	1.24	4.36	-	7	13	0.18	60	73	12	4.14	28	25
Upside Valuation	RENAV 2006-07	local/sh	1.13	2.33	-	59	15	1.08	57	59	1	1.76	54	16
	Future Drilling	local/sh	-	-	na	21	5	0.05	105	82	-	-	-	59
	Other	local/sh	-	0.24	-	-	-	-	-	91	1	0.74	-	-
	Option Proceeds	local/sh	0.37	0.15	na	6	-	-	5	-	-	0.23	-	4
	RENAV	local/sh	2.74	7.08	-	93	33	1.31	227	305	15	6.88	81	103
Unrisked RENAV	local/sh	4.04	15.83	na	852	174	6.46	2,929	1,863	41	16.25	148	710	
Based on original equities	RENAV	local/sh	2.74	7.08	-	170	43	1.51	391	323	17	6.88	82	184
	Unrisked RENAV	local/sh	4.04	15.83	na	1,024	250	10.57	7,257	2,184	63	16.25	152	1,684
Value Metrics	Price to Core Value	%	167%	147%	na	262%	190%	1523%	217%	117%	92%	122%	198%	179%
	Price to RENAV	%	76%	90%	na	20%	74%	208%	57%	28%	77%	73%	68%	43%
Reserves as at June 2006	Core	mmboe	6.38	17.34	1.64	-	1.45	25.16	-	1.53	64.00	36.82	17.06	-
	Risked Exploration	mmboe	6.32	27.00	na	20.21	12.13	12.16	44.85	16.34	6.00	33.64	61.23	6.96
	Total	mmboe	12.70	44.34	1.64	20.21	13.57	37.31	44.85	17.86	70.00	70.46	78.29	6.96
Production	2006e	mboe/d	1.4	3.8	na	-	-	11.3	-	-	-	3.2	2.4	-
	2007e	mboe/d	2.3	8.1	na	-	0.2	10.3	-	0.6	-	32.5	8.4	-
Additional info	Cash/(Net Debt)	US\$ mm	46.88	1.39	na	9.97	37.56	(444.19)	88.07	16.90	27.17	89.09	27.06	16.34
	06 / 07 CF	US\$ mm	8.2 / 15.0	49.3 / 113.4	na	0 / 0	0 / 0	19.4 / 32.1	0 / 0	0 / 2.6	0 / 0	27.2 / 365	32.1 / 80.8	0 / 0
	Drilling program cost	US\$ mm	19.75 / 0	15 / 30	na	0 / 1.1	2.5 / 25.1	22.2 / 100.0	4.5 / 4.4	0.7 / 0	0.8 / 34.3	75.0 / 150.0	24.0 / 54.7	0 / 0
	Track record 2005/06 <sup>1</sup>		0 / 3	na	na	0 / 3	0 / 0	1 / 5	0 / 1	0 / 2	0 / 0	3 / 7	1 / 2	0 / 1
Comments	Adjusting Factor		na	na	na	Farmed out & risked heavily	Farm down of Golden Eagle to 15% W.I.	Incl. purchase of Talisman assets - May	Farmed out prospects	Farmed out & risked heavily	Farmed out prospects	na	production at Blåmannen Q4 2006	Farmed out & risked heavily
	Wells Booked for H2 2006 Current Activity		1	1	na	no rig	1	several	1	no rig	1	several	several	no rig
			To drill Causeway in June 2006	Two operated exploration wells in late Summer 2007	na	Nexen plan to drill Guinea project in block 15/13b in Q4 2006	Drilling Golden Eagle in Q4 2006	First production from Enoch expected 4Q 2006	drill Brugdan in July 2006	Nexen plan to drill Guinea project in block 15/13b in Q4 2006	Submit FDP for Mariner by 2007, drill Grenade in Dec 2006	Drilling Nicol field, then moving to appraise Disraeli	Looking to trade its Fram B discovery	No commitment, investigating farm-out opportunities

<sup>1</sup> successful wells / total drilled in 2005/2006

Source: Tristone

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## Initiating Coverage

### **Antrim Energy (AEN CN, AEY LN; Market Cap: US\$130 mm)**

#### **Speculative Outperform – C\$2.75 or 130p target**

We are initiating coverage on Antrim Energy with a Speculative Outperform and a price target of C\$2.75. We have set our rating and target with respect to a binary outcome of the Causeway prospect, and recognize that success in the North Sea could be worth as much as C\$2.45/sh based on our conservative estimates. In addition, we feel that underpinned by its growing production and reserve base in Argentina and the upside associated with these assets Antrim will comfortably achieve our price target of C\$2.75 over the next 12 months based on 1.0x our RENA V value.

Antrim, run by Stephen Greer, has been active in the United Kingdom since 1995. With a mix of lower risk long-life producing assets in Argentina and high impact UK exploration Antrim continues to maintain a balanced portfolio of assets for development. AEN has established itself in Argentina with a stable and growing production base with a mix of low risk development and medium risk exploration. Augmenting this production base is the company's high risk high reward exploration in the North Sea.

Despite several setbacks in their North Sea exploration drilling program which resulted in three plugged and abandoned wells (one well in each of the Clanachben, Prometheus, and the Bennachie prospects) Antrim managed their risks well and farmed down the bulk of its financial obligations while retaining adequate working interests in each well.

The company maintains that exploration in the North Sea is a risky business, but continues to investigate opportunities in the region and plans to spud the Causeway Prospect sometime this week. This is Antrim's main prospect (65.5% WI) targeting a 25 to 50 mmboe structure offsetting an existing discovery next to Osprey Ridge in the NNS. The well, drilled laterally, will target oil bearing Jurassic sandstones at a depth of 3,400 metres and take approximately 7 weeks to drill and test.

The company is paying 59% of costs for a 65.5% working interest in the well which is an aggressive move. Although the prospect offsets an existing discovery, we would have preferred to see Antrim farm down its position at Causeway further and have risked the project aggressively (50%) to offset the potential risks associated with the well.

Ultimately, the Causeway project is one of the better exploration/appraisal targets being drilled over the near term in the North Sea, yet, as believers in the portfolio theory, we become cautious when a firm spends a sizeable portion of its market cap on a single exploration prospect. Although Antrim farmed down its interest somewhat, it remains an aggressive explorer and decided the rewards for retaining a larger portion of Causeway was worth the risk.

We do, however, recognize the impact success at Causeway would have on Antrim's share value if the well were successful. Regardless of what happens at Causeway the company is well positioned with its Argentinean and North Sea properties and we expect significant growth in reserves and production over the next 12 to 18 months with the potential for substantial upside in Argentina.

### **Bow Valley Energy (BVX CN; Market Cap: US\$400 mm)**

#### **Outperform – C\$8.00 target**

We are initiating coverage on Bow Valley Energy with an Outperform rating and a price target of C\$8.00. BVX has built itself a high quality portfolio of non-operated interests in the North Sea, has a well established growing set of Canadian assets and is beginning to shift its focus to its high impact exploration program.

Bow Valley operates in two main areas, the UK North Sea and Canada. Beyond the reasonably steady 25% annual growth rate of its Canadian assets, the main focus of the company lately has been the North Sea. Led by Rob Moffat, Bow Valley has concentrated on development projects in the North Sea for the near term which will generate cash flow that it can use to fund exploration over the longer term. The recent addition of Nick Fairbrother and the opening of a Windsor office have signalled the company's intentions of being a long term player in the North Sea.

With significant production (up to 8 mboe/d in additions over the next 24 months) from 5 separate development projects in the North Sea we expect cashflow of ~US\$100 million in 2007. This cash flow will allow the company to either make acquisitions, participate in farm-in's, drill exploration wells or make serious bids on blocks of land in the UK and Norway. It is likely that Bow Valley will combine several strategies to increase its access to exploration acreage and seek more meaningful stakes in its projects as it grows in size.

Very well balanced from a risk, cashflow, and production standpoint Bow Valley is on the road to becoming one of the most recognized smaller firms in the North Sea for the right reasons. Although investors have begun to realize this and have pushed Bow Valley's share price to premium levels, we feel that significant value remains in the story and look towards the company's next stage of aggressive exploration for much of the upside.

Our RENAV is based on C\$4.75 of Core NAV relating to its booked 2P reserves, option proceeds and land in Canada, and exploration upside of at least C\$2.33. We believe that Bow Valley warrants a premium of 1.1x its RENAV value due to its exceptional mix of assets and its heavily risked set of exploration assets. Further, the company has indicated that it will move to expand its exploration portfolio through acquisitions, licensing rounds or swaps with other firms in the North Sea.

A well balanced mix of risk, production, and exploration, Bow Valley has over C\$11.00 of potential unrisksed exploration upside and reserves upside from any one of its five producing assets, which we believe will easily allow the company to achieve our 12 month price target of C\$8.00. BVX is one of a handful of successful new entrant, full-cycle exploration and production companies in the North Sea and is expected to continue growing its North Sea presence through both the drill bit and acquisition.

### **Cirrus Energy (CYR CN; Market Cap: US\$36 mm)**

#### **Restricted**

We are currently restricted on Cirrus Energy.

Cirrus was founded in June 2002 by David Taylor and Robert Carter in order to pursue international oil and gas exploration opportunities. In April 2005, Cirrus Energy received environmental approval to drill up to 29 wells in the Coora Field in Trinidad. Cirrus drilled two wells in the Coora Field in July and October 2005 respectively. Although the initial drilling results were favourable from a resource perspective operational problems with the drilling rig caused the company to halt their drilling program.

In November 2005, Cirrus acquired a 24% interest in the Block A15a exploration licence on the Dutch continental shelf. Concurrently, Rudy Weerheym was appointed Managing Director of Cirrus Energy Netherlands and Wim Korndorffer was appointed as a director of Cirrus Energy. Cirrus, operator (60% WI), applied for an exploration licence for offshore block Q14, a large (~120 bcf) lower risk exploration target that shows up well on 3D seismic, in Sept/05, and expects to be awarded the block in mid 2006 L16b was also awarded to Cirrus (30% WI) in Feb/06. Cirrus recently announced it will acquire Wintershall's operated interests in two blocks also in the Netherlands, targeting Triassic sand targets, the M1a (47.5% WI – 150 bcf of tight gas) and M7 block (13.75% WI – 50 bcf).

With a strong management presence in the Netherlands, operational success in Trinidad and a successful track record of acquisitions in the Netherlands Cirrus is on its way to becoming a full cycle E&P company.

### **Elixir Petroleum (ELP LN, EXR AU; Market Cap: US\$22 mm)**

#### **Underperform – 14p target**

We rate Elixir Petroleum a Market Underperformer with a price target of 14p. ELP has developed an interesting pure exploration strategy for the UK North Sea and gives shareholders a highly geared outcome on each individual well. However, our concern is that the company is trading at a higher premium to its core (cash) value than any of the others in the peer group, and that with limited cash it is difficult to take a portfolio approach to the exploration risk and hence the wells are effectively one-shot “toss of a coin” outcomes

Elixir Petroleum is a dual-listed company – ASX and AIM – that explores for oil & gas in the UK North Sea. It has a good geographical spread within the UK North Sea, with assets located across the Central, Southern and Northern North Sea areas. Led by Russell Langusch (MD), Elixir’s strategy is based on high impact exploration wells, and as such represents a high-risk, high-reward investment opportunity. It aims to manage its risk exposure through a combination of farming-out a level of equity on drilling prospects and reducing its cost exposure as a result, as well as balancing technical risk across areas, play types, and technological applications.

The company has experienced setbacks on all three of its wells drilled so far - Munes, Marquis and Jaguar – and is in need of an exploration success that will endorse its strategy. The magnitude of potential resources that each asset in Elixir’s portfolio exposes it to, however, means that success on any one well could potentially be a ‘company-maker’.

With no booked reserves as yet, our core value is comprised of cash, and Elixir currently trades at an almost three-fold premium to that. Our RENAV estimate indicates the potential upside to the portfolio and Leopard, Panther and Guinea prospects are the main drivers of that potential upside. The company has stated that they do not believe there to be inter-dependency between Leopard and Panther and the dry Jaguar well. While we broadly agree with this evaluation, we do believe them to be conceptually very similar.

The Guinea prospect is Elixir’s most firm drilling target in terms of stated schedule, and is set to be spud in Q4/06 following a recently concluded double farm-out to firstly Albion Petroleum, and then to Nexen, who will operate, and Gas Plus. Elixir is also looking to farm-out its NNS licenses which contain the Leopard and Panther prospects, to generate drilling activity in those prospects as well.

As an investment prospect Elixir’s portfolio provides the potential upside, however, given recent performance, the high-risk element currently outweighs the high reward, the failure of the Jaguar well (Block 211/22b) and declining cash balances have put the company under financial pressure and it recently raised A\$2.6 mm (£1.06 mm) through a sophisticated investor placement. The original concept for Elixir was an interesting one, but without raising sufficient funds at the outset and limited resources today, the risks are rising. Nevertheless, we recognise that the company’s drilling programme could still be successful and we would expect some interest in Q4, when drilling commences on the Guinea prospect in which Elixir’s share is fully carried.

In terms of the shares rating, our concern is that the shares are trading at a higher premium to their core (cash) value than any of the others in the peer group and that there is not sufficient cash to take a portfolio approach to the exploration risk – the wells are effectively one-shot “toss of a coin” outcomes. If investors wish to gain exposure to the upside, then they will need to balance the risk themselves elsewhere in their portfolios. In the meantime, the possibility remains that the upside will be diluted through further equity offerings or in a production related deal (similar to the recent Endeavour and Talisman UK transaction).

Our RENAV value of 93p looks attractive, but it must be weighed against how much can be achieved without further funding. Our risked valuation for the Guinea prospect, which we expect to be drilled in Q4/06 and in which Elixir is fully carried, is 11p (108p unrisked), giving a more realistically achievable near term RENAV of 18p almost in line with today's share price. Our target price is based on the stock trading at 100% premium to the existing core value and our view of the risk/reward to the diminishing cash balances and our estimated risked net asset value for the current portfolio

### **EnCore Oil (EO/ LN; Market Cap: US\$95 mm)**

#### **Market Perform – 24p target**

We are initiating coverage on EnCore Oil with a Market Perform rating and a price target of 24p (in line with our RENAV for 2006/07). In our estimates, the main value resides in Block 18/5 and we have assumed that EnCore will farm down its interest (we have assumed from 25% to 15%), however we have been conservative and have not credited EnCore with any ensuing value from such a deal. On this basis, the stock is trading close to the RENAV of opportunities in 2006/07 or mid-way between our core asset value and our estimated RENAV. Currently we expect that 18/5 will be drilled in Q4/06 and the stock's performance will be governed by how the management team chooses to develop this asset and the drilling result of the well

EnCore is an upstream exploration & appraisal company that was established in late 2005 as a private enterprise and subsequently went public on the AIM through a reverse takeover of Oil Quest Resources in Feb '06. EnCore is led Alan Booth, co-founder and CEO, who was Chairman and Managing Director of EnCana UK (now Nexen UK) and part of the team responsible for the discovery of the Buzzard field.

Undoubtedly one of EnCore's main strengths is its solid management and its proven track record. Almost exclusively drawn from ex EnCana (UK) and Enterprise Oil, the team has experience working with each other in the past. Furthermore, they have an established track record, building EnCana (UK) into a US\$2 bn plus venture in the UK upstream sector.

EnCore's focus is on high impact wildcat exploration, mixed in with the development of previously abandoned discoveries for which the economics have improved considerably in the current price environment. Its strategy is to take exploration discoveries to the project sanction phase and then monetise their equity.

EnCore has assembled an interesting portfolio of assets in the Central North Sea, (which were previously explored by Shell) and a 25% interest in Block 18/5 near to the Buzzard discovery in the Moray Firth, plus some inherited onshore interests and some offshore acreage in Saharawi Arab Democratic Republic ("SADR").

EnCore's main asset is Golden Eagle which is located in close proximity to the management team's previous discovery, Buzzard. Indeed, one of the main reasons for acquiring this license was to attempt to prove further similar play types to Buzzard in that sector of the North Sea.

The core value of the company currently lies in two tested onshore gas discoveries acquired as part of the Oil Quest reverse take-over – Westerdale and Kirkleatham (20% interest in each) – and cash balances of approximately US\$37.5 mm. The shares, not unexpectedly, are trading at a substantial premium to the core value. In the Central North Sea (CNS), EnCore has a 95% interest in Block 21/24, where there could be an extension of the Tay sands play that has been successful for Oilexco in Block 21/23.

EnCore's other major asset in the CNS is its interests in Blocks 21/29b and 21/30. These contain a number of Eocene structures, where oil has been found, yet questions remain on trapping mechanisms and the level of the oil water contact. These prospects have been extensively worked by Shell, but ownership interests were not aligned and EnCore believes it can bring an integrated approach to the prospects for the first time. EnCore acquired these assets in an opportunistic deal from Petro-Canada, for whom they were non material.

The previously mentioned Golden Eagle prospect on Block 18/5 in the Outer Moray Firth forms a core part of our RENA V at 15p, which is the main value driver in the next 12 months. EnCore and its partners Apache (operator) and Samson acquired this block in the 23<sup>rd</sup> licensing round, the first time that the block had been offered since the discovery of Buzzard. EnCore will have its costs carried by its partners through the firm committed work programme – drilling the 18/5-G prospect in 2H/06, a side-track well to test the 18/5-S prospect and acquisition of 3D seismic data. Despite this carry, our valuation assumes a farm-down to 15% equity as we believe that the management may use this asset as a means of creating further new opportunities and to mitigate its exploration risk. Even using our conservative approach, the prospect accounts for 15p/sh of our RENA V (123p/sh unrisks). While EnCore has built a portfolio of assets, the share price is likely to be driven by the near term binary outcome of a single well on block 18/5.

The company has no current production, but there is the prospect of production commencing from its onshore interests in late '07 depending on the success of further appraisal and subsequent development on Westerdale and Kirkleatham. Remaining value comes from the exploration portfolio, of which the onshore assets are the main contributor, primarily the Hurst Castle prospect which is considered an analogue to Wytch Farm.

EnCore is primarily focused on the North Sea, but the company opportunistically signed a formal Production Sharing Contract and associated Assurance Agreement with the SADR Government for a 100% working interest in the offshore Lagueria block licence in the Western Sahara. The block is adjacent to Mauritania and has low retention costs.

**Endeavour International (END US; Market Cap: US\$215 mm)****Market Perform – US\$2.75 target**

We rate Endeavour International a Market Perform with a price target of \$2.75, pending further clarification of its new financial structure. The acquisition of a portion of Talisman's North Sea interests is at first sight an expensive one, but it significantly transforms END prospects and strategically is a good deal for END. After a string of dry holes, Endeavour faced the prospect of having to raise new equity in order to continue with its existing business model. It is likely that, due to the acquisition, new equity will be raised (alongside the already announced convertible). However once the company has completed the initial raise of capital the company will move to a self-sustaining and fully funded North Sea E&P company. From this perspective, Endeavour's move positions it differently from many of the other North Sea pure exploration and promote plays. The new model will enable it to develop its exploration business and potentially partake in any forthcoming consolidation within the sector.

Endeavour is a US based, AMEX-listed company created in early 2004 with the specific purpose of finding and developing oil & gas reserves in the North Sea. Endeavour's strategy revolves around extracting cash flow and upside from mature producing fields, while targeting higher impact reserves from previously discovered prospects and wildcat exploration. Current production of approximately 2.1 mboe/d is based in Norway, but going forward will increase to approximately 12 mboe/d as a result of the start-up of the Enoch (UK) field and completion of its acquisition of its Talisman package.

The company has historically used the acquisition route to create cashflow for the company through small, opportunistically-acquired stakes in mature, declining production, while at the same time building its exploration portfolio through licensing rounds and satellite exploration targets. This is partly due to the management team led by Bill Transier and John Seitz, who bring considerable business development and commercial experience gained at major E&P companies in the US (Ocean Energy and Anadarko), as well as the technical know-how.

Prior to May '06, the company's production base was in Norway with small equity stakes in the mature Brage and Njord fields acquired from Lundin, while the exploration portfolio, the main value driver for the company, was concentrated in the UK. Endeavour then added to its future production base by acquiring Petro-Canada's 10% interest in the Enoch field, straddling the UK / Norway median line and expected to come online in Q4/06. Separately, the company has looked to build strategic partnerships, and in an innovative move acquired rights to use a 3-D seismic database from Petra. Management feel that as a result, they are in a unique position in terms of access to comparable seismic data of this size and quality in the North Sea.

Endeavour's recent acquisition of North Sea assets in a competitive auction, further proves the management's business development credentials. The package has given Endeavour

materiality in terms of cashflow, and a base from which to proceed with its higher impact exploration. In terms of the kind of prices being paid per producing boe in the UK North Sea, Endeavour's consideration of US\$414 mm is considered to be a full price. The deal is effective from 1<sup>st</sup> January 2006 and based on estimated accrued cash flows of approximately US\$100 mm, we expect the final net purchase price to be approximately US\$314 mm or around \$17-\$18/boe for 2P reserves and \$35,000 boe/d. Regardless there is a high strategic value for the company in terms of advancing its strategy of becoming the pre-eminent independent explorer and producer of oil and gas in the North Sea. Management's exploration credentials will now come under scrutiny.

Following the deal, it is difficult to put hard numbers on the appropriate share price valuation given the lack of data as we went to press. Our core valuation of the acquired assets (based on the lower Talisman reserve estimates) is around US\$200 mm. On top of this we anticipate that Endeavour will accrue around \$100m of cash flow from the assets as the deal is backdated to 1<sup>st</sup> January 2006. This leaves a "reserve upside" of around US\$114 mm based on Endeavour's (and its two external consultants) review of the reserves. (In practice we expect that the transaction price will be reduced by the accrued cash flow). Endeavour has raised US\$125 mm of financing for the deal through a convertible offering and the balance in the short term will come from bank financing. END has said it will review its overall capital structure subsequently.

Our pre-deal RENAV of US\$1.31/share was based on a heavily risked review of the company's exploration portfolio, assuming that equity interests were farmed down and the lack of recent drilling success (the unrisks value is US\$6.46/share). With the stronger cash flow post the acquisition, our assumption that END would have to farm down is no longer valid in which case our RENAV would be \$1.51/share. Depending on the new financial structure, it is possible to increase the RENAV depending on the levels of equity issued and also depending on the terms of the convertible. Assuming a 30% conversion premium on the convertible (implying a conversion price of around US\$3.80/share) and that END decides on a 20% net debt to net debt plus equity financing structure, would raise the RENAV to approximately US\$3.40. In the absence of further and firmer details, we rate the stock a Market Performer, but the Talisman deal is a sensible one and will enable Endeavour to create value going forward.

### **Faroe Petroleum (FPM LN; Market Cap: \$183 mm)**

#### **Outperform – 250p target**

We are initiating on Faroe Petroleum with an Outperform and price target of 250p. Faroe Petroleum offers material exposure to the Atlantic Margin, one of the few high risk/high reward exploration plays remaining in North West Europe. Faroe has built a quality portfolio of interests in the UK to the West of the Shetlands with adjoining acreage on the Faroese side of the dividing line.

Faroe is an AIM-listed company that has established a niche for itself as an explorer and appraiser of oil & gas assets focussed principally along the Atlantic Margin, with a secondary focus on selected opportunities in the North Sea. The management team, led by Graham Stewart (CEO) is technically strong with both Faroese and British backgrounds, and has experience in the UK and along the Atlantic Margin as part of larger organisations.

Initially the company's North Sea focus was limited to exploration acreage in the Moray Firth area of the Central North Sea, but recently, Faroe has expanded its operations into Norway. First, it acquired the ex-Paladin Norway team and opened an office in Stavanger; and second, it pre-qualified itself as a license holder. This places Faroe in a good position to expand its asset base in the next APA licensing round, where it will be teaming up with two other companies and target 3 separate areas.

Having raised money in 2005 and 2006, and with only limited drilling since then, Faroe is well positioned financially, and has the ability to fund up to 8 wells without farming-out. Faroe's generally high equity positions, however, afford it the ability to leverage itself further through farm-outs, such as that on Halibut North, where it retained 45% of the equity while being liable for 20% of the costs.

Chevron's recent Rosebank/Lochnagar discovery in the UK West of Shetlands and the Marjun discovery on the Faroes' side have created considerable excitement in the industry about the potential for this area. Chevron has said that it plans to drill a two-to three-well appraisal and exploration programme in 2006 and has already contracted a rig to evaluate the commercial potential of the Rosebank/Lochnagar discovery and the adjacent acreage.

Faroe Petroleum has a material portfolio of interests – many of which are 100% – and we have taken our standard conservative approach and assumed that the company will farm down aggressively, so that our RENAV only reflects a 10% net working interest by the time the well is drilled. We would not expect Faroe would have difficulty in finding partners to farm in given the potential materiality of its prospects, but we expect that it will want to (and have to) farm down its interests given the high costs of drilling a well in this area (~\$45m).

Faroese resource potential, on an unrisks basis, is very large with its portfolio exposing it to approximately 750 mmbob of reserves on an assumed farmed-down basis. Success in any of its prospects has the potential to be a company-maker, however its only core asset currently is the cash it holds. On this basis, its share price is trading at a considerable premium to the core value. Our assessment of Faroe's exploration portfolio, on a risks and assumed farmed-down basis, shows that the NAV of the company represents a 35% premium to the current share price. A third of that RENAV is related to the Faroese assets, where Sildekrin, Brugdun, Anne Marie and Rannva are the main drivers. On the UK side, Cardhu, Talisker and Lagavullin are the key value components. Our RENAV valuation is 227p, but we suspect that any success along the Atlantic Margin by Chevron or others, will lead to a substantial appreciation of the shares (our unrisks valuation of the farmed-down portfolio is 2929p)

Faroe is not solely a high-risk, high reward play, however and has recently entered Norway and been “pre-qualified”. In order to pre-qualify companies must demonstrate that they have the necessary technical expertise and personnel to be able to add value to the NCS. Following the acquisition of Paladin by Talisman, Faroe recruited all bar one of the Paladin Norway team, thereby accelerating its entry into the NCS. Following a recent successful fund raising for both Norway and to build its cash reserves, we estimate that Faroe could fund an eight to ten well drilling programme and hence we believe that the business model has a high probability of success.

### **Granby Oil & Gas (GOIL LN; Market Cap: US\$42 mm)**

#### **Outperform – 120p target**

We rate Granby Oil and Gas an Outperform with a price target of 120p. Granby is currently in the process of farming out much of its UK exploration acreage and prospects, which we have reflected in our RENAVAL along with our estimates for further farm outs. The Galoc field in the Philippines provides several options and opportunities for Granby. There is potential upside in the reserves and the field is due to start production next year. Granby could choose to monetise its stake by selling its interest and use the proceeds to finance its North Sea exploration programme.

Granby is an AIM-listed Exploration and Development company based in the UK. Led by David Grassick, the exploration portfolio is focused exclusively on the UK North Sea, while the company also holds an interest in the near-term development Galoc field, in the Philippines. Currently, Granby has no production, but this is expected to change as the Galoc field comes online in H2/07 at approximately 600 b/d net to Granby, and ramps up to about 850 b/d in 2008.

The company was created through the combination of Granby Enterprises and Team Oil, two independent companies formed in 2002 which shared common management teams and ownership since June 2004. The current management team is drawn almost exclusively from Enterprise Oil, a large independent company active in the North Sea during the 1980s and 1990s, which was taken over by Shell. Granby raised £10 mm from a placing and Admission to AIM in June 2005.

Granby’s North Sea portfolio is comprised of 23 blocks in 13 licenses, with the majority (14) concentrated in the CNS. A further 6 are located in the outer Firth of Forth and 3 in the Southern Gas Basin. The CNS and SNS portfolios are located close to infrastructure, while the outer Firth of Forth assets are of a more stranded nature. Granby tends to focus on projects that do not require a significant expenditure by the company. The initial focus of the portfolio has been low to moderate risk shallow prospects in relatively shallow water where the drilling costs are at the lower end of the North Sea scale.

Since its inception, the management team has managed the asset portfolio and the overall related risk fairly actively, with 3 farm-ins and 2 farm-out deals, the most recent of which is a multi-licensed farm-out. The farm-ins include Marquis, which was abandoned as a dry hole in June '05; and Galoc, where Granby holds a 9.15% interest, and which is due onstream in 2H/07. With its first two North Sea exploration wells (Marquis and Hendrix) being unsuccessful, there is a risk that Granby is tainted and will be dismissed along with many of the new exploration companies. We think that the strategy to manage the financial exposure as well as to leverage the value of front end technical work is sound. This is essential, as apart from Galoc, the portfolio represents a high-risk, high-reward profile.

Our core valuation for Granby reflects the company's cash and our estimate for the value of its 9.15% stake in the Galoc Field. Our core valuation reflects Granby's and Gaffney Cline's estimate of 16.9 mmboe of gross recoverable oil for the Galoc field and based on this we incorporate 39p/sh within our net asset value. Interestingly Nido Petroleum and Wood Mackenzie both use a significantly higher case of 44.2 mmboe (compared to Gaffney Cline's high estimate of 57.8 mmboe) which we have included in our upside case – and which we estimate could add around 91p/share to Granby's valuation. We expect early production rates from the field to be watched closely for any indications of whether the higher reserves case can be justified.

Granby is currently in the process of farming out much of its UK exploration acreage and prospects, which we have reflected in our RENAV along with our estimates for further farm outs. Galoc provides portfolio benefits for Granby as it could choose to monetise its stake by selling its interest and use the proceeds to finance its North Sea exploration programme. Our RENAV of 305p consists of 35p in cash, core reserves of 39p, upside on Galoc of 91p and risked exploration of 141p. Our target price of 120p is conservatively set to reflect the Galoc core value and part of the potential upside (either the risked exploration or the Galoc reserves upside).

### **Nautical Petroleum (NPE LN; Market Cap: US\$234 mm)**

#### **Market Perform – 15p target**

We rate Nautical Petroleum a Market Perform with a target price of 15p. Nautical Petroleum has a very different business model from the other companies covered in this report. Nautical's main interest is in developing known, but previously non-commercial, heavy oil fields in the North Sea. Unlike the other companies, there is little exploration risk, but rather execution risk.

Nautical is an independent exploration & development company, with a strategy centred around the acquisition, development and production of discovered heavy oil in the UKCS and other areas of the European Union. In this respect, it represents a specialist niche play in heavy oil. This has become possible due to the current price environment, allowing potential

value to be seen in previously discarded heavy oil discoveries in the North Sea which represented uneconomic returns at that particular time.

Led by Stephen Jenkins, Nautical was spun out of the privately owned Masefield Group and listed in Aug '05 on AIM through a Reverse Takeover, and has built up, through acquisitions and participation in licensing rounds, a portfolio of assets which provide good exposure to North Sea heavy oil plays. While the company has no current production, this is expected to start in 2H/09, assuming that development of Mariner goes ahead.

Mariner and the block 9/2b prospect (Krakken) currently form the core of the valuation, however, there is a growing portfolio of assets and acreage that also have the potential to add significant value. Project sanction on Mariner by the operator Chevron is the key event to look for in the next 12 months. If this gets the go ahead then this will allow a de-risking of Nautical's main asset and add value. Mariner itself has two separate horizons - Maureen and Heimdal. The Heimdal structure is a shallower reservoir, representing a small part of the RENAV, but with the potential to have a much bigger impact, as our unrisks value shows. The Mermaid prospect (block 9/11c) lies directly south of Mariner and is considered, on a structural and stratigraphic basis, to be analogous. As a satellite development to Mariner it would have the potential to significantly improve the economics on both projects.

Nautical's main asset is its stake in the Chevron operated Mariner project. According to Nautical, Chevron is moving ahead with the project and we would expect that any announcement would have a positive impact on Nautical's share price. Our core valuation reflects the development of the deeper Tertiary Maureen Sandstone, which is estimated to contain 82 mmboe recoverable of 14.5 API oil. There is additional upside in the shallower Heimdal, which is believed to have 500 mmboe in place and which has flowed up to 1800 b/d in a vertical test. This is included in our core value but with a higher degree of risking.

Our valuation is based on an estimated full-cycle cost of around US\$5.00/boe for heavy oil in the North Sea, which could prove conservative given that the existing developments (Captain) were relatively high cost and so a higher NPV per boe may be achievable.

Nautical has recently taken its heavy oil expertise to France, where it has farmed into Egdon's St. Laurent Permit including the Grenade Discovery, where there is potential for further reserves additions, but at this stage we have not reflected this in our valuation.

Nautical offers a different exposure for investors with the growth in value coming from the commercialisation of known oil reserves rather than a speculative exploration element. Hence Nautical will more likely offer steady appreciation in value than the more volatile exploration stocks.

**Oilexco (OIL CN, OIL LN; Market Cap: US\$888 mm)****Outperform – C\$7.00 or 331p target**

We recently initiated coverage on Oilexco with an Outperform rating and a C\$6.50 target. Subsequent to initiation Oilexco drilled a successful well on its Disraeli prospect (65% WI) and we raised our target to C\$7.00. With a solid mix of development assets and exploration upside OIL is trading at a slight premium to its Core NAV of C\$4.61 (includes 20 mmbœ for Disraeli). Oilexco expects its Brenda (100%) and Nicol (100% subject to conditions) Fields to be on production by Q4/06 and is expected to generate over US\$300 mm in cash flow during 2007 from which it can fund its extensive exploration and development program.

Oilexco is an oil and gas exploration and production company active in the United Kingdom's North Sea and the United States. The bulk of the company's exploration activities are concentrated in the Central North Sea (Outer Moray Firth), while the company's production activities are located in the Central North Sea and in Monroe County, Alabama.

Prior to 2002 Oilexco focused on higher risk, higher reward opportunities across North America and evaluated several areas around the world including the North Sea. When the DTI introduced incentives in 2001 in an effort to attract new entrants into the North Sea, Oilexco refocused on the North Sea.

The company was a successful bidder on three blocks in the 20<sup>th</sup> Offshore licensing round (2002) and was awarded two licenses in the Central North Sea and one in the Southern gas basin. Oilexco drilled the Brenda Prospect in 2003 and the Nicol Field in 2004, both of which encountered oil. After drilling 14 appraisal and delineation wells the company is on schedule in the development of its core asset, the Brenda Field, with first oil expected by early Q4/06. Close to existing infrastructure and with P+P reserves of 25.4 mmbœ booked for Brenda alone, production is expected to exceed 32 mb/d of high quality crude by early 2007. The recently approved Nicol Field, with booked P+P reserves of 9.6 mmbœ, is expected to be developed during Q2/06 and should come online during Q4/06 at a rate of approximately 8 mboe/d.

One of the most aggressive drillers in the North Sea the company has contracted itself a dedicated semi-submersible drilling rig through until March 2010. It has used its drilling rig and its extensive experience to leverage itself into higher quality farm-in prospects. Willing to pay a significant portion of the drilling costs for a meaningful stake in prospects it has gained favour among the promote companies looking for a drilling rig and funding. As a result, Oilexco has established a significant portfolio of exploration opportunities that give the company exposure to over 400 mmbœ of unrisks reserves. We continue to like Oilexco's exploration prospects and believe that the company will demonstrate its ability to move from a developer of assets to a successful full cycle E&P Company.

Although we have heavily risked Oilexco's exploration NAV and come up with C\$1.76/sh, the company has only alluded to approximately 6 to 8 months worth of potential drilling

targets. The inventory of targets will undoubtedly grow and with it we expect the RENAV to expand beyond our current estimate of C\$6.88/sh. Further, we have based all of our core NAV calculations on the booked P+P reserves reported by Sproule International. We would expect there to be a reasonable expectation of upside in either recovery or reserves in place which would become evident after a period of production from the Brenda and Nicol Fields. With one of the better positions in the North Sea we continue to believe Oilexco remains undervalued relative to its peer group.

### **Revus Energy (REVUS NO; Market Cap: US\$295 mm)**

#### **Outperform – NOK 80 target**

We rate Revus Energy an Outperform with a price target of NOK 80/sh. Revus was formed by the former Norwegian team of Enterprise Oil and has adopted a relatively low risk style to exploration focusing on prospects close to where oil has already been found (and hence close to existing infrastructure). Revus Energy has deliberately concentrated on the Norwegian Continental Shelf based on the view that the NCS is not as mature or as extensively explored as the UKCS. Revus has pre-qualified as an operator on the NCS

Revus offers a strong high quality management team with a proven track record in building a Norwegian independent and operator for the NCS. Revus provides a good portfolio of production assets, low risk development with additional exploration upside. While the Norwegian after tax per barrel values are low, the 78% tax relief on exploration drilling means that the risked capital is also low and provides good opportunities for capital appreciation.

Led by Harald Vabø, the company was founded in 2002. Revus floated on the Oslo Stock Exchange in Jun '05, raising NOK 250 mm with a full exit by the venture capital owners 3i and Energivekst. 2005 was also the company's first year as a profitable venture and it doubled its portfolio of assets through license rounds and acquisitions, including a third production asset in Veslefrikk.

Current production averages about 2.4 mboe/d from its Murchison, Velefrik and Brage fields, and is likely to increase going forward as Blammanen, which will be produced over the Murchison platform, comes onstream in late 2006 / early 2007. The company also participated in its first exploration well, which saw a successful outcome in the form of the Astero oil discovery, which it is currently evaluating .

The next 12 months will be a busy time for Revus with considerable activity planned on Blammanen and progressing Revus' development and appraisal portfolio. Reservoir penetration on Blammanen was delayed due to remedial work on Murchison and is now expected by Jul '06 with test production a month later. PDO submissions for Yme and Fram B are planned for end '06, with the latter to be developed as a tie-back to Gjoa in conjunction with the nearby Belinda and Camilla fields. Astero requires further work to scope the full

extent of the discovery and a well is expected in 2H/06. Oselvar is scheduled for appraisal in Q2/07 to determine commerciality of the project prior to any development scenario discussions. Rig slots have been booked for the potentially high impact Lie and Luno prospects in 2H/06, while 3D seismic and technical work is planned on Revus' first operated license (PL 378).

Our core valuation for Revus reflects the company's stakes in the Murchison, Veslefrikk Brage and Blåmannen fields with the last of these expected onstream this summer in a tieback to the Murchison platform. Revus has a number of other developments including the Yme, Fram B and Astero discoveries which combined provide the potential to grow production to 25 mb/d around 2010. Revus estimates that its exploration portfolio contains net risked reserves of 230 mmboe that it plans to drill in 2006-2008. Revus has committed to and has control over 200 drilling days along with exposure to partner operated licenses. Our RENAV upside reflects 61mmboe of net risked reserves that we have identified and valued at NOK54/share compared to the company's estimate of 230 mmboe of net risked reserves.

### **WHAM Energy (WAM LN; Market Cap: US\$27 mm)**

#### **Market Perform – 44.5p target**

We rate WHAM Energy a Market Perform with a target price of 44.5p. WHAM offers an exploration play on the UK Southern Basin Gas fields with exploration acreage close to existing discoveries and infrastructure, and a number of prospects in the Central North Sea.

Formed in March 2003, WHAM listed on the London Stock Exchange's AIM market in September 2005, raising £9.1 mm. Its management team, led by Tom Windle (CEO), has strong technical credentials, gained over a number of years, working for Amoco (one of the major Southern Basin gas players since the 1960s) in the area that WHAM is currently engaged in.

It has positioned itself as a high-risk, high-reward exploration play in the North Sea, and in that respect is not too different to Elixir, Granby and to an extent Faroe Petroleum. Its portfolio of exploration assets concentrates solely on gas plays, and has the potential to provide considerable resource upside. Its high risk strategy, however, means that it will need to come good on that potential in the short to medium term.

WHAM aims to take material positions at the exploration phase in both structural and stratigraphic plays that are either under-explored or immaterial to the majors, and then look to monetise value through farm-outs at the appraisal and development stages.

Following its flotation, WHAM's first well was the Prometheus West prospect in Q4/05. The well was dry, but WHAM had farmed out its interests and although it bore none of the costs of the unsuccessful well, the result undermined investor confidence. As a result we have excluded Prometheus East and the carboniferous plays from our valuation as we doubt that

the market would want to see WHAM drill these wells before it had had success elsewhere and/or it had offset its full cost exposure. This may be harsh, but is a conservative assumption for investors. WHAM's remaining portfolio has yet to be drilled, and therefore our core value is formed solely of the cash on the balance sheet. Considerable potential, however, does exist in its exploration assets. That upside is driven primarily by the Morpheus & Hypnos block, which also contains the mapped Endymion lead. Another license with considerable prospectivity and impact on the value is P1233. Located close to the Garrow field, under development by ATP, the license contains both structural and stratigraphic play types.

Our core valuation for WHAM reflects the cash the company has. We have assumed for our RENAV that WHAM farms out its prospects on a 3 for 2 basis and hence our RENAV only gives credit for a 20% working interest in its exploration blocks. On this basis we estimate the RENAV at 103p (710p on an unrisksed basis). The company's ability to drill these wells will be critical in enabling it to drill a reasonable number of its portfolio of 18 oil and gas exploration assets. There is undoubtedly value across the portfolio, but as with many companies, the key question is can WHAM drill sufficient wells to benefit from a portfolio effect and eliminate the all or nothing aspect of single exploration wells.

Our target price of 44.5p is based on the current core value and risked exploration value that we expect shareholders to be exposed to over the next 12 months. The success and terms achieved under a farm-in programme will be critical in the evolution of our achievable RENAV and price-targets.

WHAM represents, as is its stated aim, a potential high-impact exploration play, which by its very nature is risky, but is able to provide, on the flip side, the potential for significant value accretion. Tightness in the rig market, however, may mean that it is a while before that potential is tested, unless a suitable farm-in partner is found.

## **Risks**

Beyond the typical risks associated with drilling and exploring in the North Sea and commodity and currency exchange rate risks, there are several factors that might affect companies exploring in the North Sea including:

- During 2005, the European investor, specifically through the Alternative Investment Market (AIM) was keen to finance exploration plays, but might have changed its mind in view of some of the more publicised failures. It has become evident that some companies are now facing cash constraints with little chance of raising additional capital in the public markets.
- As cost pressures continue to increase and daily rig costs inflate the scale of proposed programs the ability to execute a meaningful program is becoming a bigger

issue for the DTI. The DTI is now keeping a close watch on companies' ability to finance not withstanding their previous willingness to allow others to farm out.

- There has always been a balance between raising money to fund exploration (due to the high costs associated with drilling a well in the North Sea) and the number of wells needed to provide a well diversified portfolio. Several recent entrants have chosen to buy assets that will provide sustainable funding to conduct their exploration programs. Companies without this option often find it difficult to leverage their assets via favourable farm-out terms.

## **Initiating Coverage 2-Pagers**

**ANTRIM ENERGY (AEN:T, AEY:LN)**[www.antrimenergy.com](http://www.antrimenergy.com)

Analyst: Toby Pierce

<b>Recommendation:</b>	<b>SOP</b>	<b>Market Cap (US\$mm):</b>	<b>130.1</b>	<b>12 Month Target:</b>	<b>C\$2.75 , 130p</b>
<b>Basic Shares O/S (mm):</b>	<b>69.8</b>	<b>Ent. Value (US\$mm):</b>	<b>94</b>	<b>Current Price:</b>	<b>C\$2.07 , 101.5p</b>
<b>Fully Diluted Shares (mm):</b>	<b>81.8</b>	<b>52 Week Range:</b>	<b>1.3 - 2.31</b>	<b>Expected Return:</b>	<b>33%</b>

**Profile**

Antrim is a dual listed, Canadian based international company with interests in the Neuquen Basin and Tierra del Fuego in Argentina and the Northern North Sea in the United Kingdom. Its strategy is based on combining lower risk, long-life production from Argentina with high impact exploration focused in the UK.

**Outlook & Valuation**

Having managed to successfully increase their position in Argentina through both acquisition and exploration, Antrim's management have delivered on their strategy of building a lower-risk long term growth story with added upside from it's North Sea Causeway project.

We continue to like the long term prospects of Antrim Energy, especially in Argentina, however feel the company will be judged harshly over the Causeway Project. Despite a relatively high potential for success it is unlikely that the company will realize the appropriate value for Causeway in its share price.

Reflecting this we have initiated coverage on Antrim with a Speculative Outperform rating and target price of C\$2.75/130.0p, based on a target of 1.0x our RENAVAL recognizing that success at Causeway could add as much as C\$2.45/sh in upside value.

Summary Information (US\$)	2005A	2006E	2007E
<b>Production</b>			
Oil & Liquids (mb/d)	0.9	1.4	2.3
Natural Gas (mmcf/d)	0.0	0.0	0.0
mboe/d (6:1)	0.9	1.4	2.3
Production Growth	nmf	50%	66%
Gas Production Ratio	0%	0%	0%
<b>Financial Results</b>			
Cash Flow (\$mm)	2.3	7.2	13.5
CFPS (C\$/sh)	\$0.06	\$0.13	\$0.22
EPS (C\$/sh)	-\$0.07	\$0.06	\$0.13
<b>Multiples</b>			
EV/Boe (\$)	14.73		
EV/Boe/d (\$m)		67.1	40.4
<b>Unit Analysis - \$/boe</b>			
Revenue	30.22	30.11	30.05
Royalties	(3.68)	(2.40)	(1.48)
Operating Costs	(8.36)	(6.87)	(7.20)
Operating Netback	18.18	20.84	21.37
G&A	(7.97)	(5.49)	(3.81)
Interest	0.00	0.00	0.00
<b>Netback (\$/boe)</b>	<b>10.21</b>	<b>15.34</b>	<b>17.56</b>
<b>Capital Structure</b>			
Net Debt (\$mm)	(27.0)	(27.7)	(5.9)
Debt/CF	nmf	-3.8x	-0.4x
Capex (\$mm)	16.2	29.9	36.0
Capex/CF	nmf	4.1x	2.7x

**Operational Update**

Antrim supplemented its production capability with a multi-concession acquisition in Tierra del Fuego, Argentina in Q1/05. While Argentine production increased by 90% to 930 boe/d (39% gas), the impact on cashflow was limited by the gassy nature of the acquisition, which is heavily discounted in Argentina. The company has increased its success rate substantially by using 3D seismic and modern drilling and completion rates. Test rates have increased nearly 10 fold to 20 mmcf/d in some areas.

In Northern Argentina, average production is about 400 boe/d from the Puesto Guardian field. The company plans to conduct a 3D seismic program on the block during 2006 and will drill at least one commitment well in 2006-2007. During Q1/06, a 70% interest was acquired in the Medianera block in the Neuquen basin in Central Argentina for US\$1.2 mm.

Antrim looks for large higher risk, higher reward targets in the North Sea, takes a meaningful position and then farms down the rest of the well. This exposes them to much of the upside while reducing their risk. The company has kept active in North Sea exploration and participated in three wells during 2005, none of which were classified as commercial discoveries. Antrim plans to drill at least one well with the Bredford Dolphin on the Causeway prospect (65.5% WI), located next to Osprey Ridge, in mid June. The target is 25-40 mmboc in size and is immediately offset by a well that flow tested at 8,100 boe/d.

Antrim reached a deal with NOR Energy to sell its non-core assets for cash, common shares and warrants in NOR Energy in Czech Republic, Australia and Tanzania.

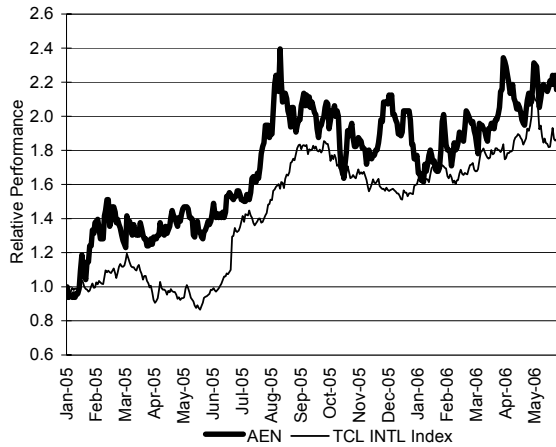
Reserve Information	2005A
<b>Proven Reserves (boe @ 6:1)</b>	
Oil (mmb)	1.6
Gas (bcf)	16.1
Total Proven (mmboc)	4.3
<b>P+P Reserves</b>	
Oil (mmb)	2.4
Gas (bcf)	23.8
Total P+P (mmboc)	6.4

**Core Area Map**

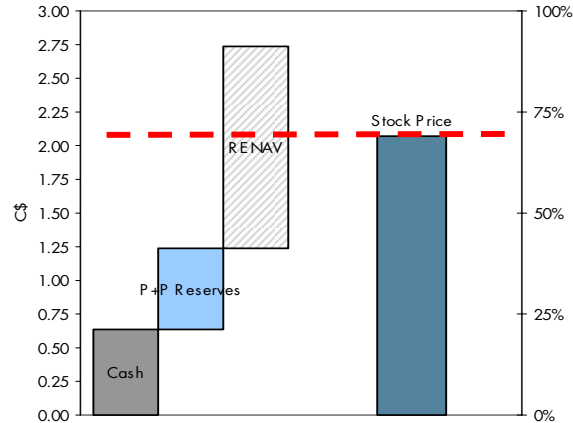
**ANTRIM ENERGY (AEN:T, AEY:LN)**

Analyst: Toby Pierce

**Antrim vs. Tristone Capital International Index**



**Antrim RENA V vs Share Price**



**Net Asset Value (June 2006)**

	Flat Pricing	
Reserves* (10% AT)	C\$m	C\$/sh
Proven	33.2	0.41
Probable	16.0	0.20
P+P Reserves	49.2	0.60
Cash/(Net Debt)	52.1	0.64
Option Proceeds	29.9	0.37
Total Net Assets (C\$ mm)	131.2	1.60
FD Shares O/S (mm)		81.8
Core Net Asset Value		1.60
Risked Exploration Value		1.13
<b>RENAV (C\$)</b>		<b>2.74</b>

Current Price/RENAV 76%

\* as at 31 Dec. 2005

Note: Flat Price = US\$50 long term

Price Assumptions	2005	2006	2007
Crude Oil - WTI (US\$/b)	56.56	65.32	62.00
Crude Oil - Brent (US\$/b)	55.18	64.54	60.50

**Risked Exploration NAV**

Project/Prospect	Gross Res. Potential (mboe)	Working Interest (%)	Costs Paid (%)	Gross Well Costs (USD mm)	P.O.S. (%) <sup>1</sup>	Capital at Risk (\$US mm)	Value/Boe (\$US/Boe) <sup>2</sup>	EMV (\$US mm) <sup>3</sup>	\$US/sh (FD)	\$C/sh (FD)	£/sh (FD)	Unrisked Value (US\$/sh) <sup>4</sup>
Causeway	25.0	66%	59%	20	50%	5.9	\$ 11.00	84	1.03	1.14	0.55	2.20
Total Risked Upside	25.0							<b>84</b>	<b>1.03</b>	<b>1.14</b>	<b>0.55</b>	2.20

Notes

1. P.O.S. - Probability of Success - Includes all risk factors such as geological, political etc
2. Value/Boe - Includes proximity to established infrastructure, development capex required & oil quality
3. EMV - Expected Monetary Value - a risk weighted value. EMV= [Reward\*P.O.S.] - [Capital at Risk\*(1-P.O.S.)]
4. Unrisked Value - Refers to the value Antrim could potentially realize if success was achieved on prospect.

**Key Management**

Stephen Greer, M.Sc.	CEO & President
Anthony Potter, C.A.	Chief Financial Officer
Kerry Fulton, P. Eng.	Chief Operating Officer
Janet Missal,	Manager, International Investor Relations
Kevin Morrison	Manager, Exploration

**Board of Directors**

Stephen Greer	President & CEO, Antrim Energy Inc.
Neill Martin	D&S International Consultants Ltd.
Dr. Gerry Orbell	Chairman, Antrim Energy Inc.
Jay Zammit	Partner, Burstall Winger LLP
Jim Perry	Alternative Fuel Systems (2004) Inc.
Dr. Brian Moss	Richards Oil & Gas Ltd.

**Major Shareholders**

Rubicon Master Fund	8.0%
Exploration Capital Partners	5.3%
Scott Inglis	2.6%
AGF Canadian Resources Fund	1.7%

Fully Diluted Shares O/S (mm)  
**CDN/USD 81.8**  
**GBP/USD 1.11**  
**0.54**

**BOW VALLEY ENERGY (BVX:T)**[www.bvenergy.com](http://www.bvenergy.com)

Analyst: Toby Pierce

<b>Recommendation:</b>	<b>OP</b>	<b>Market Cap (US\$mm):</b>	<b>399.4</b>	<b>12 Month Target:</b>	<b>C\$8.00</b>
<b>Basic Shares O/S (mm):</b>	<b>69.3</b>	<b>Ent. Value (US\$mm):</b>	<b>422</b>	<b>Current Price:</b>	<b>C\$6.40</b>
<b>Fully Diluted Shares (mm):</b>	<b>74.3</b>	<b>52 Week Range:</b>	<b>2.86 - 7.18</b>	<b>Expected Return:</b>	<b>25%</b>

**Profile**

Bow Valley Energy has a strategy to identify and exploit niche opportunities. The Company is pursuing development projects in the UK North Sea and Western Canada that will generate cash flow with acceptable levels of risk.

Led by Rob Moffat, Bow Valley currently has a share in five North Sea projects currently producing or under development and expected to come on over the next 24 months.

**Outlook & Valuation**

Bow Valley continues to illustrate their ability to deliver solid shareholder growth. The company's operations in Canada continue to deliver solid cash flow while it's share of 5 separate developments in the UK North Sea will provide material growth in production and cash flow over the next 24 months. Combined with its growing production base the company has begun building its exploration portfolio with the recent acquisition of three additional blocks in the North Sea, and the addition of Nick Fairbrother, a seasoned North Sea explorer.

We are initiating coverage on Bow Valley Energy with an Outperform rating and a C\$8.00 target price based on 1.1x our RENA. With the company's production and cash flow growth profile, and portfolio of assets we feel the target price warrants a premium to our RENA.

**Operational Update**

During Q1/06, in Canada, Bow Valley participated in 9 (6.8 net) wells, resulting in 7 (5.7 net) natural gas wells, 1 (1.0 net) oil well and 1 (0.1 net) dry hole, for a success rate of 89% (98% net). Bow Valley's successes included discoveries at Snowfall, Rosevear and Gilby.

The company expects to achieve Canadian production exit rates of 3.1 to 3.5 mboe/d by the end of 2006. Bow Valley has an inventory of ~ 70 locations to drill over the next few years and plans to drill 20-25 wells during the remainder of 2006.

In the United Kingdom, Bow Valley completed the tie-back of production to the Ramform Banff in the fall of '05, which significantly reduced op costs (approximately 65% less); sales volumes for Q1/06 averaged 604 boe/d.

Enoch, Blane and Chestnut developments continue to remain on track and on schedule for first production. Bow Valley expects first production from Enoch before year-end, first production from Blane in Q2/07 and from Chestnut in mid-2007. At that time, total production is expected to reach 8 to 10 mboe/d. Bow Valley and partners have also submitted a field development plan for the Ettrick field expected to come on in early '08 at 18 mboe/d gross (2,160 boe/d net).

The Company has identified additional leads on the 16/27a North block and a seismic program is planned for this summer over the 9/28b block. The company hopes to drill two to three operated exploration wells in 2007.

Summary Information (US\$)	2005A	2006E	2007E
<b>Production</b>			
Oil & Liquids (mb/d)	3.2	3.8	8.1
Natural Gas (mmcf/d)	0.0	0.0	0.0
mboe/d (6:1)	3.2	3.8	8.1
Production Growth	nmf	16%	117%
Gas Production Ratio	0%	0%	0%
<b>Financial Results</b>			
Cash Flow (\$mm)	24.3	43.3	102.1
CFPS (C\$/sh)	\$0.40	\$0.71	\$1.64
EPS (C\$/sh)	\$0.08	\$0.36	\$0.89
<b>Multiples</b>			
EV/Boe (\$)	24.35		
EV/Boe/d (\$m)		112.5	51.9
<b>Unit Analysis - \$/boe</b>			
Revenue	47.22	51.92	52.35
Royalties	(7.62)	(0.90)	(0.42)
Operating Costs	(11.29)	(6.28)	(6.30)
Operating Netback	28.31	44.74	45.63
G&A	(4.01)	(5.13)	(3.03)
Interest	(0.89)	(6.37)	(5.96)
<b>Netback (\$/boe)</b>	<b>23.41</b>	<b>33.24</b>	<b>36.64</b>
<b>Capital Structure</b>			
Net Debt (\$mm)	4.3	53.1	78.3
Debt/CF	nmf	1.2x	0.8x
Capex (\$mm)	35.6	92.2	126.0
Capex/CF	nmf	2.1x	1.2x

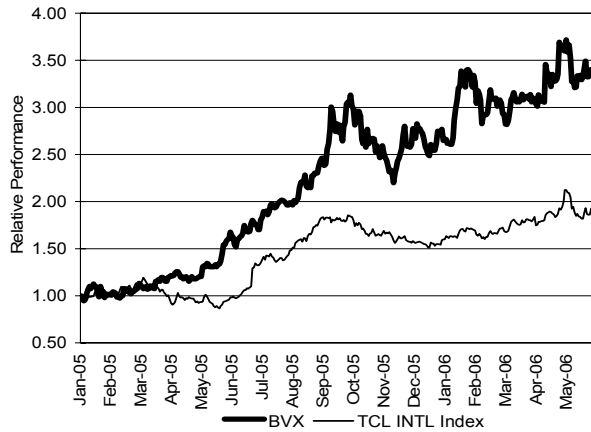
Reserve Information	2004A	2005A
<b>Proven Reserves (boe @ 6:1)</b>		
Oil (mmb)	0.9	3.8
Gas (bcf)	19.4	19.4
Total Proven (mmboe)	4.1	7.0
<b>P+P Reserves</b>		
Oil (mmb)	12.0	11.1
Gas (bcf)	38.6	37.4
Total P+P (mmboe)	18.4	17.3

**Core Area Map**

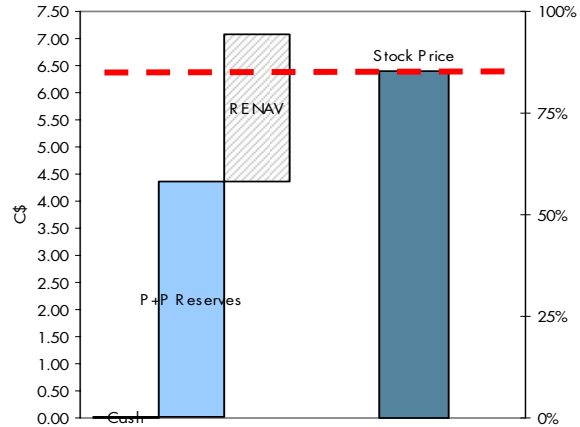
**BOW VALLEY ENERGY (BVX:T)**

Analyst: Toby Pierce

**Bow Valley vs. Tristone Capital International Index**



**Bow Valley RENAV vs Share Price**



**Net Asset Value (June 2006)**

**Flat Pricing**

Reserves* (10% AT)	C\$mm	C\$/sh
Proven	129.8	1.75
Probable	192.6	2.59
P+P Reserves	322.4	4.34
Undeveloped Land (Canada)	17.6	0.24
Cash/(Net Debt)	1.5	0.02
Option Proceeds	10.8	0.15
Total Net Assets (C\$ mm)	352.4	4.75
FD Shares O/S (mm)		74.3
Core Net Asset Value		4.75
Risked Exploration Value		2.33
<b>RENAV (C\$)</b>		<b>7.08</b>

Current Price/RENAV 90%

\* as at 31 Dec. 2005

Note: Flat Price = US\$50 long term

Price Assumptions	2005	2006	2007
Crude Oil - WTI (US\$/b)	56.56	65.32	62.00
Crude Oil - Brent (US\$/b)	55.18	64.54	60.50

**Key Management**

Robert G. Moffat	CEO & President
Matthew L. Janisch	Chief Financial Officer
John W. Essex	VP of Operations
David A. Fleming	VP of International
Thomas J. Ruissen	VP of Exploration
Nick Fairbrother	Director, International Business Development

**Board of Directors**

Daryl Seaman	Chairman/President of Dox investments Inc.
Robert G. Moffat	CEO & President
George Y. Tooley	President of a private holding company
Henry R. Lawrie	Consultant, director of several plc's
Jack W. Peltier	President of Ipperwash Resources Ltd.
Gerald Maier	Independent Businessman

**Insider Ownership 21.0%**

**Major Shareholders**

Daryl Seaman	9.5%
ABC Fundamental Value Fund	3.6%
Canada Pension Fund	1.8%
TD Energy Fund	1.3%
GBC Canadian Growth Fund	1.2%

**Risked Exploration NAV**

Project/Prospect	Gross Res. Potential (mmboe)	Working Interest (%)	Costs Paid (%)	Gross Well Costs (USD mm)	P.O.S. (%) <sup>1</sup>	Capital at Risk (\$US mm) <sup>2</sup>	Value/Boe (\$US/Boe) <sup>2</sup>	EMV (\$US mm) <sup>3</sup>	\$US/sh (FD)	\$C/sh (FD)	£/sh (FD)	Unrisked Value (US\$/sh) <sup>4</sup>
16/27a & 16/27c	50.0	85%	85%	20	25%	12.8	\$ 11.00	104	1.40	1.55	0.75	6.30
9/28b	30.0	100%	100%	20	25%	15.0	\$ 9.10	53	0.72	0.79	0.38	3.68
Total Risked Upside	80.0							<b>157</b>	<b>2.12</b>	<b>2.34</b>	<b>1.14</b>	9.97

Notes

1. P.O.S. - Probability of Success - Includes all risk factors such as geological, political etc
2. Value/Boe - Includes proximity to established infrastructure, development capex required & oil quality
3. EMV - Expected Monetary Value - a risk weighted value. EMV= [Reward\*P.O.S.] - [Capital at Risk\*(1-P.O.S.)]
4. Unrisked Value - Refers to the value Bow Valley could potentially realize if success was achieved on prospect.

**Fully Diluted Shares O/S (mm)**  
**CDN/USD 1.10**  
**GBP/USD 0.54**

**CIRRUS ENERGY (CYR:V)**[www.cirrusenergy.ca](http://www.cirrusenergy.ca)

Analyst: Toby Pierce

<b>Recommendation:</b>	restricted	<b>Market Cap (US\$mm):</b>	36.4	<b>12 Month Target:</b>	na
<b>Basic Shares O/S (mm):</b>	34.6	<b>Ent. Value (US\$mm):</b>	na	<b>Current Price:</b>	C\$1.17
<b>Fully Diluted Shares (mm):</b>	37.2	<b>52 Week Range:</b>	0.54 - 1.5	<b>Expected Return:</b>	na

**Profile**

Cirrus Energy is a Canadian-based exploration and production company focused on international exploration and development opportunities in lower risk environments.

Cirrus is focused on exploitation and development opportunities in Trinidad and exploration and appraisal opportunities in the Netherlands North Sea. The team, led by David Taylor, has quickly moved into the Dutch North Sea and built a sizeable exploration portfolio for a company of this size.

**Outlook & Valuation**

We are restricted on Cirrus Energy.

**Operational Update**

Drilling the Coora Field in Trinidad started during July 2005 and the initial plan was for the partners (Damus Oil 51%; Cirrus 49%) to drill up to four wells. Despite encountering significant volumes of oil, gas and high pressure the well and program were suspended due to the limitations of the drilling rig.

Cirrus started an experimental multi-well hydraulic fracturing program in the Coora Field during Q2/06. By the end of March, four fracture treatments had been completed, three of which were in older previously drilled wells. Trinidad currently provides Cirrus with production of about 130 boe/d and P+P reserves of approximately 1.7 mmb of oil.

In Nov/05, Cirrus acquired 100% of an independent oil company based in the Netherlands that held a 24% interest in the Block A15a exploration license on the Dutch continental shelf. Concurrently, Rudy Weerheym was appointed Managing Director of Cirrus Energy Netherlands and Wim Korndorffer was appointed as a director of Cirrus.

Cirrus, operator (60% WI), applied for an exploration license for offshore block Q14, a large (~120 bcf) lower risk exploration target that shows up well on 3D seismic, in Sept/05. The company expects award of the exploration license in mid 2006 after no others submitted bids for the block. L16b was also awarded to Cirrus (30% WI) in Feb/06.

Cirrus recently announced it will acquire Wintershall's operated interests in the M1a (47.5% WI) license, a 150 bcf tight gas Triassic sand target, and M7(13.75% WI), a 50 bcf Triassic sand target on the Netherlands continental shelf.

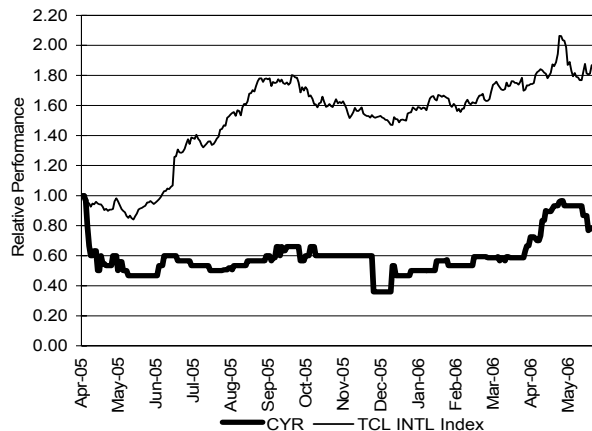
Summary Information (US\$)	2005A	2006E	2007E
<b>Production</b>			
Oil & Liquids (mb/d)	0.1	na	na
Natural Gas (mmcf/d)	0.0	na	na
mboe/d (6:1)	0.1	na	na
Production Growth	nmf	na	na
Gas Production Ratio	0%	na	na
<b>Financial Results</b>			
Cash Flow (\$mm)	-0.7	na	na
CFPS (C\$/sh)	-\$0.02	na	na
EPS (C\$/sh)	-\$0.04	na	na
<b>Multiples</b>			
EV/Boe (\$)	na		
EV/Boe/d (\$m)		na	na
<b>Unit Analysis - \$/boe</b>			
Revenue	54.85	na	na
Royalties	(24.62)	na	na
Operating Costs	(17.06)	na	na
Operating Netback	13.16	na	na
G&A	(33.97)	na	na
Interest	0.00	na	na
<b>Netback (\$/boe)</b>	<b>(20.80)</b>	<b>na</b>	<b>na</b>
<b>Capital Structure</b>			
Net Debt (\$mm)	(4.0)	na	na
Debt/CF	nmf	na	na
Capex (\$mm)	0.6	na	na
Capex/CF	nmf	na	na

Reserve Information	2005A
<b>Proven Reserves (boe @ 6:1)</b>	
Oil (mmb)	0.7
Gas (bcf)	0.0
Total Proven (mmboe)	0.7
<b>P+P Reserves</b>	
Oil (mmb)	1.6
Gas (bcf)	0.0
Total P+P (mmboe)	1.6

**Core Area Map**

**CIRRUS ENERGY (CYR:V)**

Analyst: Toby Pierce

**Cirrus vs. Tristone Capital International Index****Cirrus Energy RENA V vs Share Price**

We are currently restricted on Cirrus Energy

**Net Asset Value (June 2006)****Using a Flat Pricing Scenario**

<b>Reserves* (10% AT)</b>	<b>C\$m</b>	<b>C\$/sh</b>
Proven	na	na
Probable	na	na
P+P Reserves	na	na
Cash/(Net Debt)	na	na
Option Proceeds	na	na
Total Net Assets (C\$ mm)	na	na
FD Shares O/S (mm)		na
Core Net Asset Value		na
Risked Exploration Value/sh		na
<b>RENAV (C\$)</b>		<b>na</b>
Current Price/RENAV		na

**Key Management**

David Taylor	CEO & President
Mick Ames	Vice President, Exploration
Robert Carter	Vice President, Finance
David Fricker	Vice President, Engineering
Rudy Weerheym	MD, Netherlands

**Board of Directors**

David Taylor	CEO & President
John Brussa	Partner at Burnet, Duckworth & Palmer LLP
Glenn Gradeen	CEO & President of Rosetta Exploration Inc.
Wim Korndorffer	Independent Businessman
Keith Macdonald	Chairman, Independent Businessman

**Insider Ownership**

<b>Price Assumptions</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Crude Oil - WTI (US\$/b)	56.56	65.32	62.00
Crude Oil - Brent (US\$/b)	55.18	64.54	60.50

**Risked Exploration NAV**

We are currently restricted on Cirrus Energy

**Elixir Petroleum Ltd. (ELP LN; EXR AU)**[www.elixirpetroleum.com](http://www.elixirpetroleum.com)

Analyst: Peter Nicol

**Recommendation:** UP  
**Basic Shares O/S (mm):** 63.7  
**Fully Diluted Shares (mm):** 75.5

**Market Cap (US\$mm):** 22.1  
**Ent. Value (US\$mm):** 12.1  
**52 Week Range:** 15.5 - 47.5

**12 Month Target:** 14p , AU\$0.34  
**Current Price:** 18.25p , AU\$0.44  
**Expected Return:** -23%

**Profile**

Elixir Petroleum is a dual, ASX and AIM, listed company that explores for oil & gas in the UK North Sea. Its portfolio of assets is spread across the Central, Southern and Northern North Sea areas, and is focused on high impact exploration. It aims to balance risk across areas, play types, and technological applications.

The management team combines a mix of technical and commercial North Sea experience.

**Outlook & Valuation**

After a series of dry wells in Munness, Marquis and Jaguar, confidence in Elixir to create value through exploration success is fast on the decline. Yet it retains the ability to make good on the resource potential that its portfolio promises, with its high risk high reward strategy characterising the exploration acreage.

With no booked reserves as yet, our core value comprises of just the cash the company holds, to which Elixir currently trades at a premium of almost 3 times. A P/RENAV of 20%, however, indicates the potential upside in the portfolio, even on a risked and assumed farmed down basis. Leopard, Panther and Guinea are the main drivers of that potential upside. The company believes the first two to be independent, in terms of structure, from the dry Jaguar well, but at least conceptually we believe them to be similar. Our assessment of Elixir's current cash position and ability to raise further finance, suggests that even on a farm-out basis, the company has the ability to drill up to a maximum of a further four wells.

Summary Information	2005A	2006E	2007E
<b>Production</b>			
Oil & Liquids (mb/d)	0.0	0.0	0.0
Natural Gas (mmcf/d)	0.0	0.0	0.0
mboe/d (6:1)	0.0	0.0	0.0
Production Growth	0%	0%	0%
Gas Production Ratio	0%	0%	0%
<b>Financial Results</b>			
Cash Flow (\$mm)	na	na	na
CFPS (p/sh)	na	na	na
EPS (p/sh)	na	na	na
<b>Multiples</b>			
EV/Boe (\$)	nmf		
EV/Boe/d (\$m)		nmf	nmf
<b>Unit Analysis - \$/boe</b>			
Revenue	na	na	na
Royalties	na	na	na
Operating Costs	na	na	na
Operating Netback	na	na	na
G&A	na	na	na
Interest	na	na	na
<b>Netback (\$/boe)</b>	<b>na</b>	<b>na</b>	<b>na</b>
<b>Capital Structure</b>			
Net Debt / (Cash) (\$mm)	(7.9)	(7.9)	(6.8)
Debt/CF	na	na	na
Capex (\$mm)	1.7	0.0	1.1
Capex/CF	na	na	na

**Operational Update**

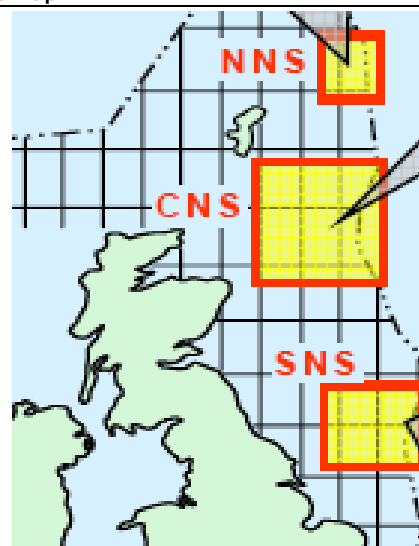
Elixir's first well was the Marquis prospect in block 21/6b which was plugged and abandoned as dry in Jun '05, with Elixir contributing 10% of the well costs. Munness was the second disappointment, announced as dry in Dec '05, with an overall cost to Elixir of slightly less than £1mm.

Elixir's highest profile well has been Jaguar, drilled in Jan '06, in conjunction with partners DNO and Rocksource. Following farm-out, Elixir retained a 40% interest and was liable for 7.5% of the well costs. While oil shows were observed, no commercial hydrocarbons were encountered. Elixir is engaged in a technical re-evaluation to assess any remaining prospectivity, however with the partners having fulfilled their farm-in obligations, any further funding must come directly from Elixir, making it an unlikely re-drill target.

More recently, Elixir has concentrated on a farm-out marketing campaign to generate new drilling activity. To this end, Elixir farmed-out between 3 and 5 of its 22nd licensing round CNS interests in conjunction with Granby to Albion Petroleum. This includes the Guinea prospect which was then farmed-down further to Nexen and Gas Plus, leaving Elixir with a 13.125% share and a fully funded well, to be drilled in Q4/06. Elixir is also looking to farm-out its NNS licenses which contain the Leopard and Panther prospects.

Elixir's last fundraising was completed on 31 May '06 for A\$2.6mm.

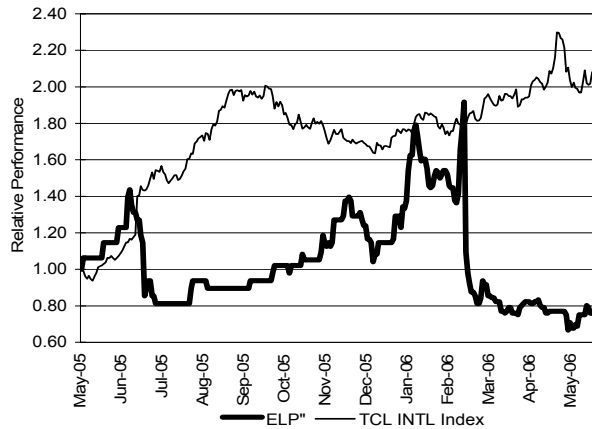
Reserve Information	2004A	2005A
<b>Proven Reserves (boe @ 6:1)</b>		
Oil (mmb)	0.0	0.0
Gas (bcf)	0.0	0.0
Total Proven (mmboe)	0.0	0.0
<b>P+P Reserves</b>		
Oil (mmb)	0.0	0.0
Gas (bcf)	0.0	0.0
Total P+P (mmboe)	0.0	0.0

**Core Area Map**

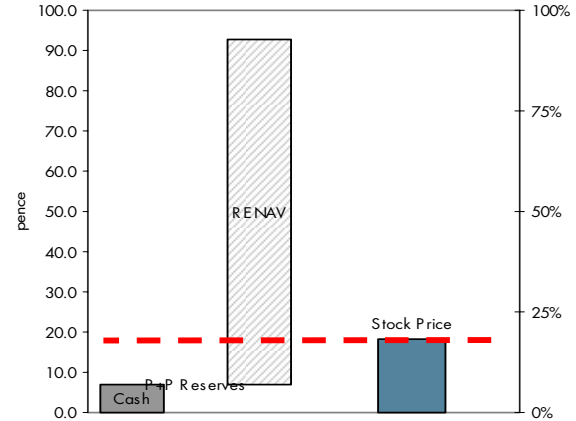
**Elixir Petroleum Ltd. (ELP LN; EXR AU)**

Analyst: Peter Nicol

**Elixir vs. Tristone Capital International Index**



**Elixir RENAV vs Share Price**



**Net Asset Value (June 2006)**

Reserves* (10% AT)	Total mmboe	Value <sup>2</sup>		
		US\$mm	US\$/sh	p/sh
P+P Reserves				
Cash/(Net Debt)		9.97	0.13	7.0
		<b>9.97</b>	<b>0.13</b>	<b>7.0</b>
Risked Upside <sup>1</sup>	20.21	114.10	1.51	79.6
Options related cash		8.92	0.12	6.2
<b>RENAV</b>	<b>20.21</b>	<b>132.99</b>	<b>1.76</b>	<b>92.8</b>

Current Price/RENAV 20%

\* as at 31 Dec. 2005

<sup>1</sup> Tristone risked estimates of development, appraisal and exploration assets

<sup>2</sup> Per share values calculated on Fully Diluted Shares. Options above a certain price not considered

**Key Management**

Russell D Langusch Managing Director  
 Angus Macaskill Director: Business Development  
 Iain Knott Director: Exploration

**Board of Directors**

Russell D Langusch Chairman of Tower Resources  
 Angus Macaskill Director: Exploration  
 Iain Knott Director: Business Development  
 John Robertson  
 Kent M Hunter

**Insider Ownership 1.1%**

**Major Shareholders**

Fidelity Investments 0.1%

Note: Flat Price = US\$50 long term

Price Assumptions	2005	2006	2007
Crude Oil - WTI (US\$/b)	56.56	65.32	62.00
Crude Oil - Brent (US\$/b)	55.18	64.54	60.50

**Elixir Valuation**

Assets	North Sea Location	Net Recoverable Reserves / Resources (mmboe)		Price per boe US\$/b	Risked Value US\$mm	Risked Value/sh US\$/sh	Risked Value/sh p/sh	Unrisked Value US\$mm	Unrisked Value/sh US\$/sh	Unrisked Value/sh p/sh
		Unrisked	Risked							
		Core: Net Cash								
Options related cash				8.92	0.12	6.2	8.92	0.12	6.2	
Exploration Portfolio <sup>4</sup>	CNS, NNS and SNS	202.08	20.21	5.65	114.10	1.51	79.6	1,201.93	15.93	838.3
<b>Total</b>		<b>202.08</b>	<b>20.21</b>	<b>6.58</b>	<b>132.99</b>	<b>1.76</b>	<b>92.8</b>	<b>1,220.82</b>	<b>16.18</b>	<b>851.5</b>

<sup>4</sup> Tristone assumptions - farmed-down with a benefit of 3 for 2 on well costs

**EnCore Oil plc. (EO/ LN)**

**Recommendation:** MP  
**Basic Shares O/S (mm):** 204.9  
**Fully Diluted Shares (mm):** 204.9

**Market Cap (US\$m):** 95.4  
**Ent. Value (US\$m):** 57.8  
**52 Week Range:** 11.5 - 36

[www.encoreoil.co.uk](http://www.encoreoil.co.uk)

**Analyst: Peter Nicol**

**12 Month Target:** 24.0p  
**Current Price:** 24.5p  
**Expected Return:** -2%

**Profile**

EnCore Oil plc is a UK focused upstream oil & gas company formed in Feb '06 through the reverse takeover of Oil Quest Resources. Encore's strategy is based around successful exploration and bringing discoveries through to the appraisal or commercial sanction phase at which point they will generally look to monetise their assets.

The management is formed of mainly ex EnCana (UK) and Enterprise Oil personnel, who have a proven track record of building shareholder value in the upstream sector of the UK, and have largely worked together as a team for a considerable period of time.

**Outlook & Valuation**

While Encore's share price reflects a considerable premium, approximately 85%, to our risked core asset value, the P/RENAV of 73% indicates the potential risked upside to the stock price. The core value is formed of 2 tested onshore gas discoveries - Westerdale and Kirkleatham - and net cash. The real driver of upside is Encore's 25% stake in the Golden Eagle prospect. Our valuation assumes a farm-down to a 15% equity, which, on a risked basis, has the potential to add up to 15p/sh to the value. Depending on the outcome of planned drilling, we believe Golden Eagle has the potential to add a further 109p/sh, as the risking is taken off to reflect more advanced stages of the project. Remaining value comes from the exploration portfolio, of which the onshore assets are the main contributor, primarily the Hurst Castle prospect which is considered an analogue to Wytch Farm. Offshore exploration assets, acquired in an opportunistic deal from Petro-Canada, are of minimal value on a stand alone basis, but have the potential for value add depending on exploration success and a low-cost, joint FPSO development of the closely bunched assets.

**Summary Information****Production**

	2005A	2006E	2007E
Oil & Liquids (mb/d)	0.0	0.0	0.0
Natural Gas (mmcf/d)	0.0	0.0	1.4
mboe/d (6:1)	0.0	0.0	0.2
Production Growth	0%	0%	100%
Gas Production Ratio	0%	0%	100%

**Financial Results**

	2005A	2006E	2007E
Cash Flow (\$mm)	na	na	na
CFPS (p/sh)	na	na	na
EPS (p/sh)	na	na	na

**Multiples**

	2005A	2006E	2007E
EV/Boe (\$)	39.93		
EV/Boe/d (\$m)		nmf	247.8

**Unit Analysis - \$/boe**

	2005A	2006E	2007E
Revenue	na	na	na
Royalties	na	na	na
Operating Costs	na	na	na
Operating Netback	na	na	na
G&A	na	na	na
Interest	na	na	na
<b>Netback (\$/boe)</b>	<b>na</b>	<b>na</b>	<b>na</b>

**Capital Structure**

	2005A	2006E	2007E
Net Debt / (Cash) (\$mm)	(4.3)	(1.9)	23.2
Debt/CF	na	na	na
Capex (\$mm)	na	(2.5)	(25.1)
Capex/CF	na	na	na

<sup>1</sup> Tristone risked estimates of development, appraisal and exploration assets

**Operational Update**

Prior to Encore's RTO of Oil Quest, the company was engaged in the acquisition of its offshore exploration portfolio from Petro-Canada and its application for two traditional licenses in the 23rd round, one of which was the Golden Eagle acreage, located in the Moray Firth. Both of these were successfully completed.

Trading of the company on AIM commenced on Mar 6th, 2006, and since that time drilling and testing of the Westerdale and Kirkleatham onshore assets has been completed, with both confirming the presence of gas and good flow rates, although the Westerdale result was considered inconclusive due to the lack of acid simulation in the test which is normal practice. This is now planned for Oct '06.

In an opportunistic move, Encore also acquired the Laguera license at minimal cost, located offshore Western Sahara. Nothing is planned here until a UN ruling on sovereignty of the area is resolved.

Going forward, an exploratory well on the Golden Eagle prospect is planned for Q4/06 in conjunction with the operator Apache. Golden Eagle is the first acreage licensed in that area of the North Sea since Buzzard, which was discovered by the same management team as part of EnCana (UK).

**Reserve Information****Proven Reserves (boe @ 6:1)**

	2004A	2005A
Oil (mmb)	na	0.0
Gas (bcf)	na	0.0
Total Proven (mmboe)	na	0.0

**P+P Reserves**

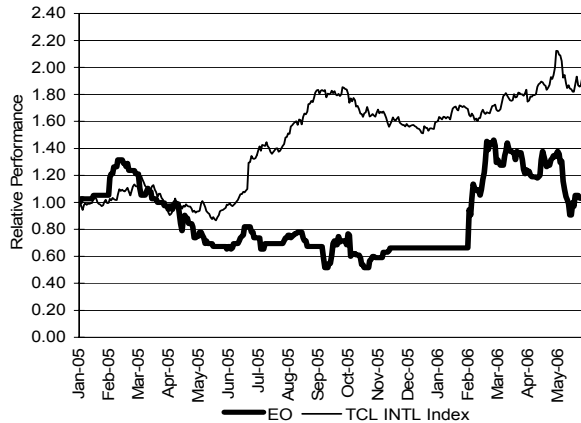
	2004A	2005A
Oil (mmb)	na	0.0
Gas (bcf)	na	8.7
Total P+P (mmboe)	na	1.4

**Core Area Map**

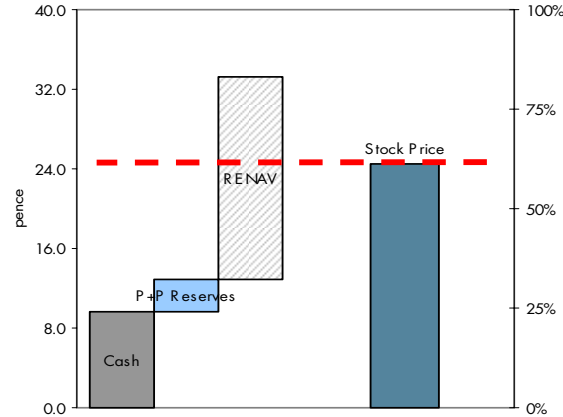
**EnCore Oil plc. (EO/ LN)**

**Analyst: Peter Nicol**

**Encore vs. Tristone Capital International Index**



**Encore RENAV vs Share Price**



**Net Asset Value (June 2006)**

Reserves* (10% AT)	Total mmboe	Value <sup>2</sup>		
		US\$mm	US\$/sh	p/sh
P+P Reserves	1.45	12.60	0.06	3.2
Cash/(Net Debt)		37.56	0.18	9.6
	<b>1.45</b>	<b>50.16</b>	<b>0.24</b>	<b>12.9</b>
Risked Upside <sup>1</sup>	12.13	79.26	0.39	20.4
<b>RENAV</b>	<b>13.57</b>	<b>129.42</b>	<b>0.63</b>	<b>33.2</b>

Current Price/RENAV 74%

\* as at 31 Dec. 2005

<sup>1</sup> Tristone risked estimates of development, appraisal and exploration assets

<sup>2</sup> Per share values calculated on Fully Diluted Shares. Options above a certain price not considered

Note: Flat Price = US\$50 long term

Price Assumptions	2005	2006	2007
Crude Oil - WTI (US\$/b)	56.56	65.32	62.00
Crude Oil - Brent (US\$/b)	55.18	64.54	60.50

**Encore Valuation**

Assets	Type <sup>3</sup>	Location	Working Interest	Farmed Down Interest <sup>4</sup>	Net Recoverable Reserves / Resources (mmboe)		Price per boe	Risked Value	Risked Value/sh	Risked Value/sh	Unrisked Value	Unrisked Value/sh	Unrisked Value/sh
					Unrisked	Risked							
					US\$mm	US\$/sh							
Westerdale	D	Onshore UK	20.00%	20.00%	1.18	0.85	9.09	7.43	0.04	1.9	10.43	0.05	2.7
Kirkleatham	D	Onshore UK	20.00%	20.00%	0.83	0.60	9.09	5.17	0.03	1.3	7.29	0.04	1.9
Golden Eagle (18/5-G)	A	Offshore UK	25.00%	15.00%	33.60	4.20	8.75	36.76	0.18	9.4	294.12	1.44	75.5
Golden Eagle (18/5-S)	A	Offshore UK	25.00%	15.00%	19.79	2.47	8.75	21.65	0.11	5.6	188.15	0.92	48.3
Exploration Portfolio	E				24.86	5.45	3.82	20.85	0.10	5.4	140.84	0.69	36.2
Add: Net Cash								37.56	0.18	9.6	37.56	0.18	9.6
<b>Total</b>					<b>80.26</b>	<b>13.57</b>	<b>9.53</b>	<b>129.42</b>	<b>0.63</b>	<b>33.2</b>	<b>678.38</b>	<b>3.31</b>	<b>174.3</b>

<sup>3</sup> P = Production, NP = Near Term Production, D = Development, A = Appraisal, E = Exploration

<sup>4</sup> Tristone assumptions - farmed-down with a benefit of 3 for 2 on well costs

**Key Management**

Michael T. Lynch	Chairman
Alan Booth	Chief Executive Officer
Eugene Whymys FCCA	Chief Financial Officer
Graham Doré	Exploration Director

**Board of Directors**

Michael T. Lynch	Chairman
Alan Booth	Chief Executive Officer
Eugene Whymys FCCA	Chief Financial Officer
Graham Doré	Exploration Director
Christine Wheeler OBE	Non-Executive Director

**Insider Ownership**

**16.1%**

**Major Shareholders**

AXA Framlington	5.9%
UBS AG	5.6%
FMR Corp.	4.4%
Gartmore Investments	3.6%
Invesco Asset Mgmt.	3.1%
Gartmore Inv. Mgrs.	1.7%

**Endeavour International Corp. (END US)**[www.endeavourcorp.com](http://www.endeavourcorp.com)

Analyst: Peter Nicol

<b>Recommendation:</b>	<b>MP</b>	<b>Market Cap (US\$m):</b>	<b>214.8</b>	<b>12 Month Target:</b>	<b>US\$2.75</b>
<b>Basic Shares O/S (mm):</b>	<b>79.3</b>	<b>Ent. Value (US\$m):</b>	<b>528.8</b>	<b>Current Price:</b>	<b>US\$2.71</b>
<b>Fully Diluted Shares (mm):</b>	<b>80.6</b>	<b>52 Week Range:</b>	<b>2.55 - 5.69</b>	<b>Expected Return:</b>	<b>1%</b>

**Profile**

Endeavour is an AMEX-listed company that embarked upon a UK and Norway strategy in 2004 to exploit the remaining reserve potential of the North Sea, where it engages in the acquisition, exploration and development of both oil & gas assets. It is also initiating a 3-D seismic acquisition program in the Netherlands. END's strategy is based upon extracting cash flow and upside from mature producing fields, while targeting higher impact reserves from previously discovered prospects and wildcat exploration. In May '06, END acquired a UK package of assets from Talisman which significantly altered the scale and shape of the portfolio.

**Outlook & Valuation**

END's recent acquisition has shifted the value drivers of the company to the UK, and by dint of hugely enhanced production and portfolio plays, has created an altogether more balanced and less risky investment prospect. END is now able to fund a range of exploration that could provide it with the high impact potential its strategy has so far failed to deliver. Norwegian production is no longer the key driver, with the UK producing portfolio now accounting for more than 80% of the current NAV. UK exploration and appraisal, driven by Cygnus and Magellan, is the other key valuation driver, and crucially, in conjunction with Rye, Balgownie and Emu, and Agat on the Norwegian side, provide the greatest potential upside to the share price. While END has now become a significant North Sea producer, future exploration success will remain the key determinant of success in its strategy, and ultimately the justification it will be looking to achieve for a fully priced acquisition, in which END may have seen more potential strategic value than others.

**Operational Update**

In May '06, END acquired a significant portfolio of producing assets from Talisman for US\$414mm. The acquisition has given END exposure to an additional 18 mmboe of 2P reserves and 9.2 mboe/d of production, concentrated mainly in Goldeneye, Bittern, Alba and Rubie. The mature Ivanhoe Rob Roy Hamish (IVRRH) complex also provides further satellite drilling opportunities.

Pre-acquisition, END experienced a disappointing 2005, where all four of its UK prospects - Prometheus, Fiacre, Turnberry and Turriff - were declared non-commercial. The 2006 drilling programme has, however, already met with some much needed success. The Cygnus prospect, located in the Southern Gas Basin and in which END holds a 12.5% WI, partnered with GDF (Op), Tullow and E.ON Ruhrgas, was declared a discovery in May '06. With a gross unrisks resource estimate of 125 bcf limited to the drilled faultblock, Cygnus has significant potential upside in its remaining, as yet untested, areas of upto a further 398 bcf, although END's exposure to that is limited by its low equity stake. Further appraisal and testing is required, with earliest first production potentially by mid-'08. 3 further wells are planned for '06 in the UK of which Magellan is likely to be one.

In Norway, Agat is a significant gas and condensate discovery, acquired as part of the OER transaction in 2004. With very little infrastructure in the vicinity, commercialisation is a stumbling block. However, with Norsk Hydro's recent announcement of the Peon discovery, in close proximity to Agat, there is potential for Agat to realise value for END, either through a joint development agreement or early monetisation through a divestiture.

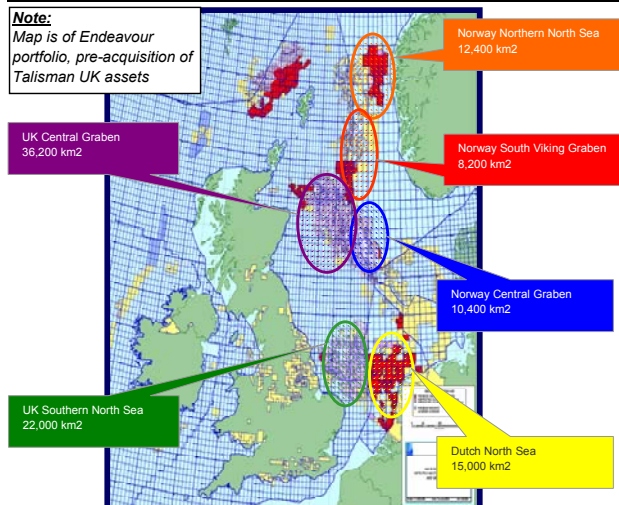
Summary Information (US\$)	2005A	2006E	2007E
<b>Production</b>			
Oil & Liquids (mb/d)	2.0	8.3	7.3
Natural Gas (mmcf/d)	0.5	18.2	18.0
mboe/d (6:1)	2.1	11.3	10.3
Production Growth	<i>nmf</i>	438%	-9%
Gas Production Ratio	4%	27%	29%
<b>Financial Results</b>			
Cash Flow (\$mm)	6.3	64.7	141.4
CFPS (\$/sh)	0.08	0.86	1.87
EPS (\$/sh)	(0.42)	0.08	0.27
<b>Multiples</b>			
EV/Boe (\$)	26.16		
EV/Boe/d (\$m)		16.3	17.9
<b>Unit Analysis - \$/boe</b>			
Revenue	51.12	58.46	55.80
Royalties	0.00	0.00	0.00
Operating Costs	(15.86)	(9.05)	(9.00)
Operating Netback	35.26	49.41	46.80
G&A	(24.10)	(14.09)	(5.39)
Interest	(2.27)	(2.74)	(12.53)
<b>Netback (\$/boe)</b>	<b>8.89</b>	<b>32.58</b>	<b>28.87</b>
<b>Capital Structure</b>			
Net Debt / (Cash) (\$mm)	31.6	298.8	257.4
Debt/CF	5.1x	4.6x	1.8x
Capex (\$mm)	47.4	341.2	100.0
Capex/CF	7.6x	5.3x	0.7x

<sup>1</sup> Tristone risked estimates of development, appraisal and exploration assets

<sup>6</sup> Reserves as reported by the company. Do not include reserves associated with assets acquired from Talisman

Reserve Information	2004A	2005A
<b>Proven Reserves (boe @ 6:1)</b>		
Oil (mmb)	1.5	1.2
Gas (bcf)	6.7	6.3
Total Proven (mmboe)	2.7	2.2
<b>P+P Reserves<sup>6</sup></b>		
Oil (mmb)	n/a	5.2
Gas (bcf)	n/a	10.9
Total P+P (mmboe)	n/a	7.1

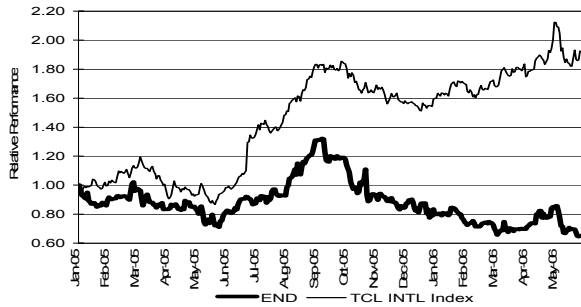
**Engineering Firm:** Gaffney, Cline & Associates Ltd

**Core Area Map**

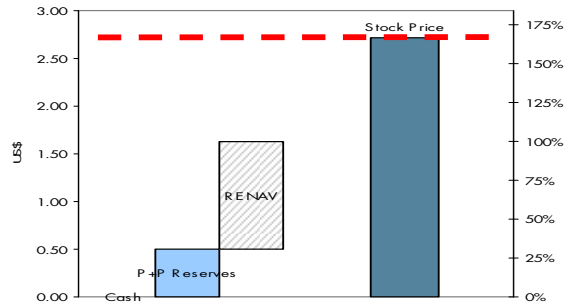
# Endeavour International Corp. (END US)

Analyst: Peter Nicol

## Endeavour vs. Tristone Capital International Index



## Endeavour RENA V vs Share Price



## Net Asset Value (June 2006)

	Total mmboe	Value <sup>2</sup>	
		US\$m	US\$/sh
<b>Reserves* (10% AT)</b>			
Core Reserves <sup>5</sup>	25.2	458.5	5.69
Less: Convertible		(125.0)	(1.55)
Cash/(Net Debt)		(319.2)	(3.96)
<b>Net Core Asset Value</b>	<b>25.2</b>	<b>14.35</b>	<b>0.18</b>
Risked Upside <sup>1</sup>	12.2	90.9	1.13
<b>RENAV</b>	<b>37.3</b>	<b>105.2</b>	<b>1.31</b>

Current Price/RENAV 208%

\* as at 31 Dec. 2005

<sup>1</sup> Tristone risked estimates of development, appraisal and exploration assets

<sup>5</sup> Core Asset Value reserves include UK assets acquired from Talisman

Note: Flat Price = US\$50 long term

Price Assumptions	2005	2006	2007
Crude Oil - WTI (US\$/b)	56.56	65.32	62.00
Crude Oil - Brent (US\$/b)	55.18	64.54	60.50

## Key Management

William L. Transier	Co-CEO and Director
John N. Seitz	Co-CEO and Director
Lance G. Gilliland	Chief Financial Officer
Bruce H. Stover	EVP, Ops and Business Development
H. Don Teague	EVP, Admin & General Counsel

## Board of Directors

William L. Transier	Co-Chief Executive Officer and Director
John N. Seitz	Co-Chief Executive Officer and Director
John B. Connally III	CEO of Pure Energy Group Inc.
Nancy K. Quinn	Principal of Hanover Capital LLC
Barry J. Galt	Director of several plc's.

## Insider Ownership

20.0%

## Major Shareholders

Morgan Stanley	6.1%
Marcus Michael	4.1%
Jennison Associates	3.8%
Palo Alto Investors	3.2%
Citadel Inv.	2.9%
Lancer Entities	2.5%

## Endeavour International Valuation

Assets	Type <sup>3</sup>	North Sea Location	Working Interest	Farmed Down Interest <sup>4</sup>	Net Recoverable Reserves / Resources (mmboe)		Price per boe	Risked Value US\$/sh	Unrisked Value US\$/sh	Unrisked Value US\$/sh	
					Unrisked	Risked					
<b>Original Endeavour Production</b>											
Brage	P	Norway	4.44%	4.44%	3.30	3.30	6.36	20.95	0.26	20.95	0.26
Njord	P	Norway	2.50%	2.50%	2.61	2.61	3.22	8.42	0.10	8.42	0.10
Enoch	NP	UK	10.00%	10.00%	1.25	1.25	13.39	16.73	0.21	16.73	0.21
<b>Acquired Production (Talisman Deal)</b>											
Goldeneye	P	UK	7.50%	7.50%	6.01	6.01	18.53	111.42	1.38	111.42	1.38
Bittern	P	UK	2.42%	2.42%	0.86	0.86	19.44	16.79	0.21	16.79	0.21
Alba	P	UK	2.25%	2.25%	3.91	3.91	7.58	29.68	0.37	29.68	0.37
Caledonia	P	UK	2.83%	2.83%	0.10	0.10	18.93	1.88	0.02	1.88	0.02
Ivanhoe/Rob Roy/Hamish	P	UK	23.46%	23.46%	0.88	0.88	8.34	7.30	0.09	7.30	0.09
Renee	P	UK	77.50%	77.50%	0.39	0.39	14.95	5.90	0.07	5.90	0.07
Rubie	P	UK	40.78%	40.78%	1.00	1.00	15.66	15.62	0.19	15.62	0.19
Reserves Upside					4.84	4.84	25.82	125.00	1.55	125.00	1.55
Acquisition Cash Accrual (from 1.1.06)								100.00	1.24	100.00	1.24
<b>Remaining Endeavour Portfolio</b>											
Cygnus	A	UK	12.50%	12.50%	2.60	1.95	12.98	25.32	0.31	33.91	0.42
Cygnus (Upside)	A	UK	12.50%	12.50%	8.30	2.08	10.25	21.27	0.26	89.30	1.11
Magellan	E	UK	50.00%	33.33%	13.00	2.34	5.66	13.25	0.16	86.06	1.07
Rye	E	UK	75.00%	25.00%	5.50	0.87	6.83	5.92	0.07	37.57	0.47
Balgownie	E	UK	60.00%	20.00%	5.60	0.67	6.21	4.17	0.05	34.77	0.43
Emu	E	UK	30.00%	30.00%	15.00	1.80	5.26	9.48	0.12	108.00	1.34
Agat	E	Norway	49.00%	16.33%	10.90	1.57	3.00	7.80	0.10	54.14	0.67
Other Exploration (UK & Norway)	E	UK & Norway			7.37	0.88	4.20	3.69	0.05	62.83	0.78
Less: Net Debt and Convertible								-444.19	-5.51	-444.19	-5.51

Notes:

<sup>3</sup> P = Production, NP = Near Term Production, D = Development, A = Appraisal, E = Exploration.

<sup>4</sup> Tristone assumptions - farmed-down with a benefit of 3 for 2 on well costs

**Faroe Petroleum Plc. (FPM LN)**[www.faroe-petroleum.co.uk](http://www.faroe-petroleum.co.uk)

Analyst: Peter Nicol

<b>Recommendation:</b>	<b>MO</b>	<b>Market Cap (US\$mm):</b>	<b>182.6</b>	<b>12 Month Target:</b>	<b>250.0p</b>
<b>Basic Shares O/S (mm):</b>	<b>73.7</b>	<b>Ent. Value (US\$mm):</b>	<b>94.6</b>	<b>Current Price:</b>	<b>130.5p</b>
<b>Fully Diluted Shares (mm):</b>	<b>76.9</b>	<b>52 Week Range:</b>	<b>106 - 183</b>	<b>Expected Return:</b>	<b>92%</b>

**Profile**

Faroe is an AIM-listed company that has established a niche for itself as an explorer and appraiser of oil & gas assets focussed principally in the Atlantic Margin, and a complementary, secondary focus on selected opportunities in the North Sea. In this respect, Faroe has recently added some exploration acreage in the Moray Firth area (CNS) and pre-qualified as a license holder in Norway.

Faroe's management team has a strong technical background mixed with commercial expertise. The company listed on London's AIM market in Jun '03.

**Outlook & Valuation**

While Faroe's resource potential, even on a risked basis, is considerable, the company has yet to prove up any of its prospects, and as a result, our core value comprises of only the net cash it carries on its balance sheet. On this basis, the share price is trading at a considerable premium to the core value. Our assessment of Faroe's exploration portfolio, on a risked and assumed farmed-down basis, shows that the NAV of the company represents a 57% premium to the current share price. A third of that RENA is related to the Faroese assets, while the rest relates to the West of Shetland asset base. Virtually all of Faroe's assets have company-making potential, which is illustrated well by the considerable value these assets add, on an unrisked basis.

As an investment prospect, therefore, given the significant cost of drilling a dry hole on the Atlantic Margin and the high upside its assets could potentially deliver, Faroe represents a high-risk, high-reward play of considerable proportions.

Summary Information	2005A	2006E	2007E
<b>Production</b>			
Oil & Liquids (mb/d)	0.0	0.0	0.0
Natural Gas (mmcf/d)	0.0	0.0	0.0
mboe/d (6:1)	0.0	0.0	0.0
Production Growth	0%	0%	0%
Gas Production Ratio	0%	0%	0%
<b>Financial Results</b>			
Cash Flow (\$mm)	na	na	na
CFPS (p/sh)	na	na	na
EPS (p/sh)	na	na	na
<b>Multiples</b>			
EV/Boe (\$)	nmf		
EV/Boe/d (\$m)		nmf	nmf
<b>Unit Analysis - \$/boe</b>			
Revenue	na	na	na
Royalties	na	na	na
Operating Costs	na	na	na
Operating Netback	na	na	na
G&A	na	na	na
Interest	na	na	na
<b>Netback (\$/boe)</b>	<b>na</b>	<b>na</b>	<b>na</b>
<b>Capital Structure</b>			
Net Debt / (Cash) (\$mm)	(43.4)	(39.0)	(34.6)
Debt/CF	na	na	na
Capex (\$mm)	na	(4.5)	(4.4)
Capex/CF	na	na	na

**Operational Update**

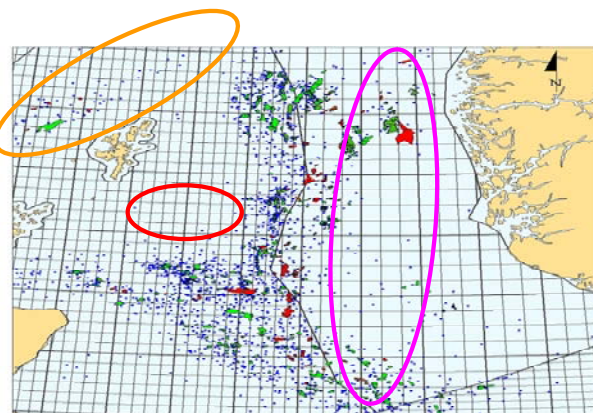
2005, for Faroe, was characterised by significant corporate activity but no drilling.

Faroe was awarded two licenses in the 2nd Faroese licensing round, followed by an acquisition in two part blocks (14/21 and 14/22), located on the Halibut Horst, in the UK CNS from Shell and Exxon. This was followed by a share placement to raise £13.4mm, earmarked for future drilling activity. In Dec '05, Faroe farmed-into the Brugdan prospect with a small stake (4%) to be drilled in Summer '06 in conjunction with partners Statoil, Shell and Dong.

In Jan '06 Faroe farmed-out 55% of its stake in the Halibut North prospect to Oilexco in return for being part-carried on an exploration well (Faroe was liable for 20% of the cost). In May '06 that well was completed and announced as dry. The process for entry into Norway took its first big step in Feb '06 with the opening of an office in Stavanger and acquiring Paladin's Norway team, with pre-qualification coming a month later. Ahead of the planned drilling programme forecast to cover 8 wells over an 18-24 month period, Faroe raised a further £25mm, committing to two well in '06, the first of which was the above Halibut well.

The 2nd of these is the Brugdan well, due to commence drilling in Jul '06. With well costs of approximately US\$45mm, Faroes is liable for its 4% stake. Targetting a potential 1 bnbbbls, success, according to management, would also de-risk Faroes' Sildekrin and Rannva prospects; or vice versa. Future drilling activity has been committed for the Anne Marie prospect, which Faroe holds in partnership with operator Eni.

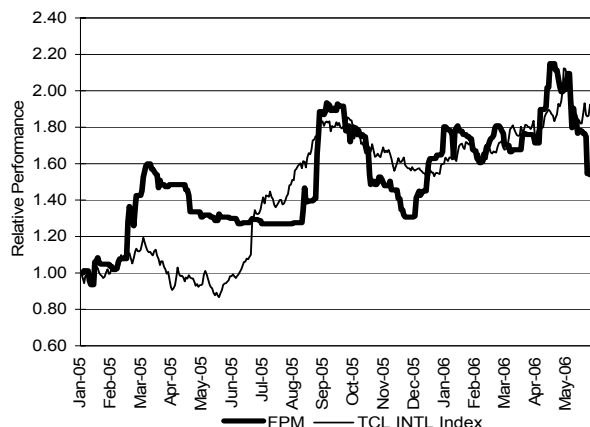
Reserve Information	2004A	2005A
<b>Proven Reserves (boe @ 6:1)</b>		
Oil (mmb)	0.0	0.0
Gas (bcf)	0.0	0.0
Total Proven (mmboe)	0.0	0.0
<b>P+P Reserves</b>		
Oil (mmb)	0.0	0.0
Gas (bcf)	0.0	0.0
Total P+P (mmboe)	0.0	0.0

**Core Area Map**

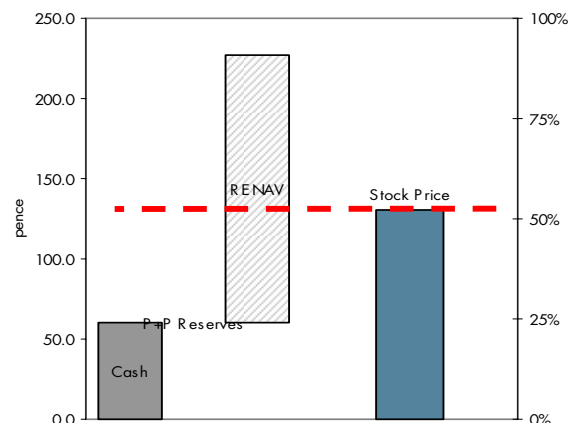
## Faroe Petroleum Plc. (FPM LN)

Analyst: Peter Nicol

## Faroe vs. Tristone Capital International Index



## Faroe RENAV vs Share Price



## Net Asset Value (June 2006)

Reserves* (10% AT)	Total mmboe	Value <sup>2</sup>		
		US\$mm	US\$/sh	p/sh
P+P Reserves				
Cash/(Net Debt)		88.07	1.14	60.2
	-	<b>88.07</b>	<b>1.14</b>	<b>60.2</b>
Risked Upside <sup>1</sup>	44.85	237.19	3.08	162.2
Options related cash		6.69	0.09	4.6
<b>RENAV</b>	<b>44.85</b>	<b>331.94</b>	<b>4.31</b>	<b>227.1</b>

Current Price/RENAV 57%

\* as at 31 Dec. 2005

<sup>1</sup> Tristone risked estimates of development, appraisal and exploration assets<sup>2</sup> Per share values calculated on Fully Diluted Shares. Options above a certain price not considered

Note: Flat Price = US\$50 long term

Price Assumptions	2005	2006	2007
Crude Oil - WTI (US\$/b)	56.56	65.32	62.00
Crude Oil - Brent (US\$/b)	55.18	64.54	60.50

## Key Management

Joseph Darby	Chairman
Graham D. Stewart	Chief Executive Oficer
Nils S Sørensen	Executive Director
Patrick Whitley	Head of Exploration

## Board of Directors

Joseph Darby	Chairman of Mowlem Plc.
Graham D. Stewart	Chief Executive Officer
Nils S Sørensen	Executive Director
Meinhard Jacobsen	Non-executive Director

## Insider Ownership

0.4%

## Major Shareholders

Dana Petroleum	17.2%
Goldman Sachs Group	8.0%
3i Group plc	5.9%
MHR Funds	5.3%
RAB Capital Ltd	5.3%
F&C Asset Management	4.6%
ISIS Capital	4.1%

## Faroe Petroleum Valuation

Assets	North Sea Location	Net Recoverable Reserves / Resources (mmboe)		Price per boe	Risked	Risked	Risked	Unrisked	Unrisked	Unrisked
		Unrisked	Risked		Value	Value/sh	Value/sh	Value	Value/sh	Value/sh
					US\$/b	US\$mm	US\$/sh	p/sh	US\$mm	US\$/sh
Exploration Portfolio <sup>3</sup>	Atlantic Margin & CNS	744.40	44.85	5.29	237.19	3.08	162.2	4187.21	54.42	2,864.1
Add: Net Cash					88.07	1.14	60.2	88.07	1.14	60.2
Options related cash					6.69	0.09	4.6	6.69	0.09	4.6
<b>Total</b>		<b>744.40</b>	<b>44.85</b>	<b>7.40</b>	<b>331.94</b>	<b>4.31</b>	<b>227.1</b>	<b>4,281.96</b>	<b>55.65</b>	<b>2,928.9</b>

<sup>3</sup> Tristone assumptions - farmed-down with a benefit of 3 for 2 on well costs

**Granby Oil & Gas (GOIL LN)**[www.granbyoil.com](http://www.granbyoil.com)

Analyst: Peter Nicol

<b>Recommendation:</b>	<b>MO</b>	<b>Market Cap (US\$mm):</b>	<b>42.0</b>	<b>12 Month Target:</b>	<b>120.0p</b>
<b>Basic Shares O/S (mm):</b>	<b>25.7</b>	<b>Ent. Value (US\$mm):</b>	<b>25.1</b>	<b>Current Price:</b>	<b>86.0p</b>
<b>Fully Diluted Shares (mm):</b>	<b>25.7</b>	<b>52 Week Range:</b>	<b>66.5 - 141</b>	<b>Expected Return:</b>	<b>40%</b>

**Profile**

Granby is an AIM-listed Exploration and Development company based in the UK. The exploration portfolio is focussed exclusively on the UK North Sea with 23 blocks in 13 licenses, while the company also owns a 9.14% interest in the Galoc field - a near-term development asset in the Philippines - scheduled for first oil in 1H/07.

Management consists of executives experienced in the UK sector of the North Sea, and are mainly ex-Enterprise Oil. In terms of capital markets activity, the company raised £10 mm at listing in Jun '05 and £1.5 mm pre-IPO.

**Outlook & Valuation**

Granby is a high risk, high reward play with approximately half of our RENA driven by the exploration portfolio which is focussed on the CNS, but has exposure to the Southern Gas Basin as well. What sets Granby apart from some of its peers is a 9.14% interest in Galoc - a near-production asset in the Philippines, scheduled to start generating cashflow from 2H/07 and tempering, to an extent, Granby's risk profile. Galoc also provides potential upside of upto 91p/sh based on significantly greater reserve estimates from field partner, Nido Petroleum. Value in the exploration portfolio is driven by the CNS assets, with the high equity interests in blocks 13, 14, 15 and 16 providing exposure to substantial prospective resources. We have assumed in our analysis that Granby will farm-down further to a more manageable risk level while retaining exposure to the upside, the potential size of which is substantial as can be seen from our unrisks valuation. However, exposure to it will depend on early drilling success. Galoc may prove a wise investment in this regard, keeping Granby in the game if immediate success is not forthcoming.

Summary Information	2005A	2006E	2007E
<b>Production</b>			
Oil & Liquids (mb/d)	0.0	0.0	0.6
Natural Gas (mmcf/d)	0.0	0.0	0.0
mboe/d (6:1)	0.0	0.0	0.6
Production Growth	0%	0%	100%
Gas Production Ratio	0%	0%	0%
<b>Financial Results</b>			
Cash Flow (\$mm)	na	(0.7)	2.6
CFPS (p/sh)	na	(1.3)	5.3
EPS (p/sh)	na	na	na
<b>Multiples</b>			
EV/Boe (\$)	16.42		
EV/Boe/d (\$m)		nmf	40.0
<b>Unit Analysis - \$/boe</b>			
Revenue	na	na	na
Royalties	na	na	na
Operating Costs	na	na	na
Operating Netback	na	na	na
G&A	na	na	na
Interest	na	na	na
<b>Netback (\$/boe)</b>	<b>na</b>	<b>na</b>	<b>na</b>
<b>Capital Structure</b>			
Net Debt / (Cash) (\$mm)	(16.9)	(16.2)	(18.8)
Debt/CF	na	na	na
Capex (\$mm)	na	(0.7)	0.0
Capex/CF	na	na	na

**Operational Update**

In terms of exploration, Granby has yet to prove a commercial success. Two dry holes in 2005 in the Marquis and Hendrix prospects, located in the CNS, has had an effect within the market on Granby's reputation as an explorer and finder of hydrocarbons.

However, a commercially astute management team has continued to manage the portfolio and the associated risk well, through a series of farm-ins and farm-outs. On 31 Mar '06, Granby farmed-out its Watling prospect to Centrica and Gas Plus, where it will be carried by the farminees for one exploration well. In May '06, Granby concluded a multi asset deal with Albion Petroleum to farm-out upto 5 licenses in conjunction with Elixir, on a 2 for 1 basis covering licenses in quadrants 9, 13, 14, 15 and 16 of the CNS - areas in which Granby expects to farm down further before drilling, as it remains liable for a percentage of the well costs.

In Aug '05, Granby completed its farm-in to the Galoc field on terms where its share of initial development costs are underwritten by partner Vitol. More recently, on 31 May '06, Granby announced its first foray into the UK onshore sector, farming-in for a 10% interest to an Egdon-operated license (PEDL 071) in the Cleveland basin on the Yorkshire coast. Granby will be carried by its co-farminnee Gas Plus for 1 exploration well, which is expected to be drilled later this year or early 2007.

While management has shown itself adept at positioning Granby commercially, only exploration success can provide the high reward that the strategy targets. In this respect, obtaining access to a rig may well prove to be a key determinant.

Reserve Information	2004A	2005A
<b>Proven Reserves (boe @ 6:1)</b>		
Oil (mmb)	0.0	na
Gas (bcf)	0.0	na
Total Proven (mmboe)	0.0	na
<b>P+P Reserves</b>		
Oil (mmb)	0.0	1.5
Gas (bcf)	0.0	0.0
Total P+P (mmboe)	0.0	1.5

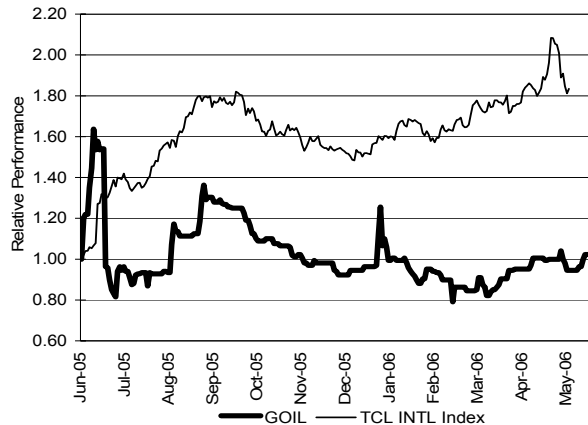
**Core Area Map**

Note: Eastern Europe, Middle East and North Africa only areas of focus/expertise, with no assets or licenses

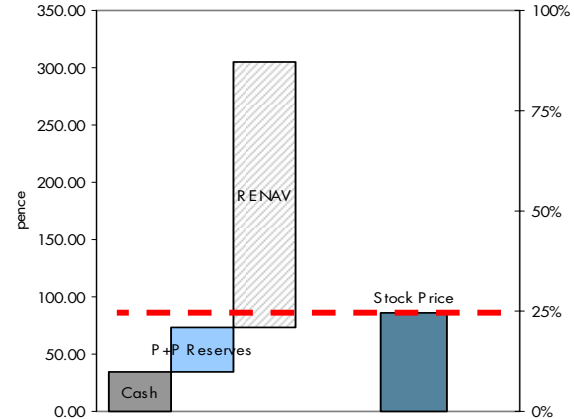
## Granby Oil &amp; Gas (GOIL LN)

Analyst: Peter Nicol

## Granby vs. Tristone Capital International Index



## Granby RENAV vs Share Price



## Net Asset Value (June 2006)

Reserves* (10% AT)	Total mmboe	Value <sup>2</sup>		
		US\$m	US\$/sh	p/sh
P+P Reserves	1.53	18.93	0.74	38.8
Cash/(Net Debt)		16.90	0.66	34.6
	<b>1.53</b>	<b>35.82</b>	<b>1.39</b>	<b>73.4</b>
Galoc Nido High Case <sup>5</sup>	2.52	44.64	1.74	91.4
Risked Upside <sup>1</sup>	13.82	68.43	2.66	140.2
<b>RENAV</b>	<b>17.86</b>	<b>148.88</b>	<b>5.80</b>	<b>305.0</b>

Current Price/RENAV 28%

\* as at 31 Dec. 2005

<sup>1</sup> Tristone risked estimates of development, appraisal and exploration assets<sup>2</sup> Per share values calculated on Fully Diluted Shares. Options above a certain price not considered<sup>5</sup> Best estimate from Nido Petroleum and also used by Wood Mackenzie

Note: Flat Price = US\$50 long term

Price Assumptions	2005	2006	2007
Crude Oil - WTI (US\$/b)	56.56	65.32	62.00
Crude Oil - Brent (US\$/b)	55.18	64.54	60.50

## Granby Oil &amp; Gas Valuation

Assets	Working Interest %	Type <sup>3</sup>	Location	Net Recoverable Reserves / Resources (mmboe)		Price per boe US\$/b	Risked Value	Risked Value/sh	Risked Value/sh	Unrisked Value	Unrisked Value/sh	Unrisked Value/sh
				Unrisked	Risked		US\$m	US\$/sh	p/sh	US\$m	US\$/sh	p/sh
Galoc	9.15%	D	Philippines	4.04	1.53	12.39	18.93	0.74	38.8	18.93	0.74	38.8
Galoc upside	9.15%	D	Philippines		2.52	17.75	44.64	1.74	91.4	44.64	1.74	91.4
Exploration Portfolio <sup>4</sup>		E	UK	138.21	13.82	4.95	68.43	2.66	140.2	828.70	32.26	1,697.8
Add: Net Cash							16.90	0.66	34.6	16.90	0.66	34.6
<b>Total</b>				<b>142.25</b>	<b>17.86</b>	<b>8.33</b>	<b>148.88</b>	<b>5.80</b>	<b>305.0</b>	<b>909.15</b>	<b>35.39</b>	<b>1,862.6</b>

<sup>3</sup> P = Production, NP = Near Term Production, D = Development, A = Appraisal, E = Exploration<sup>4</sup> Tristone assumptions - farmed-down with a benefit of 3 for 2 on well costs

## Key Management

David Grassick	Managing Director
Nigel Burton	Finance Director
Richard Moreton	Executive Director
Robert Moore	Commercial Director
Martin Whitehead	Exploration Director
Peter Whattler	Technical Director
Sue Heavens	Director of Business Development

## Board of Directors

Richard Piper	Non-Executive Chairman
Adam Shutkever	Non-Executive Director
David Morton	Non-Executive Director

## Insider Ownership

46.9%

## Major Shareholders

CSFB Europe	7.1%
Investec Asset Mgmt.	4.1%
Artemis UK Growth	3.3%
Colonial First	1.1%
Invesco Asset Mgmt.	0.9%

**Nautical Petroleum Plc. (NPE LN)**[www.nauticalpetroleum.com](http://www.nauticalpetroleum.com)

Analyst: Peter Nicol

<b>Recommendation:</b>	<b>MP</b>	<b>Market Cap (US\$mm):</b>	<b>234.3</b>	<b>12 Month Target:</b>	<b>15.0p</b>
<b>Basic Shares O/S (mm):</b>	<b>1,072.1</b>	<b>Ent. Value (US\$mm):</b>	<b>207.1</b>	<b>Current Price:</b>	<b>11.5p</b>
<b>Fully Diluted Shares (mm):</b>	<b>1,072.1</b>	<b>52 Week Range:</b>	<b>10.5 - 15.75</b>	<b>Expected Return:</b>	<b>30%</b>

**Profile**

Nautical is an independent exploration & development company, with a strategy centred around the acquisition, development and production of discovered heavy oil in the UKCS and other areas of the European Union. Since listing in Aug '05 through an RTO, Nautical has built up, through acquisitions and participation in licensing rounds, a portfolio of assets which provide good exposure to North Sea heavy oil plays. Nautical's main assets comprise of the Chevron-operated Mariner field, acquired from parent company Masefield Energy Holdings, and the Krakken discovery in block 9/2b.

**Outlook & Valuation**

Mariner and Krakken form the core of the valuation, accounting for approximately 53% of our RENAV. Mariner has two separate horizons - Maureen and Heimdal - of which the former is included in our core value. Project sanction, expected in the next year will de-risk it further and raise its value. The Heimdal structure is a shallower reservoir, representing 12% of the RENAV but 19% on an unrisks basis, suggesting significant potential upside. In both horizons, Nautical carries ENI for a 6.67% interest, for which ENI would be required to either pay its share of back costs or relinquish its stake to Nautical. The Mermaid prospect (block 9/11c) is directly south of and considered analogous to Mariner, contributing 9% to the RENAV, reflecting the significant uncertainty surrounding it. As a satellite development to Mariner, it has significant potential upside. Overall, the portfolio provides exposure in a niche where there are few players, good potential upside and lower risk compared to some of the other AIM-listed explorers. However, Nautical is a long, slow burn and represents a longhaul investment prospect.

Summary Information	2005A	2006E	2007E
<b>Production</b>			
Oil & Liquids (mb/d)	0.0	0.0	0.0
Natural Gas (mmcf/d)	0.0	0.0	0.0
mboe/d (6:1)	0.0	0.0	0.0
Production Growth	0%	0%	0%
Gas Production Ratio	0%	0%	0%
<b>Financial Results</b>			
Cash Flow (\$mm)	na	na	na
CFPS (p/sh)	na	na	na
EPS (p/sh)	na	na	na
<b>Multiples</b>			
EV/Boe (\$)	3.24		
EV/Boe/d (\$m)		nmf	nmf
<b>Unit Analysis - \$/boe</b>			
Revenue	na	na	na
Royalties	na	na	na
Operating Costs	na	na	na
Operating Netback	na	na	na
G&A	na	na	na
Interest	na	na	na
<b>Netback (\$/boe)</b>	<b>na</b>	<b>na</b>	<b>na</b>
<b>Capital Structure</b>			
Net Debt / (Cash) (\$mm)	(27.2)	(26.5)	7.8
Debt/CF	na	na	na
Capex (\$mm)	na	(0.7)	(34.3)
Capex/CF	na	na	na

<sup>1</sup> Tristone risked estimates of development, appraisal and exploration assets

**Operational Update**

Nautical's operational activities have been concentrated on more tightly defining in-place volumes on its Mariner and 9/2b discoveries, and exploration portfolio, through seismic technical work.

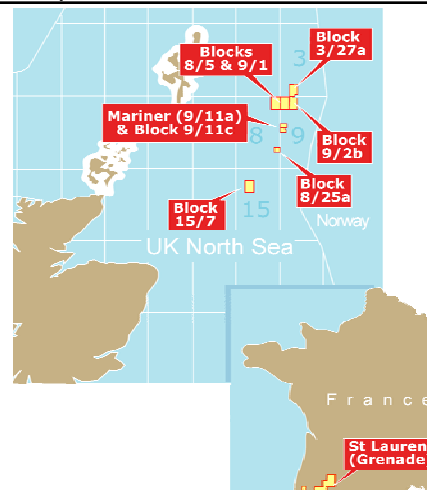
9/2b was converted from a promote to a traditional license, with Nautical appointed operator and its license extended through reprocessing of 3-D seismic and a drilling commitment prior to Oct '07, for which a rig is being sought. On Mariner, the work has been focussed on interpretation of seismic to reduce stratigraphic and structural uncertainty. Nautical is now waiting for Chevron to give the go ahead.

The company also expanded into Europe through the acquisition of a 22% interest in the St. Laurent permit in France, acquired from parent company Masefield. The permit contains the Grenade heavy oil discovery representing a potential resource of 2.77 mboe net to Nautical on an unrisks basis. Further appraisal work is planned, in conjunction with onshore specialist Egdon Resources, the operator.

On Block 8/25a, new seismic has indicated the presence of two sizeable, low risk, shallow, four-way dip closures named Selkie and Kelpie, due west of the FDP approved Skipper discovery. Two licenses were also awarded in the 23rd round, including block 15/7 which contains the Funnel discovery.

Nautical will look to farm-down the majority of its interests prior to drilling and this has been assumed in our analysis.

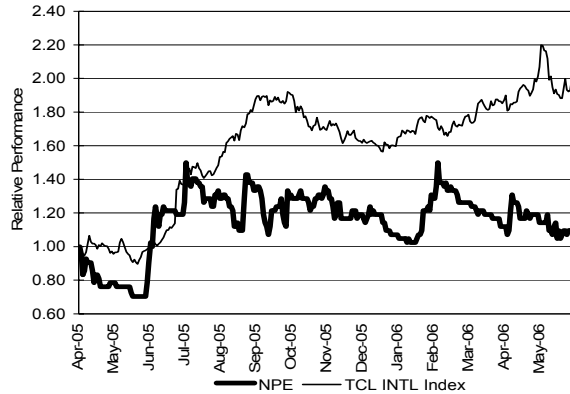
Reserve Information	Oct '04A	Aug '05A	2005A
<b>Proven Reserves (boe @ 6:1)</b>			
Oil (mmb)	n/a	n/a	n/a
Gas (bcf)	n/a	n/a	n/a
Total Proven (mmboe)	n/a	n/a	n/a
<b>P+P Reserves</b>			
Oil (mmb)	40.0	61.0	64.0
Gas (bcf)	0.0	0.0	0.0
Total P+P (mmboe)	40.0	61.0	64.0

**Engineering Firm:****Core Area Map**

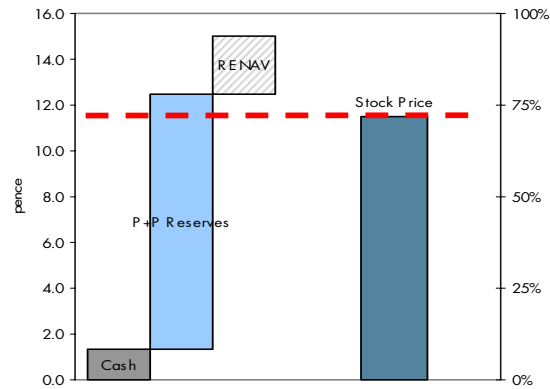
**Nautical Petroleum Plc. (NPE LN)**

Analyst: Peter Nicol

**Nautical vs. Tristone Capital International Index**



**Nautical RENAV vs Share Price**



**Net Asset Value (June 2006)**

	Total mmboe	Value <sup>2</sup>		
		US\$m	US\$/sh	p/sh
<b>Reserves* (10% AT)</b>				
P+P Reserves	64.00	226.85	0.21	11.1
Cash/(Net Debt)		27.17	0.03	1.3
<b>Core Net Asset Value</b>	<b>64.00</b>	<b>254.02</b>	<b>0.24</b>	<b>12.5</b>
Risked Upside <sup>1</sup>	6.00	21.26	0.02	1.0
Specialised Mariner EWT eq.		30.40	0.03	1.5
<b>RENAV</b>	<b>70.00</b>	<b>305.68</b>	<b>0.29</b>	<b>15.0</b>
Current Price/RENAV				77%

\* as at 31 Dec. 2005

<sup>1</sup> Tristone risked estimates of development, appraisal and exploration assets

<sup>2</sup> Per share values calculated on Fully Diluted Shares. Options above a certain price not considered

Note: Flat Price = US\$50 long term

Price Assumptions	2005	2006	2007
Crude Oil - WTI (US\$/b)	56.56	65.32	62.00
Crude Oil - Brent (US\$/b)	55.18	64.54	60.50

**Key Management**

Ian Williams	Chairman
Stephen Jenkins	Chief Executive Officer
Hemant Thanawala	Finance Director
Paul Jennings	Commercial Director

**Board of Directors**

Ian Williams	Chairman
Patrick Kennedy	Joint MD of Pumphrey Kennedy
Philip Dimmock	COO of Equator Exploration Ltd.

**Insider Ownership**

0.00%

**Major Shareholders**

Goldman Sachs Group	5.3%
MHR Institutional Advisors	4.6%
Golden Prospect	1.0%
Tiger Resource	0.8%

**Nautical Petroleum Valuation**

Assets	Type <sup>3</sup>	North Sea Location	Working Interest %	Farmed Down Interest <sup>4</sup>	Net Recoverable Reserves / Resources (mmboe)		Price per boe	Risked Value US\$/mm	Risked Value/sh US\$/sh	Risked Value/sh p/sh	Unrisked Value US\$/mm	Unrisked Value /sh US\$/sh	Unrisked Value /sh p/sh
					Unrisked	Risked							
					US\$/b	US\$/mm							
Mariner (Maureen)	D	UK	26.67%	26.67%	22.40	16.80	4.78	80.31	0.07	3.9	107.08	0.10	5.3
Mariner - ENI carry	D	UK	6.25%	6.25%	5.25	3.94	4.34	17.10	0.02	0.8	17.10	0.02	0.8
9/2b	D	UK	75.00%	50.00%	25.50	17.85	3.65	65.10	0.06	3.2	93.00	0.09	4.6
Selkie	E	UK	100.00%	50.00%	15.33	2.76	3.42	6.35	0.01	0.3	49.28	0.05	2.4
Kelpie	E	UK	100.00%	50.00%	9.17	1.65	3.42	2.56	0.00	0.1	28.24	0.03	1.4
Block 9/11c	E	UK	100.00%	50.00%	62.94	11.33	2.82	28.90	0.03	1.4	174.58	0.16	8.6
Block 15/7 *	E	UK	50.00%	25.00%	8.50	1.53	2.82	2.78	0.00	0.1	22.45	0.02	1.1
Mariner (H)	E	UK	26.67%	26.67%	29.87	4.11	4.78	19.63	0.02	1.0	142.77	0.13	7.0
Mariner (H) - ENI carry	E	UK	6.25%	6.25%	12.25	4.90	3.49	17.10	0.02	0.8	17.10	0.02	0.8
Grenade (St. Laurent Permitt) Exploration	A	France	22.00%	22.00%	2.77	0.94	6.83	5.66	0.01	0.3	18.20	0.02	0.9
Specialised Mariner EWT equipment					39.95	4.19	0.62			0.1	103.52	0.10	5.1
Add: Net Cash								30.40	0.03	1.5	30.40	0.03	1.5
								27.17	0.03	1.3	27.17	0.03	1.3
<b>Total</b>					<b>233.94</b>	<b>70.00</b>	<b>4.37</b>	<b>305.68</b>	<b>0.29</b>	<b>15.0</b>	<b>830.90</b>	<b>0.78</b>	<b>40.8</b>

<sup>3</sup> P = Production, NP = Near Term Production, D = Development, A = Appraisal, E = Exploration

<sup>4</sup> Tristone assumptions - farmed-down with a benefit of 3 for 2 on well costs

**OILEXCO (OIL:T, OIL:LN)**

www.oilexco.com

Analyst: Toby Pierce

<b>Recommendation:</b>	<b>OP</b>	<b>Market Cap (US\$mm):</b>	<b>888</b>	<b>12 Month Target:</b>	<b>C\$7.00 , 339p</b>
<b>Basic Shares O/S (mm):</b>	<b>195.4</b>	<b>Ent. Value (US\$mm):</b>	<b>1,129</b>	<b>Current Price:</b>	<b>C\$5.05 , 241.5p</b>
<b>Fully Diluted Shares (mm):</b>	<b>212.4</b>	<b>52 Week Range:</b>	<b>2.32 - 5.85</b>	<b>Expected Return:</b>	<b>39%</b>

**Profile**

Oilexco is an E&P company active primarily in the UK North Sea. The company has two main properties, the Brenda and Nicol oilfields with first oil expected by early Q4/06. Close to existing infrastructure and with P+P reserves of 25.4 mmboc booked for Brenda alone, production is expected to exceed 32 mb/d of high quality crude by early 2007. The Nicol Field, with booked P+P reserves of 9.6 mmboc, is expected to come online during Q4/06 at a rate approximately 8 mboe/d. Oilexco also has exposure to 400 mmboc of unrisksed exploration upside.

**Outlook & Valuation**

Reflecting the advanced stage of development of its Brenda and Nicol fields Oilexco is trading in-line with North Sea industry metrics. With an enterprise value to reserves metric of US\$18.22/boe and a 2007 enterprise value to production metric of US\$23.2 k/boe/d the company is trading in the mid-range of its peer group. Upon addition of its exploration upside and potential for reserve additions Oilexco trades at a significant discount to its peers and average North Sea metrics.

We maintain coverage on Oilexco with a C\$7.00 or 339.0p target price based on our RENA and an Outperform rating. Management continues to demonstrate its successful track record of taking undeveloped assets and creating value through drilling as it did with the Brenda and Nicol fields.

**Operational Update**

Having discovered Brenda in '03, Oilexco drilled a further 11 wells to appraise the field and received approval from the DTI in Nov '05 for development. Development costs are expected to be approximately £96.5 mm with first oil expected Q4/06. Four horizontal wells will be used to deplete the reservoir, and are expected to produce at least 7,000 b/d per well initially. The Brenda Field manifold will tie in the four Brenda wells and the Nicol well, contain a subsea multiphase pump, and connect via subsea pipeline to the Balmoral Floating Production Vessel (FPV).

The Nicol development, situated 10 km northwest of Brenda, is a four way dip closure along the same Paleocene sand trend as the Brenda and MacCulloch fields. Oilexco recently increased its interest from 70 to 100% of Nicol and with recent approval from the DTI, the Nicol Field is expected to come online during Q4/06 at a rate of approximately 8 mboe/d.

In May, the company extended its long term drilling contract out to March 2010 for the Trans Ocean SEDCO 712 drilling rig. Total value of the two year extension is expected to be US\$248 mm.

Oilexco recently drilled a successful well on its 65% owned Disraeli project encountering 74 feet of net oil pay. The company plans to return for further appraisal drilling early in Q3/06. Oilexco is currently drilling the Halibut prospect and results are expected shortly.

Summary Information (US\$)	2005A	2006E	2007E
<b>Production</b>			
Oil & Liquids (mb/d)	0.3	3.2	32.5
Natural Gas (mmcf/d)	0.0	0.0	0.0
mboe/d (6:1)	0.3	3.2	32.5
Production Growth	nmf	1093%	905%
Gas Production Ratio	0%	0%	0%
<b>Financial Results</b>			
Cash Flow (\$mm)	0.0	27.2	364.9
CFPS (C\$/sh)	\$0.00	\$0.15	\$2.00
EPS (C\$/sh)	-\$0.13	(\$0.00)	\$0.97
<b>Multiples</b>			
EV/Boe (\$)	30.65		
EV/Boe/d (\$m)		349.2	34.7
<b>Unit Analysis - \$/boe</b>			
Revenue	70.69	55.84	55.99
Royalties	(2.14)	(0.72)	(0.07)
Operating Costs	(40.58)	(9.09)	(8.00)
Operating Netback	27.97	46.02	47.91
G&A	(69.06)	(6.78)	(0.67)
Interest	0.00	(16.16)	(1.54)
<b>Netback (\$/boe)</b>	<b>(41.09)</b>	<b>23.08</b>	<b>45.70</b>
<b>Capital Structure</b>			
Net Debt (\$mm)	(89.1)	188.7	23.8
Debt/CF	nmf	nmf	0.1x
Capex (\$mm)	12.0	305.0	200.0
Capex/CF	nmf	11.2x	0.5x

Reserve Information	2004A	2005A
<b>Proven Reserves (boe @ 6:1)</b>		
Oil (mmb)	11.6	24.6
Gas (bcf)	0.0	0.0
Total Proven (mmboc)	11.6	24.6
<b>P+P Reserves</b>		
Oil (mmb)	20.9	36.8
Gas (bcf)	0.0	0.0
Total P+P (mmboc)	20.9	36.8

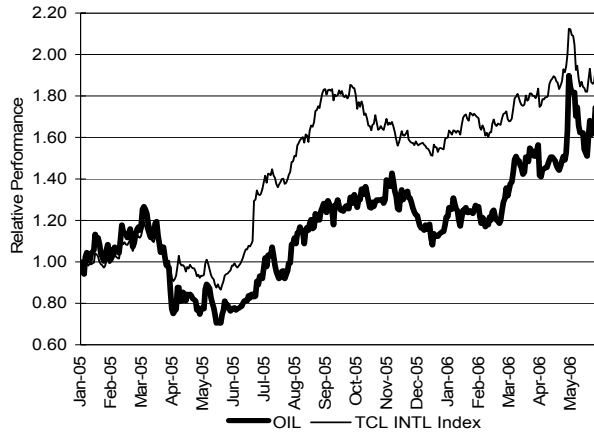
**Core Area Map**

**OILEXCO (OIL:T, OIL:LN)**

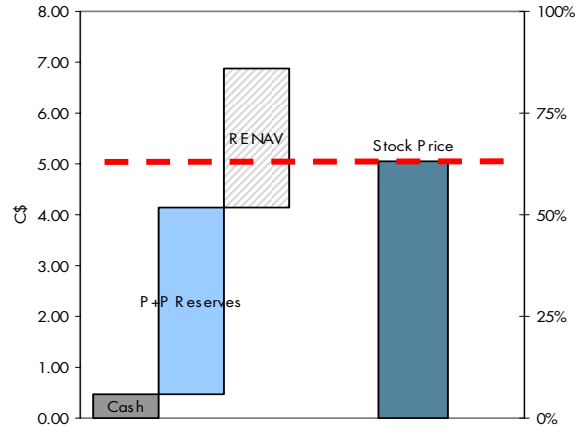
www.antrimenergy.com

Analyst: Toby Pierce

**Oilexco vs. Tristone Capital International Index**



**Oilexco RENA V vs Share Price**



**Net Asset Value (June 2006)**

	Flat Pricing		Strip Pricing	
	\$mm	\$/sh	\$mm	\$/sh
<b>Reserves* (10% AT)</b>				
Proven	414.8	1.95	468.9	2.21
Probable	206.7	0.97	233.6	1.10
P+P Reserves	621.5	2.93	702.5	3.31
Undeveloped Land (US)	0.9	0.00	0.9	0.00
Cash/(Net Debt)	89.1	0.42	89.1	0.42
Option Proceeds	44.5	0.21	44.5	0.21
Total Net Assets (US\$ mm)	755.9	3.56	837.0	3.94
FD Shares O/S (mm)		212.4		212.4
Core Net Asset Value		4.23		4.61
Risked Exploration Value		1.59		1.59
<b>RENAV (US\$)</b>		<b>5.81</b>		<b>6.20</b>
Current Price/RENAV		78%		73%

**Key Management**

Arthur Millholland, P. Geol.	President & CEO
Brian Ward, CFA	VP Finance & CFO
Gerald Roe	COO
Rod Christensen, P. Geol.	VP Exploration
David Marshall	General Mgr, North Sea

**Board of Directors**

John Cowan	President of Xtivity
W. Fraser Grant	Independent Businessman
William H. Smith	Partner with McCarthy Tétrault
Kevin Burke	Independent Businessman
Brian Ward, CFA	VP Finance & CFO
Arthur Millholland	President & CEO

**Insider Ownership**

**13%**

\* as at 31 Dec. 2005

Note: Flat Price = US\$50 long term

Price Assumptions	2005	2006	2007
Crude Oil - WTI (US\$/b)	56.56	65.32	62.00
Crude Oil - Brent (US\$/b)	55.18	64.54	60.50

**Major Shareholders**

Merrill Lynch Investment Managers	15.0%
Meditor Capital Mgmt	8.1%
American Funds Small Cap	5.2%
Fidelity Intl Small Cap Fund	3.0%
Canada Pension Plan	1.8%

**Risked Exploration NAV**

Project/Prospect	Gross Res. Potential (mmboe)	Working Interest (%)	Costs Paid (%)	Gross Well Costs (USD mm)	P.O.S. (%) <sup>1</sup>	Capital at Risk (\$US mm) <sup>2</sup>	Value/Boe (\$US/Boe) <sup>2</sup>	EMV (\$US mm) <sup>3</sup>	\$US/sh (FD)	\$C/sh (FD)	£/sh (FD)	Unrisked Value (US\$/sh) <sup>4</sup>
Brenda/MacCulloch Upside	15.0	100%	100%	30	70%	9.0	\$ 15.00	149	0.70	0.78	0.38	1.06
Blackhorse	12.0	40%	60%	25	50%	7.5	\$ 8.00	12	0.06	0.06	0.03	0.18
Shelley (Paleocene)	30.0	100%	100%	12	20%	9.6	\$ 11.00	56	0.27	0.30	0.14	1.55
Shelley (Jurassic)	100.0	100%	100%	20	5%	19.0	\$ 11.00	36	0.17	0.19	0.09	5.18
Yeoman	40.0	2.5%	2.5%	15	20%	0.3	\$ 8.00	1	0.01	0.01	0.00	0.04
Kildare (15/26b)	42.0	50%	50%	15	25%	5.6	\$ 11.00	52	0.25	0.27	0.13	1.09
Laurel Valley	40.0	45%	75%	15	20%	9.0	\$ 11.00	31	0.14	0.16	0.08	0.93
Total Risked Upside	279.0							<b>337</b>	<b>1.59</b>	<b>1.76</b>	<b>0.85</b>	10.03

Notes

- P.O.S. - Probability of Success - Includes all risk factors such as geological, political etc
- Value/Boe - Includes proximity to established infrastructure, development capex required & oil quality
- EMV - Expected Monetary Value - a risk weighted value. EMV= (Reward\*P.O.S.) · [Capital at Risk\*(1-P.O.S.)]
- Unrisked Value - Refers to the value Oilexco could potentially realize if success was achieved on prospect.

**Fully Diluted Shares O/S (mm)** **212.4**  
**CDN/USD** **1.11**  
**GBP/USD** **0.54**

## Revus Energy (REVUS NO)

[www.revus.no](http://www.revus.no)

Analyst: Peter Nicol

<b>Recommendation:</b>	<b>MO</b>	<b>Market Cap (US\$mm):</b>	<b>295.1</b>	<b>12 Month Target:</b>	<b>NOK80.0</b>
<b>Basic Shares O/S (mm):</b>	<b>33.0</b>	<b>Ent. Value (US\$mm):</b>	<b>268.1</b>	<b>Current Price:</b>	<b>NOK55.0</b>
<b>Fully Diluted Shares (mm):</b>	<b>33.0</b>	<b>52 Week Range:</b>	<b>38.7 - 66.25</b>	<b>Expected Return:</b>	<b>45%</b>

### Profile

Revus Energy is an independent upstream oil and gas company focussed on unlocking upside potential and accessing untapped opportunities in mature areas of the Norwegian Continental Shelf (NCS), by applying its core competencies of reservoir expertise and business development.

Revus listed on the Oslo Stock Exchange in Jun '05 raising NOK 250 mm with a full exit by the venture capital owners 3i and Energivekst. The company has a balanced portfolio ranging from production to development, appraisal and exploration assets.

### Outlook & Valuation

While the share price reflects a considerable premium of almost 100% to our risked core asset value, the P/RENAV of 68% indicates the potential risked upside to the stock price driven by Revus' considerable and varied portfolio of development, appraisal and exploration assets. The core value comprises of Revus' producing assets of Murchison, Veslefrikk and Brage as well as the soon to be on production Blammanen, which dominates this asset class due to Revus' high equity interest. The majority of the upside in the RENAV emanates from the development assets - Astero, Fram B and Yme - as well as the Lie and Luno exploration interests. The latter two projects hold significant hydrocarbon potential and represent considerable upside to the portfolio as they move forward and are gradually de-risked. Oselvar, currently at the appraisal stage, represents less upside due to the smaller resource potential of the asset, but also less risk as it is further advanced as a project.

### Operational Update

Revus' production activities came in 4% below expectations in Q1/06 mainly due to deferred well activities on Veslefrikk after a lengthy shutdown last summer. Reservoir penetration on Blammanen was delayed due to remedial work on Murchison and is now expected by Jul '06 with test production a month later.

The next 12 months will see considerable activity on progressing Revus' development and appraisal portfolio. Evaluation of the Yme redevelopment project continues with preliminary selection from 4 development concepts expected anytime and PDO submission scheduled for Q4/06. Fram B is to be developed as a tie-back to Gjoa in conjunction with the nearby Belinda and Camilla fields, as announced in Feb '06. Prior to that, Revus is working towards final concept selection and PDO submission by end '06. In order to scope the full size of the Astero discovery - Revus' first exploration well - a well is expected in 2H/06 for which a drilling rig has been selected. Oselvar requires further appraisal to determine commerciality of the field prior to any development scenario discussion, and a well is scheduled for Q2/07, utilising the Maersk Guardian jack-up rig.

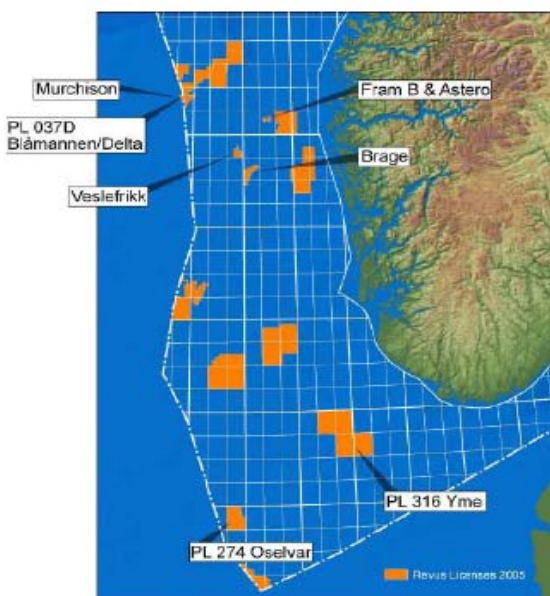
The Bedford Dolphin rig has been booked for drilling on the Lie and Luno prospects in 2H/06, while 3D seismic and technical work is planned on Revus' first operated license (PL 378).

Revus increased its license interests in Q1/06 through farm-ins to Lundin's 338 license and Idemitsu's PL 377S, and a 19th round award for PL 372BS in partnership with BG. The latter complements adjacent acreage for both partners in PL 372S.

Summary Information (US\$)	2005A	2006E	2007E
<b>Production</b>			
Oil & Liquids (mb/d)	2.6	2.3	8.3
Natural Gas (mmcf/d)	0.3	0.9	0.9
mboe/d (6:1)	2.7	2.4	8.4
Production Growth	<i>nmf</i>	-10%	250%
Gas Production Ratio	2%	6%	2%
<b>Financial Results</b>			
Cash Flow (\$mm)	9.5	24.5	56.9
CFPS (NOK/sh)	2.3	4.5	10.2
EPS (NOK/sh)	0.2	2.4	6.5
<b>Multiples</b>			
EV/Boe (\$)	4.79		
EV/Boe/d (\$m)		111.9	31.9
<b>Unit Analysis - \$/boe</b>			
Revenue	51.97	63.45	60.49
Royalties	0.00	0.00	0.00
Operating Costs	(36.62)	(21.59)	(14.73)
Operating Netback	15.35	41.86	45.76
G&A	(5.13)	(3.62)	(1.78)
Interest	0.24	2.79	2.12
<b>Netback (\$/boe)</b>	<b>10.46</b>	<b>41.03</b>	<b>46.10</b>
<b>Capital Structure</b>			
Net Debt / (Cash) (\$mm)	(28.7)	(29.7)	(31.8)
Debt/CF	(3.0)x	(1.2)x	(0.6)x
Capex (\$mm)	12.1	24.0	54.7
Capex/CF	1.3	1.0	1.0

Reserve Information	2004A	2005A
<b>NPD Classification System</b>	mmboe	mmboe
Class 1 - 3	2.70	6.60
Classes 4, 5, 7	11.70	56.50
<b>Total Reserves</b>	<b>14.40</b>	<b>63.10</b>
<i>Of which:</i>		
<b>Reported 2P reserves</b>	<b>12.00</b>	<b>56.00</b>

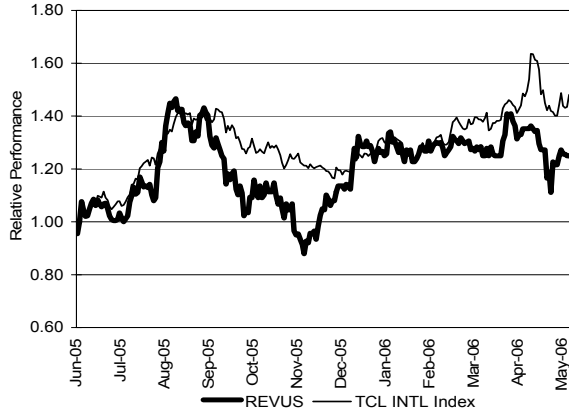
### Core Area Map



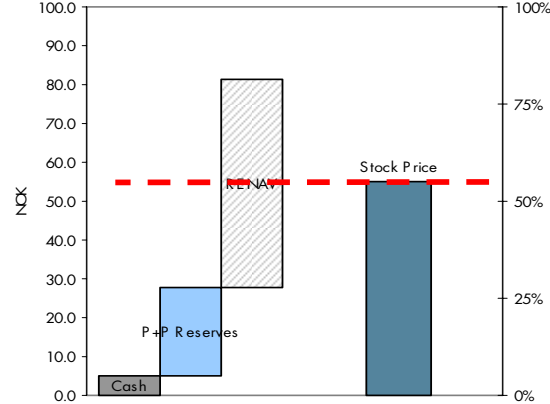
**Revus Energy (REVUS NO)**

Analyst: Peter Nicol

**Revus vs. Tristone Capital International Index**



**Revus RENAV vs Share Price**



**Net Asset Value (June 2006)**

	Total mmboe	Value <sup>2</sup>		
		US\$mm	US\$/sh	NOK/sh
<b>Reserves* (10% AT)</b>				
Core Reserves	17.06	122.11	3.70	22.7
Cash/(Net Debt)		27.06	0.82	5.0
<b>Core Net Asset Value</b>	<b>17.06</b>	<b>149.16</b>	<b>4.52</b>	<b>27.8</b>
Risked Upside <sup>1</sup>	61.23	287.84	8.71	53.6
<b>RENAV</b>	<b>78.29</b>	<b>437.00</b>	<b>13.23</b>	<b>81.4</b>
Current Price/RENAV				68%

\* as at 31 Dec. 2005

<sup>1</sup> Tristone risked estimates of development, appraisal and exploration assets

<sup>2</sup> Per share values calculated on Fully Diluted Shares. Options above a certain price not considered

Note: Flat Price = US\$50 long term

Price Assumptions	2005	2006	2007
Crude Oil - WTI (US\$/b)	56.56	65.32	62.00
Crude Oil - Brent (US\$/b)	55.18	64.54	60.50

**Key Management**

Harald Vabø	Chief Executive Officer
Tim Sullivan	Deputy CEO & Bus. Dev. Manager
Geir Hjellvik	Chief Financial Officer
Svein Ilebakk	Exploration Manager
Ellen Braune	Operations/HSE Manager
Eivind Torheim	Production & Development Manager

**Board of Directors**

Dr Andrew Armour	Executive Chairman
Live Haukvik Aker	Non-Executive
Knut Brundtland	Non-Executive
Sir Graham Hearne	Non-Executive
Malcolm Thoms	Non-Executive
Vibeke Strømme	Non-Executive

**Insider Ownership**

**15.8%**

**Major Shareholders (exc. nominee a/c's)**

Toma Finans AS (largely employee owned)	13.2%
JPMorgan Chase Bank	4.3%
Fidelity	3.3%
Armour Andrew Richard	2.6%
Skandinaviska Enskil	2.1%

**Revus Energy Valuation**

Assets	Type <sup>3</sup>	Location	Working Interest	Farmed Down Interest <sup>4</sup>	Net Recoverable Reserves / Resources (mmboe)		Price per boe	Risked Value	Risked Value/sh	Risked Value/sh	Unrisked Value	Risked Value/sh	Risked Value/sh
					Unrisked	Risked							
					US\$/b	US\$/mm							
Murchison	P	Norway	10.68%	10.68%	2.59	2.59	6.23	16.15	0.49	3.0	16.15	0.49	3.0
Veslefrikk	P	Norway	4.50%	4.50%	5.24	5.24	6.87	36.01	1.09	6.7	36.01	1.09	6.7
Brage	P	Norway	2.50%	2.50%	1.86	1.86	6.36	11.79	0.36	2.2	11.79	0.36	2.2
Blåmannen (PL 037D)	D	Norway	78.13%	78.13%	8.59	7.37	8.00	58.15	1.76	10.8	67.95	2.06	12.7
Astero (PL 090B)	D	Norway	25.00%	25.00%	12.50	8.55	6.66	56.66	1.72	10.5	82.96	2.51	15.4
Fram B (PL 090C)	D	Norway	25.00%	25.00%	14.50	12.43	4.44	55.07	1.67	10.3	64.25	1.95	12.0
Yme (PL 316)	D	Norway	20.00%	20.00%	13.30	9.10	6.01	54.45	1.65	10.1	79.71	2.41	14.8
Upside on Producing assets	D	Norway	various	various	4.27	3.10	6.01	18.64	0.56	3.5	25.65	0.78	4.8
Upside on Blåmannen and Yme	D	Norway	various	various	8.79	0.92	3.73	3.44	0.10	0.6	32.79	0.99	6.1
Oselvar (PL 274)	A	Norway	30.00%	30.00%	6.00	2.43	5.46	12.64	0.38	2.4	32.15	0.97	6.0
Lie	E	Norway	30.00%	30.00%	21.00	6.35	3.73	22.95	0.69	4.3	77.62	2.35	14.5
Luno	E	Norway	30.00%	30.00%	37.50	11.34	3.73	41.57	1.26	7.7	139.20	4.21	25.9
Exploration Portfolio <sup>4</sup>	E	Norway	various	various	28.16	7.00	3.20	22.42	0.68	4.2	101.39	3.07	18.9
Cash								27.06	0.82	5.0	27.06	0.82	5.0
<sup>3</sup> Total					<b>164.30</b>	<b>78.29</b>	<b>5.58</b>	<b>437.00</b>	<b>13.23</b>	<b>81.4</b>	<b>794.69</b>	<b>24.06</b>	<b>148.0</b>

<sup>4</sup> Tristone assumptions - farmed-down with a benefit of 3 for 2 on well costs. In Revus' case this is only in relation to certain selected assets within the exploration portfolio

**WHAM Energy plc (WAM LN)**[www.whamenergy.com](http://www.whamenergy.com)

Analyst: Peter Nicol

<b>Recommendation:</b>	<b>MP</b>	<b>Market Cap (US\$mm):</b>	<b>26.8</b>	<b>12 Month Target:</b>	<b>44.5p</b>
<b>Basic Shares O/S (mm):</b>	<b>31.7</b>	<b>Ent. Value (US\$mm):</b>	<b>10.5</b>	<b>Current Price:</b>	<b>44.5p</b>
<b>Fully Diluted Shares (mm):</b>	<b>34.5</b>	<b>52 Week Range:</b>	<b>35.5 - 113.5</b>	<b>Expected Return:</b>	<b>0%</b>

**Profile**

WHAM Energy is a UK based exploration company focused on gas plays in the Central and Southern North Sea basins. It aims to provide investors with exposure to a high-impact pure exploration play by taking material positions at the exploration phase in both structural and stratigraphic plays that are either under-explored or immaterial to the majors, and then look to monetise value through farm-outs at the appraisal and development stages. The management team is technically strong with in-depth knowledge of, and extensive exposure to, its areas of operation. WHAM was formed in Mar '03 and listed on AIM in Sep '05, raising £9.1mm.

**Outlook & Valuation**

While WHAM's portfolio of assets, even on a risked basis, provides considerable resource potential, the company has yet to fulfill its strategy of being a successful explorer in the North Sea. It has so far drilled one of its prospects - Prometheus West - which was plugged and abandoned as a dry hole. As a result, our core value is formed solely of the cash on the balance sheet, to which WHAM currently trades at a considerable premium of approximately 80%. A P/RENAV of 43%, however, suggests considerable potential upside within the portfolio, even on a risked and assumed farm-down basis. That upside is driven primarily by the Morpheus & Hypnos block, which also contains the mapped Endymion lead. Another license with considerable prospectivity and impact on the value is P1233. Located close to the Garrow field, under development by ATP, the license contains both structural and stratigraphic play types. WHAM represents, as is its stated aim, a potential high-impact exploration play, which by its very nature is risky, but is able to provide, on the flip side, the potential for significant value accretion.

**Operational Update**

Apart from the drilling of Prometheus West which was plugged and abandoned as dry, WHAM's operational activities have been focussed on expanding its exploration portfolio through participation in the 22nd and 23rd licensing rounds, identifying new prospects and leads, and highgrading the existing ones.

WHAM also qualified as an exploration operator in block 47/12, which is a promote license. WHAM will operate with a 90% interest with GTO Ltd as partner. The block, located off the Yorkshire coast, lies adjacent to the Humber estuary between the onshore Saltfleetby gas field and the offshore Amethyst gas field. In Jun '06, WHAM is scheduled to commence a seismic survey of the 47/12 prospect area, which it anticipates to have mapped by Oct '06.

Ongoing is also an active farm-out programme that, if successful, will allow WHAM to continue to test its prospects while greatly reducing the cost and risk of a dry hole. This was the case with Prometheus West where WHAM was carried by Centrica for the cost of the well to a certain depth. Data rooms for ongoing potential farm-outs were opened in Apr '06 and relate to the 22nd round licenses.

Management has also been keen to increase the level of in-house expertise and after appointing, Alan Thomas as Finance Director in NOV '05 has now appointed Dr. Andrew Mortimer (ex Eni and LASMO) as Exploration Manager.

Summary Information	2005A	2006E	2007E
<b>Production</b>			
Oil & Liquids (mb/d)	0.0	0.0	0.0
Natural Gas (mmcf/d)	0.0	0.0	0.0
mboe/d (6:1)	0.0	0.0	0.0
Production Growth	0%	0%	0%
Gas Production Ratio	0%	0%	0%
<b>Financial Results</b>			
Cash Flow (\$mm)	na	na	na
CFPS (p/sh)	na	na	na
EPS (p/sh)	na	na	na
<b>Multiples</b>			
EV/Boe (\$)	nmf		
EV/Boe/d (\$m)		nmf	nmf
<b>Unit Analysis - \$/boe</b>			
Revenue	na	na	na
Royalties	na	na	na
Operating Costs	na	na	na
Operating Netback	na	na	na
G&A	na	na	na
Interest	na	na	na
<b>Netback (\$/boe)</b>	<b>na</b>	<b>na</b>	<b>na</b>
<b>Capital Structure</b>			
Net Debt / (Cash) (\$mm)	(17.6)	(17.6)	(17.6)
Debt/CF	na	na	na
Capex (\$mm)	na	nmf	nmf
Capex/CF	na	na	na

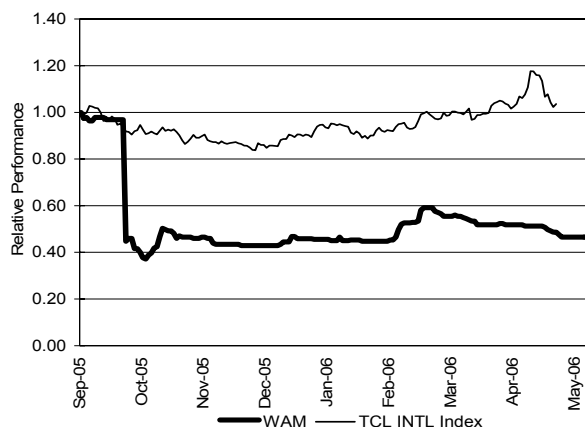
Reserve Information	2004A	2005A
<b>Proven Reserves (boe @ 6:1)</b>		
Oil (mmb)	0.0	0.0
Gas (bcf)	0.0	0.0
Total Proven (mmboe)	0.0	0.0
<b>P+P Reserves</b>		
Oil (mmb)	0.0	0.0
Gas (bcf)	0.0	0.0
Total P+P (mmboe)	0.0	0.0

**Core Area Map**

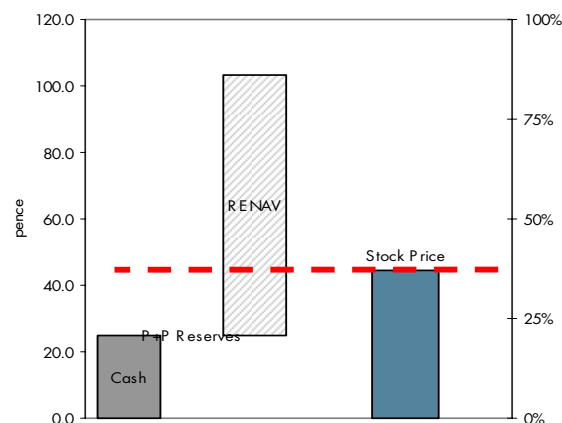
## WHAM Energy plc (WAM LN)

Analyst: Peter Nicol

## Wham vs. Tristone Capital International Index



## Wham RENA V vs Share Price



## Net Asset Value (June 2006)

Reserves* (10% AT)	Total mmboe	Value <sup>2</sup>		
		US\$m	US\$/sh	p/sh
P+P Reserves				
Cash/(Net Debt)		16.34	0.47	24.9
<b>Core Net Asset Value</b>	<b>-</b>	<b>16.34</b>	<b>0.47</b>	<b>24.9</b>
Risked Upside <sup>1</sup>	6.96	48.79	1.41	74.4
Options related cash		2.61	0.08	4.0
<b>RENAV</b>	<b>6.96</b>	<b>67.73</b>	<b>1.96</b>	<b>103.3</b>

Current Price/RENAV 43%

\* as at 31 Dec. 2005

<sup>1</sup> Tristone risked estimates of development, appraisal and exploration assets<sup>2</sup> Per share values calculated on Fully Diluted Shares. Options above a certain price

not considered

Note: Flat Price = US\$50 long term

Price Assumptions	2005	2006	2007
Crude Oil - WTI (US\$/b)	56.56	65.32	62.00
Crude Oil - Brent (US\$/b)	55.18	64.54	60.50

## Wham Valuation

Assets	Type <sup>3</sup>	North Sea Location	Working Interest %	Farmed Down Interest <sup>4</sup>	Net Recoverable Reserves / Resources (mmboe)		Price per boe US\$/b	Risked Value US\$/mm	Risked Value/sh US\$/sh	Risked Value/sh p/sh	Unrisked Value US\$/mm	Unrisked Value/sh US\$/sh	Unrisked Value/sh p/sh
					Unrisked	Risked							
					Core value: net cash								
Morpheus	E	UK CNS	40.00%	20.00%	8.57	2.31	4.47	10.33	0.30	15.8	46.58	1.35	71.0
Exploration Portfolio <sup>4</sup>					39.20	4.65	8.28	38.45	1.11	58.6	399.93	11.59	610.0
Options-related cash								2.61	0.08	4.0	2.61	0.08	4.0
<b>Total</b>					<b>47.77</b>	<b>6.96</b>	<b>9.73</b>	<b>67.73</b>	<b>1.96</b>	<b>103.3</b>	<b>465.45</b>	<b>13.49</b>	<b>710.0</b>

<sup>3</sup> P = Production, NP = Near Term Production, D = Development, A = Appraisal, E = Exploration<sup>4</sup> Tristone assumptions - farmed-down with a benefit of 3 for 2 on well costs

## Key Management

Tom Windle	Chief Executive Officer
Peter Barnes	Director of Engineering
Michael Jarvis	Commercial Director
Alan Thomas	Finance Director
Nigel Essex	Admin. and Economics Director
Andy Mortimer	Exploration Manager

## Board of Directors

Michael Pavia	Chairman
Adrian Turner	Non-executive Director
Tom Windle	Chief Executive Officer
Peter Barnes	Director of Engineering
Michael Jarvis	Commercial Director
Alan Thomas	Finance Director
Nigel Essex	Admin. and Economics Director

## Insider Ownership 20.4%

## Major Shareholders

Hassan, Adrian & Elke Ahmed	15.3%
Artemis Investments	10.0%
David Marsden	8.8%
Perry Partners	8.8%
Credit Suisse Securities	5.3%

## Appendix A – Assumptions and RENA V Methodology

We have used Tristone Capital's current assumptions on oil prices (Exhibit 32).

### Exhibit 32: Oil Price Assumptions

#### Tristone Strip Prices

Crude Oil		2005	2006	2007	2008+
WTI	US\$/b	56.56	65.30	62.00	62.00
Brent	US\$/b	55.18	64.52	60.50	60.50

#### Tristone Flat Prices

Crude Oil		2005	2006	2007	2008+
WTI	US\$/b	56.56	50.00	50.00	50.00
Brent	US\$/b	55.18	48.50	48.50	48.50

Source: Tristone Capital, Bloomberg

For Natural Gas prices, we have assumed that prices trade on an energy content equivalent with oil prices. Gas prices on the European continent remain linked by formulas to competing fuels – predominately oil. In the UK, historic long term gas prices can be tied to various formulae with either inflation or oil indexation. However these legacy contracts have little impact on the companies covered in this report. From the mid 1990s until the last year, there was a period of gas to gas competition in the UK market with gas price realisations at a discount to their oil equivalent. The past winter and the forward prices for the next winter show gas prices trading at a premium to oil as the market anticipates further winter peaks and tightness in supplies. There are thus opportunities for some companies to sell gas only in the winter period in an attempt to maximise NPV.

The debate over the medium to longer term future for gas prices in the UK market is over the impact of the new supplies from Ormen Lange and the various new LNG import terminals currently under construction (Exhibit 8). However it seems unlikely that with the UK a net importer and tied to a larger market (Continental Europe) where gas prices remain linked to oil and most likely won't diverge greatly on average from this trend.

### Valuation Methodology

Of the 12 companies we have initiated coverage, only 5 have current production and hence our valuation methodology has to be based on estimating what the companies' potential asset value could be and what a fair value for that is today given the inherent risks in the exploration business. For 5 of the companies in this review, the main or the majority of the existing asset value today, is the cash on the balance sheet demonstrating how young these businesses are. However it is the ability of one well to transform the value of these companies which is their inherent attraction.

Our valuation approach has been to calculate a core asset value for the company based on its known 2P reserves (using an SPE definition of reserves we exclude resources) adjusted for its net cash or debt position. We have built an economic model to estimate the NPV of the full field developments using known parameters where possible. Where these are not available, we have modelled developments based on analogous fields in the North Sea.

We use a fully diluted share capital taking into account potential options or warrants, but we only include the cash proceeds to the company where the resulting shares would be in the money. In taking this approach, we are trying to estimate a “downside” case for the company on how much cash it has and how long it can continue its business model on its existing resources, but what would be the value to the shareholder in the event of a takeover.

We identify the potential upside for each company and classify this as our estimated RENAVAL (Risky Exploration Net Asset Value) valuation. This includes any resources that the company has or the potential for reserves upside. We have not included a generic reserves increase or a move from 2P to 3P reserves, but only reserve/resource potential increases, where these have been publicly identified elsewhere and there appears to be a genuine dispute over the ultimate recoverable resource/reserve. As a result this only affects one or two companies in our review (Granby Oil and Gas predominately) and the vast majority of the upside value in our RENAVAL is derived from our attempts to value the companies exploration and appraisal portfolios.

We have used a risky expected monetary value approach in estimating a potential value of each of the company’s exploration portfolios. This approach is normally a more effective tool in ranking prospects than in putting an absolute value on them due to the inherent uncertainty of the assumptions for any individual prospect.

We have made one highly significant assumption in calculating our RENAVAL and which is subjective on our part. In most instances we have assumed that companies will farm down their interests and so have calculated our RENAVAL on our view of what the company’s likely remaining net interest will be and have credited the company with the associated reduction in drilling costs. This approach may undervalue the companies’ exploration portfolios, but we believe it is more realistic and reflects the likely risk mitigation that each company’s management will carry out. In doing so we are trying to anticipate the likely growth of each company as a going concern and the actions that will be taken to ensure that the exploration portfolio can be evaluated. On a simplistic level, the expected monetary value would tell investors and company managements to drill each well on a 100% equity basis. However in practice we believe that this is unrealistic. We suspect that investors would be unwilling to continually finance a management team where there had been a string of dry holes regardless of whether the exploration play had been proved or disproved. Secondly in many instances, bringing partners into a prospect provides some checks and balances for the management team and that the explorationists natural optimism and enthusiasm for the prospect (otherwise they would not want to drill it) is challenged and tested by other partners with different interpretations. Finally we are also cognisant of the fact that farm-in terms tend to reflect

costs and not potential value. For many smaller companies farming out the prospect will significantly increase the probability of the well being drilled at all and hence can be seen as an increase in value through de-risking the prospect. However were we not to take this approach, there would be a danger that our RENAV values would be overstated and would have to be reduced on each occasion when a company took a sensible economic/strategic decision to bring in a partner to mitigate its risk.

### **Tristone assumptions on North Sea Exploration**

In valuing the exploration programmes we have reviewed the available data from sources such as the AIM Competent Person's Report, the Management Discussion and Analysis and from company presentations and third party sources where available. However many of the prospects that are being evaluated have come from larger companies who either believe that the prospects are non material or else fail to be attractive within their larger portfolio of opportunities.

Beauty is in the eye of the beholder and the companies who have picked up these prospects believe that the sellers or divesters have missed something in their interpretation of the prospect. The history of the industry is littered with companies making a success of another company's relinquished acreage. However this means that in many instances there is no hard third party data to corroborate the company's view.

In our valuation for these companies, therefore, we have had to make some general assumptions regarding North Sea exploration, and then adjust them for individual assets where there is specific information we can take further guidance from. These assumptions relate to estimated Probabilities of Success (P.O.S) and expected Lead Times for projects, based on patterns observed historically in the area. We have further refined these assumptions by adjusting them for individual areas within the North Sea. Our views are based on the views of consultants such as Wood Mackenzie and Hannon & Westwood, and the extensive experience in this region of Tristone Capital's International Acquisition and Divestment team.

Our P.O.S., at 30%, is highest for the Southern North Sea (SNS) as this is an area that has generally been the most prolific in proving up hydrocarbon accumulations and bringing them on stream into commercial production. Geological risk also tends to be lower for gas than oil, and the SNS is a gas prolific basin. Lead times for this area are also the lowest, with 2 years being the average time it takes from spudding a well to bringing it on stream, if successful. This is, in part driven by factors such as extensive existing infrastructure, easier climatic conditions and the presence of a large number of rigs in the SNS.

At the other end of the spectrum is the West of Shetlands (WOS) area or the Atlantic Margin, which would also include the Faroe Islands. Here P.O.S's are in the 5 to 10% range with lead times of up to 5 years reflecting the harsher conditions, the lack of historical exploration success in the area and the need in many cases to set up new infrastructure.

In between, lie the Central (CNS) and Northern North Sea (NNS) areas which have P.O.S. of between 10 and 25% and lead times of up to 3 years. Which end of the range you are in can depend on a number of factors, some of which include whether the prospect or acreage is a step-out to an existing field or well, whether it is located on a known playway and whether it is stranded or not. For Norway, we have assumed lead times of 5 years and a P.O.S. of between 10 and 20% depending on whether the play is in the Northern or Southern parts, respectively.

Our general well cost assumptions were derived from an extensive North Sea Study published by Hannon & Westwood in May 2006. Unless specific information has been available, average well costs are assumed at US\$15mm per well with Tristone assumed variations for onshore wells at US\$5mm, Faroe Islands at US\$47.5mm and Norway at approximately US\$16.5mm per well.

### Portfolio impacts on Exploration Success

The issue in investing in exploration is to avoid gambler's ruin, whereby the initial capital is wiped out merely by a normal run of bad luck. After some of the initial optimism in the UK AIM market over financing pure exploration plays, there has been some caution after a number of high profile disappointments.

Inevitably there is a question mark over the market's willingness to continue to fund such companies. The more sophisticated investors are taking a portfolio approach and balance the exploration risks of failure and success within their own fund. However this could leave a number of companies seeking funds on poorer terms. Equally if companies are seen to be short of cash it is likely that the terms that can be achieved on a farm out of its exploration interests will also be undermined.

Given the inherent risks in exploration – a 10% chance of success for a wildcat to a 30-50% chance of success for “lower” risk exploration and appraisal, companies must have a portfolio of prospects to avoid just rolling the dice on their financial future. With rising drilling costs, some companies will find that they do not have sufficient funds to embark on a two or three well campaign and farming down their interests will be integral to their business strategy.

### Exhibit 33: Number of Wells Required for Various Success Rates

Exploration Prospect Risk	5%	10%	20%	25%	30%	40%	50%
No of Wells for 50% chance of Success	14	7	4	3	2	2	1
No of Wells for 2:1 chance of Success	22	11	5	4	3	3	2

Source: Tristone Capital, Bloomberg

Even a company with a relatively low risk inventory with prospects with (independent) 30% chance of success will have to drill two wells just to have a 50-50 chance of success, drilling a third well for this company will give it a 2-1 chance of a success. Once higher risks prospects are drilled, then the number of wells required to have a 50:50 chance of success

starts to increase rapidly eg 7 wells for a 50:50 chance of success for exploration plays with a 10% POS and 11 wells to create a 2:1 chance of success (67%). (Exhibit 33)

## **Appendix B - Licensing**

### **Traditional Licenses**

These are the standard type of Seaward Production Licenses, making up the bulk of the c. 1200 Seaward Production Licenses issued as of 2004. Applicants must prove technical, environmental and financial capacity before being offered a Traditional License. Traditional Licenses run for three successive periods, or Terms:

The Initial Term lasts for four years; the License will only continue into a Second Term if the agreed Work Program has been completed and if 50% of the acreage has been relinquished. The Second Term also lasts for four years; the License will only continue into a Third Term if a development plan has been approved, and all the acreage outside that development has been relinquished. The Third Term lasts for 18 years.

### **Promote Licenses**

DTI has recognised a demand for new Seaward Production Licenses from companies that would not be able to compete in Traditional Licensing Rounds. In the 21st Round (2002) the concept of the 'Promote' Application was introduced.

The general concept of the 'Promote' License is that the Licensee will be given two years after award to attract the technical, environmental and financial capacity to complete an agreed Work Program. The way this is implemented is that each Promote License carries a "Drill-or-Drop" Initial Term Work Program. That means that it will expire after two years if the Licensee has not made a firm commitment to DTI to complete the Work Program (i.e. to drill a well). By the same point, it must also have satisfied DTI of its technical, environmental and financial capacity to do so.

In effect, DTI will defer (not waive) its financial, technical and environmental checks until a predetermined Check Point at two years. Obviously, Promote Licensees will not be allowed to carry out operations until they have met the appropriate criteria. Assuming the License continues into Years 3 and 4, the Work Program must be carried out before the end of the Initial term (i.e. within four years). As an illustration the DTI outlined a possible course of events:

Year 1 - Data purchase and evaluation;

Year 2 - Attract a new co-venturer who acquires an interest in the License (subject to DTI approval) and whose presence will satisfy DTI of the License group's financial and technical capacity;

Before the end of Year 2 - Submit a Report to DTI, make a Firm Drilling Commitment, and give DTI evidence of financial, technical and environmental competence; and, if DTI is content and the License continues:

Years 3 and 4 - complete the Work Program by drilling a well.

### **Frontier Licenses**

Certain areas of the United Kingdom Continental Shelf, like the deep waters west of the Shetlands, are particularly challenging areas for companies to operate in. Recognising this, DTI offers Production Licenses on 'Frontier' terms that are specially crafted to suit these conditions better.

The objective is to allow companies to screen large areas, potentially with greater materiality, for a brief period so they can look for a wider range of prospects.

A Frontier License is unusual in that what would be the Initial Term of a Traditional License is split into two Terms: the Initial Term and the Second Term (meaning that overall, the Frontier License has four terms instead of three). These first two Terms together last for six years (2+4). This is the period in which the Work Program must be completed if the License is to continue further.

The two-year Initial Term could be considered an additional Term for preliminary evaluation. The rental rates in these two years are low so that such Licenses are not prohibitively expensive even when they cover large areas. At the end of the Initial Term, though, there is a 75% relinquishment and subsequently the rentals are the same as those of a Traditional License. There is no requirement to have completed the Work Program, or any part of it, during the Initial term, though it is in the Licensee's interest to have done enough work to know which 75% of the Licensed Area to relinquish.

At the end of the Second Term, which falls four years later (i.e. when the License is six years old), the Work Program must have been completed and there is another mandatory relinquishment, this time of 50% of what is left (i.e. leaving one eighth of the original licensed area). In this sense, the end of a Frontier License's Second Term corresponds to the end of a Traditional License's Initial Term.

The Work Program will contain at least a drill-or-drop commitment.

We recognise that two years is a tight schedule even for a preliminary evaluation and in exceptional circumstances (e.g. where weather delays firm seismic acquisition planned in the

first year of the program, or where demonstrable prospectivity covers more than 25% of the license), we may consider requests to grant extra time on the Initial Term or accept only a 50% relinquishment. This is at DTI's discretion. It's also important to note that rentals in the third year will be at the full Year 3 rate, and that the second relinquishment would have to make up for any allowances granted on the first one - that is, the second relinquishment will still have to bring the area down to one-eighth of its original value and complete the Work Program in six years.

## **Appendix C – UK Fiscal Terms and Description**

### **Corporation Tax (CT) and Supplementary Charge (SCT)**

The combination of SCT and CT mean that all new fields developments are taxed at a minimum rate of 40%. Corporation Tax (CT) is applied to all company profits in the UK at a rate of 30%. However the CT regime applying to the oil and gas exploration and production industry is modified and extended, and production has been subject to two additional imposts:

### **Royalty and Petroleum Revenue Tax (PRT)**

The Supplementary Charge to Corporation Tax (SCT) was introduced at a rate of 10% in the April 2002 budget, which also saw the introduction of 100% First Year Allowances for UKCS capital expenditure. Since the introduction of 100% First Year Allowances, all costs are effectively tax deductible as incurred, with the exception of long life assets which secure a 24% First Year Allowance, and 6% of the remaining balance on a reducing balance basis.

Taxable profits derived from the extraction of oil and gas from the UKCS are also “ring fenced” so that losses from other activities cannot be offset against ring fenced profits. Also stringent rules are applied to ensure that only interest relating to UKCS projects is deductible within the ring fence. The taxable profit for SCT differs from CT in that finance costs are not deductible.

### **2005 Budget**

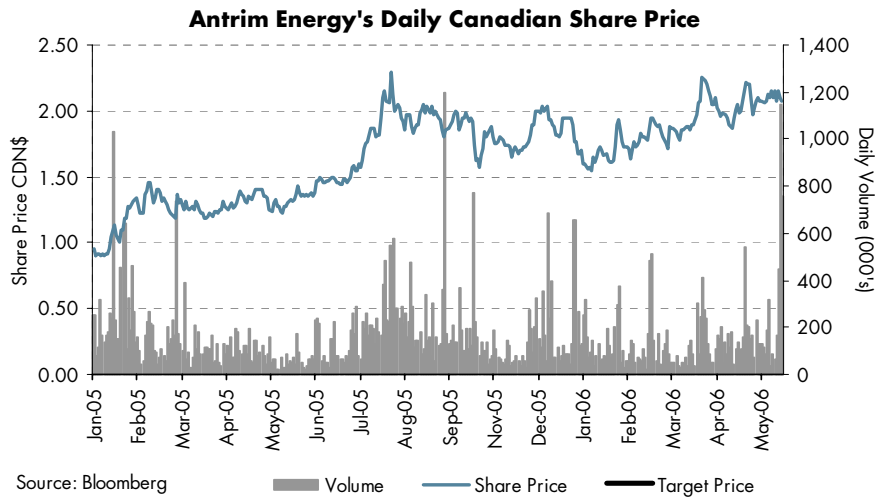
In the budget in March 2005 measures were announced to accelerate the payment of ring fenced Corporation Tax and Supplementary Charge from companies operating on the UKCS.

Previously, most companies made two quarterly payments during an accounting period and two after the end of the accounting period. As a result of the budget changes, oil and gas companies will now make two-thirds of their payments on account during the accounting period and the remaining one-third in the month after the end of the period. The measures accelerate tax payments of around £1 billion into Fiscal year 2005/06 but do not increase the overall rate of taxation. During the first accounting period ending after 30 June 2005 there is a transitional arrangement.

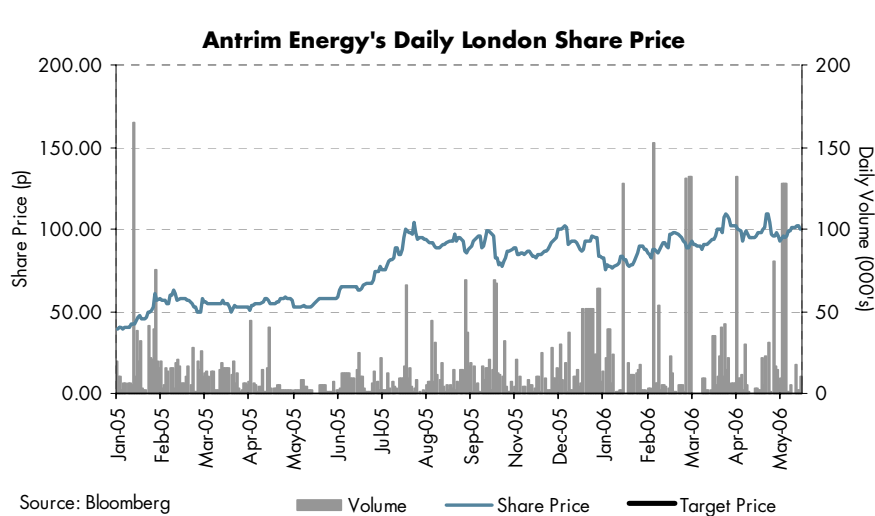
**Petroleum Revenue Tax (PRT)**

PRT is applied on all fields which received development consent before 16 March 1993, and to tariffs arrangements existing prior to 9 April 2003 which relate to pipeline systems and other facilities which in some part service a PRT paying field. Tariff contracts arranged on or after this date are exempt from PRT, as addressed in the Finance Act 2004. PRT raises the marginal tax rate to 70% for many oil and gas fields.

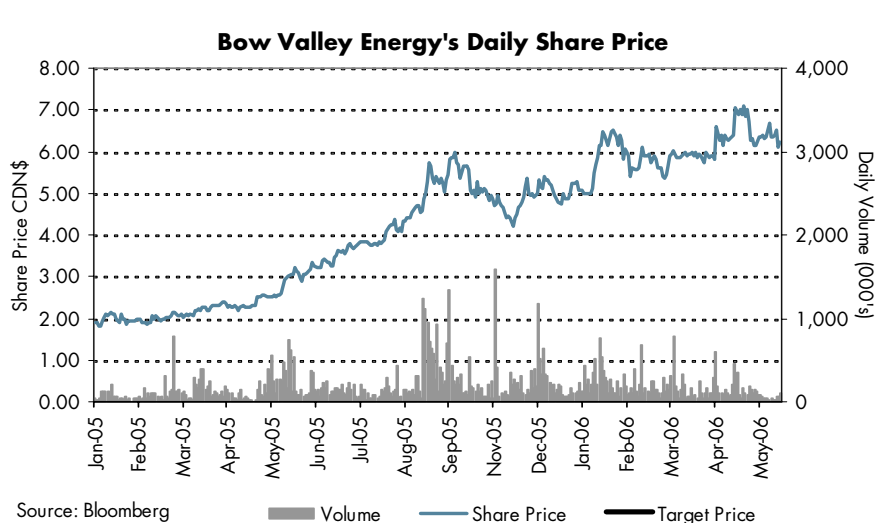
Disclosure Charts



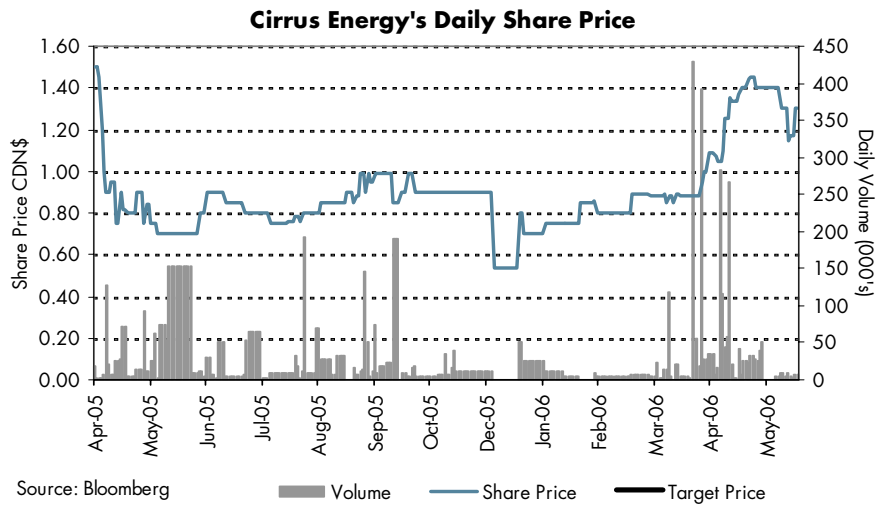
Change Summary		
Date	Rating	Target Price
07-Jun-06	Initiate at SOP	C\$2.75/130.0p



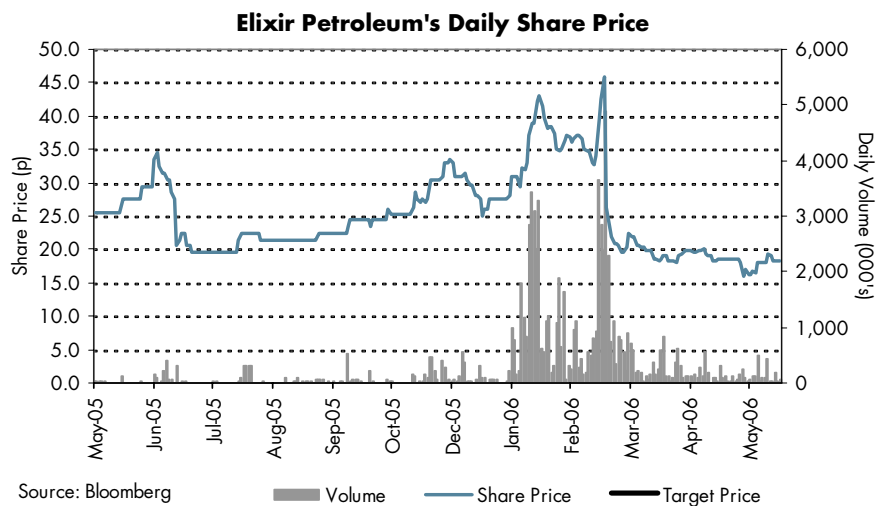
Change Summary		
Date	Rating	Target Price
07-Jun-06	Initiate at SOP	C\$2.75/130.0p



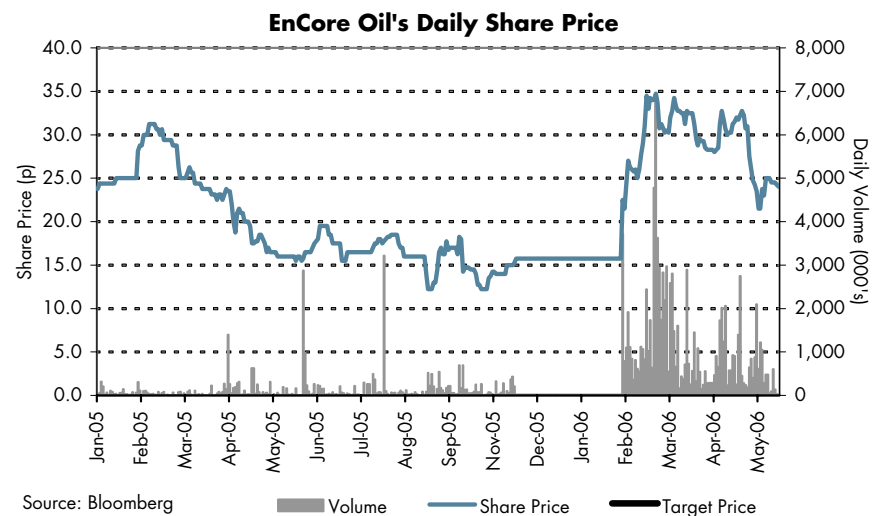
Change Summary		
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07-Jun-06	Initiate at OP	C\$8.00



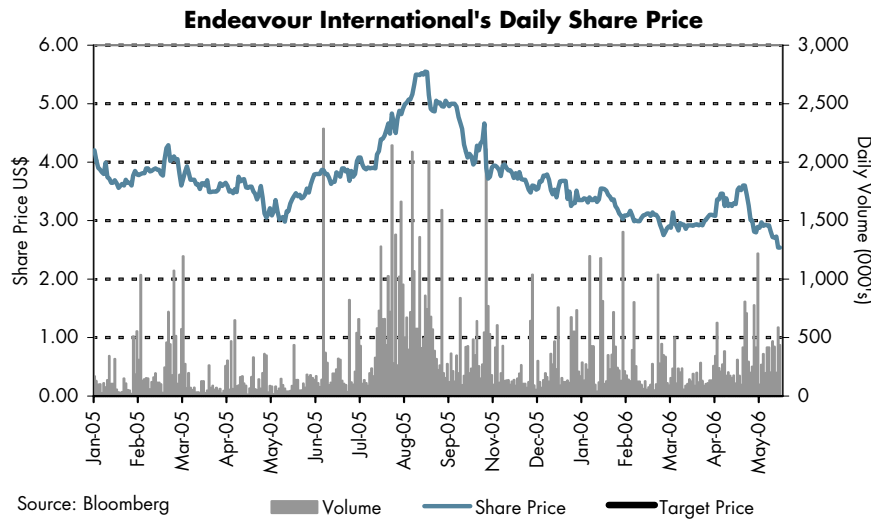
Change Summary		
Date	Rating	Target Price
07-Jun-06	Restricted	Restricted



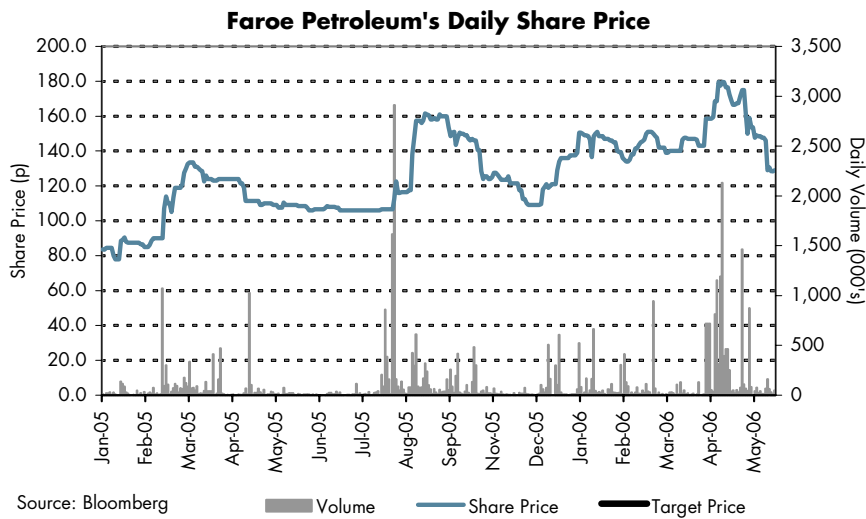
Change Summary		
Date	Rating	Target Price
07-Jun-06	Initiate at UP	14.0p



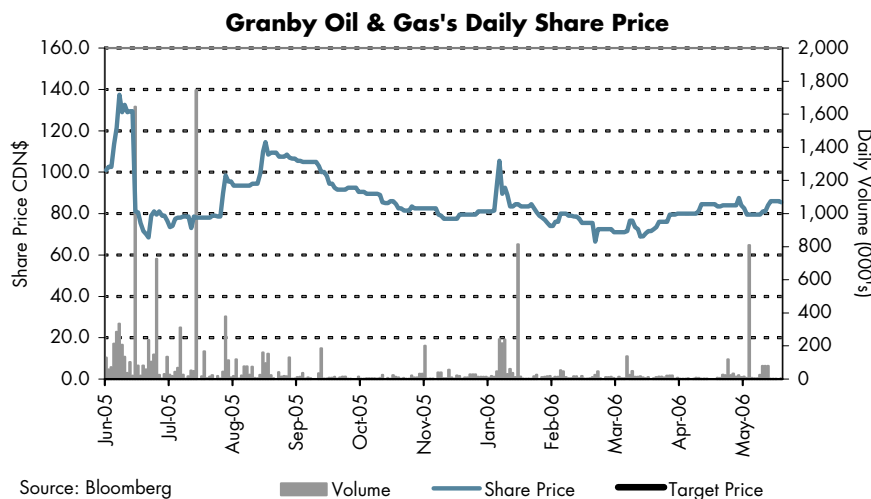
Change Summary		
Date	Rating	Target Price
07-Jun-06	Initiate at MP	24.0p



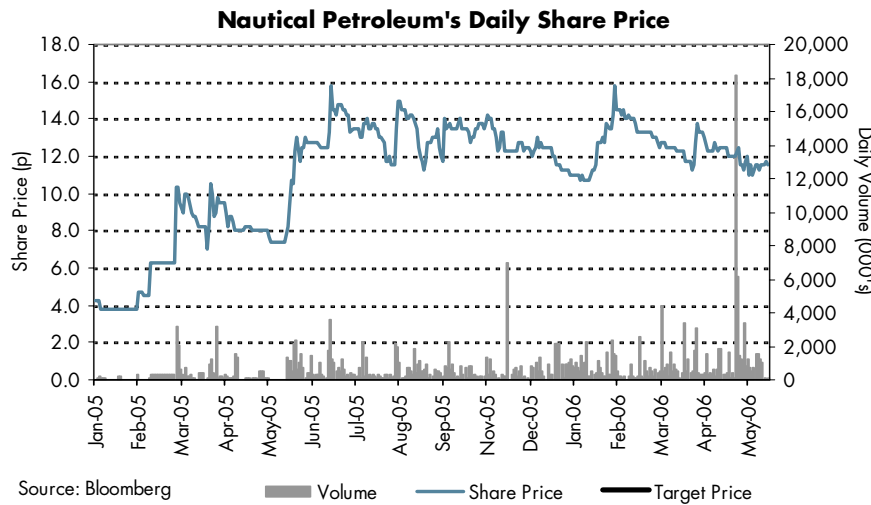
Change Summary		
Date	Rating	Target Price
07-Jun-06	Initiate at MP	US\$2.75



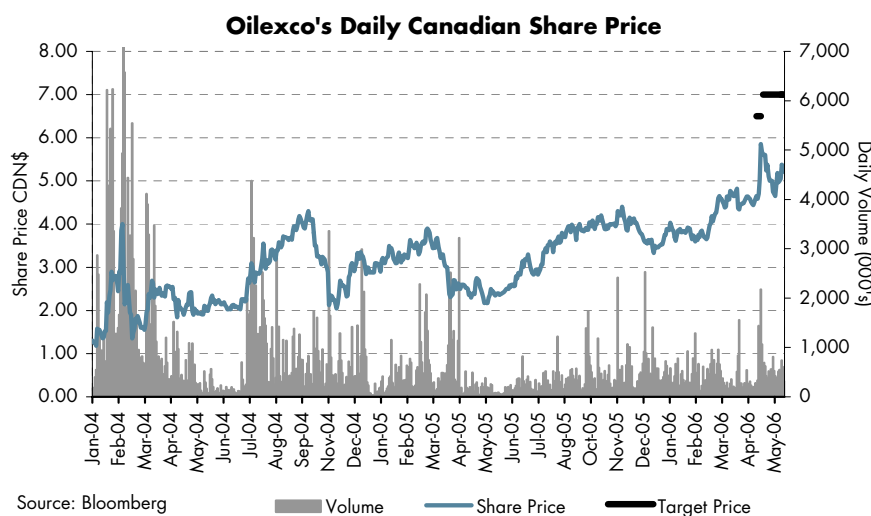
Change Summary		
Date	Rating	Target Price
07-Jun-06	Initiate at OP	250.0p



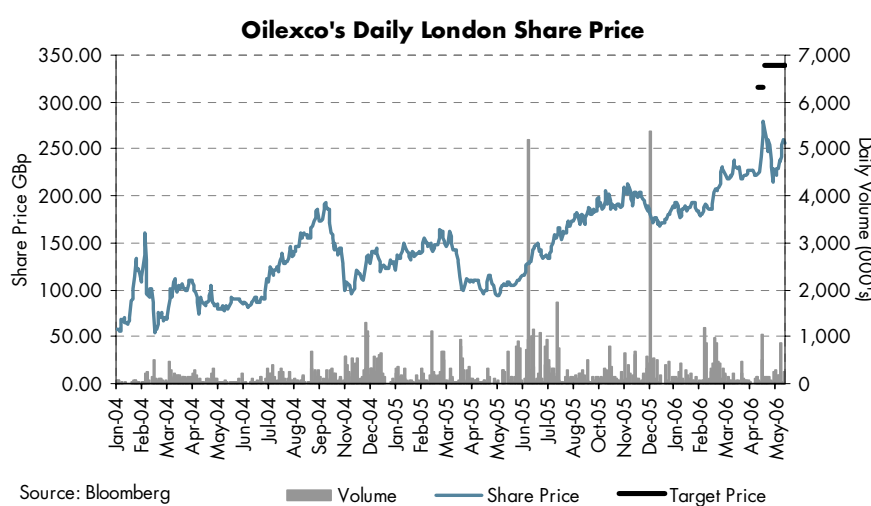
Change Summary		
Date	Rating	Target Price
07-Jun-06	Initiate at OP	120.0p



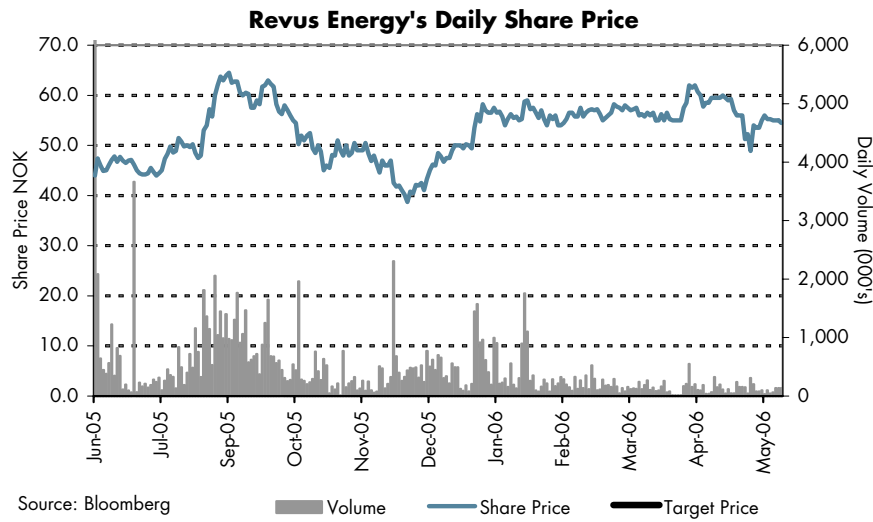
Change Summary		
Date	Rating	Target Price
07-Jun-06	Initiate at MP	15.0p



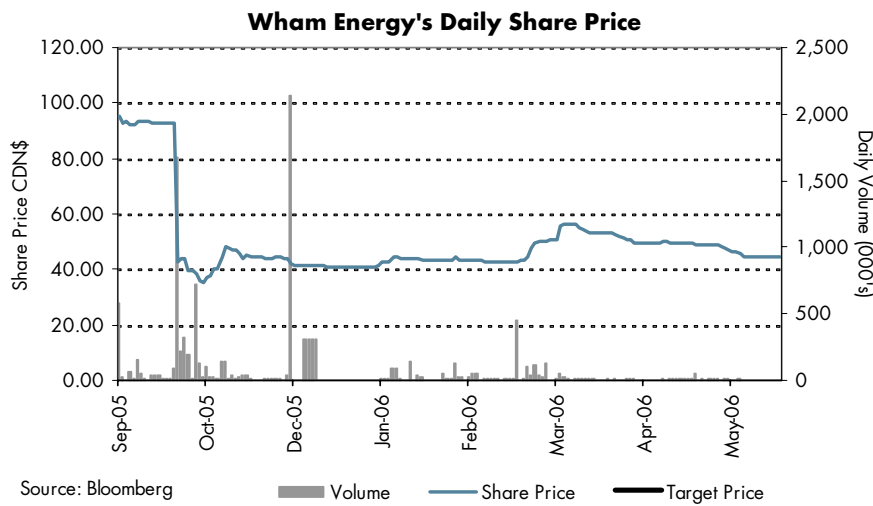
Change Summary		
Date	Rating	Target Price
02-May-06	Initiate at OP	C\$6.50/315.0p



Change Summary		
Date	Rating	Target Price
02-May-06	Initiate at OP	C\$6.50/315.0p



Change Summary		
Date	Rating	Target Price
07-Jun-06	Initiate at OP	NOK 80



Change Summary		
Date	Rating	Target Price
07-Jun-06	Initiate at MP	44.5p

### Tristone Distribution of Recommendations

Jun 7, 2006	Top Pick	Out Perform		Market Perform		Under Perform		Speculative Outperform		Total	
		Expected Return		Expected Return		Expected Return		Expected Return	Expected Return		
<b>Integrations</b>			<b>PCA</b>	39%		<b>HSE</b>	18%				
			<b>SHC</b>	37%		<b>IMO</b>	12%				
						<b>SU</b>	18%				
Sub Total/Average	0		2	38%	3	16%	0	0		5	
<b>Seniors</b>			<b>ECA</b>	16%		<b>CNQ</b>	39%				
			<b>NXY</b>	35%							
			<b>OPC</b>	12%							
			<b>TLM</b>	33%							
			<b>WTO</b>	48%							
Sub Total/Average	0		5	29%	1	39%	0	0		6	
<b>Intermediates</b>	<b>CMT</b>	81%	<b>HPX</b>	39%	<b>NVA</b>	31%					
	<b>RER</b>	50%	<b>POU</b>	54%	<b>PBG</b>	-5%					
			<b>RRZ</b>	45%							
Sub Total/Average	2	66%	3	46%	2	13%	0	0		7	
<b>Juniors</b>	<b>BER</b>	61%	<b>AXL</b>	53%	<b>BEN</b>	18%	<b>IXL</b>	29%			
	<b>PSX</b>	34%	<b>CLT</b>	37%	<b>CEN</b>	13%					
			<b>CR</b>	56%	<b>ITX</b>	24%					
			<b>COR</b>	36%	<b>MSY</b>	34%					
			<b>CXN</b>	38%	<b>PXE</b>	28%					
			<b>CYS</b>	32%							
			<b>EFE</b>	43%							
			<b>GPP</b>	28%							
			<b>MSO</b>	20%							
			<b>OEX</b>	36%							
			<b>PRY.A</b>	54%							
			<b>PSL</b>	34%							
			<b>RE</b>	43%							
			<b>RVE</b>	26%							
			<b>SEO</b>	38%							
			<b>TOG</b>	37%							
			<b>VRO</b>	35%							
			<b>WTL</b>	61%							
Sub Total/Average	2	48%	18	39%	5	23%	1	29%	0	26	
<b>Royalty Trusts</b>			<b>BNP.UN</b>	27%	<b>AET.UN</b>	4%	<b>PWI.UN</b>	0%			
			<b>CNE.UN</b>	22%	<b>ERF.UN</b>	0%					
			<b>CPG.UN</b>	25%	<b>KER.UN</b>	27%					
			<b>FET.UN</b>	34%	<b>HTE.UN</b>	19%					
			<b>PGF.B</b>	15%	<b>PGX.UN</b>	11%					
			<b>PTF.UN</b>	19%	<b>SQE.UN</b>	20%					
			<b>PWT.UN</b>	22%							
			<b>VET.UN</b>	22%							
Sub Total/Average	0		8	23%	6	14%	1	0%	0	15	
<b>Internationals</b>			<b>BVX</b>	23%	<b>EO</b>	-2%	<b>ELP</b>	-23%	<b>AEN</b>	31%	
			<b>FPM</b>	95%	<b>END</b>	0%			<b>VNX</b>	56%	
			<b>GOIL</b>	40%	<b>NPE</b>	30%					
			<b>OIL</b>	38%	<b>WAM</b>	0%					
			<b>REVUS</b>	45%							
Sub Total/Average	0		5	48%	4	7%	1	-23%	2	44%	12
<b>Total</b>	<b>4</b>		<b>41</b>		<b>21</b>		<b>3</b>		<b>2</b>		<b>71</b>
<b>Percentage of Total</b>	<b>6%</b>		<b>58%</b>		<b>30%</b>		<b>4%</b>		<b>3%</b>		

Tristone is Currently Restricted on: WAV.A; EXA; KCO; CYR

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**Top Pick:** This recommendation represents companies expected to have the highest risk adjusted return. Only 10 to 15% of our Universe is expected to be in this group.

**Outperform:** This recommendation represents companies expected to have a return greater than the average of its peer group or sector.

**Market Perform:** This recommendation represents companies expected to have returns on par with the average of its peer group or sector.

**Underperform:** This recommendation represents companies expected to have returns that are less than the average of its peer group or sector.

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