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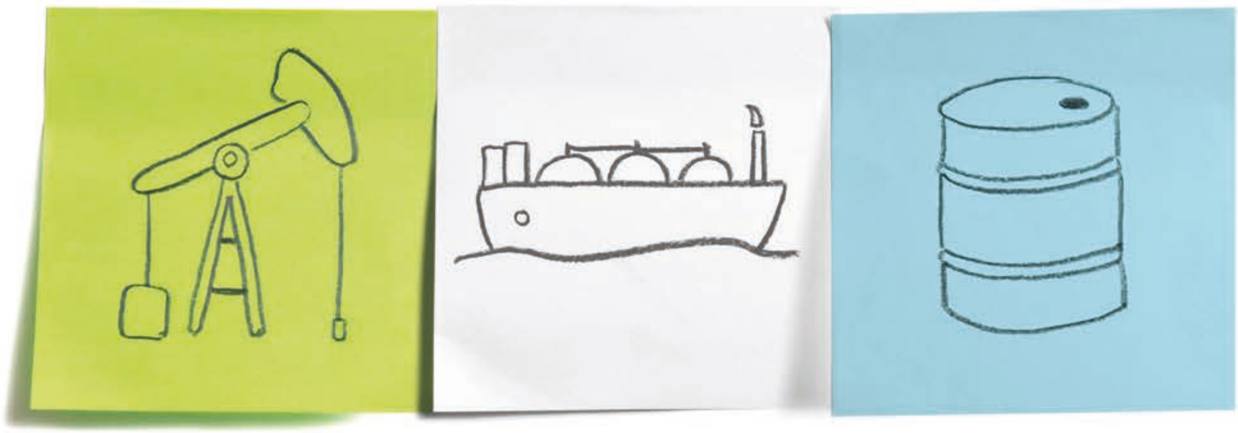
Key extracts
UK upstream independents league table 2013



Key extracts

The UK upstream independents had a challenging 2013. Accessing traditional sources of finance was difficult, with the operations and expansion plans of junior oil and gas companies being particularly affected. Therefore, M&A was the primary option for raising capital. In addition, UK upstream independents faced increasing pressures from rising exploration and production costs.

Brent crude oil prices remained above $108 per barrel for a third year in 2013, as global growth continued to accelerate and supply pressures persisted. There was a surge in crude oil output from the United States and Saudi Arabia, which was offset by supply disruptions caused by protests in Libya, violence in South Sudan and the crisis in Syria.

Total market capitalisation of the top 25 companies fell 15 per cent from £26.5 billion at the end of 2012 to £22.5 billion at the end of 2013. This was largely due to the £3.6 billion fall in Tullow Oil's market capitalisation as some of the wells it drilled during the year turned out to be dry. With investors heavily discounting exploration assets, a number of other companies, including Salamander Energy, Bowleven and RusPetro, also saw their market capitalisation dropping significantly.

Tullow Oil has been leading the *UK upstream independents league table* since it was first published in 2009. While Ophir Energy was ranked second again, Afren rose to third place as a result of its highly successful drilling campaign in Nigeria.

How Deloitte UK did it:
The UK upstream independents league table has been compiled from the December 2013 London Stock Exchange List of All Companies and applying the following selection criteria:

- Sector: Oil & Gas Producers
- Sub-sector: Exploration & Production
- Country of incorporation: UK (GB, GG, IM and JE)
- Ordinary shares: Yes
- Market capitalisation: £ value highest to lowest for top 25 companies
- A direct comparison has been made between end December 2012 and end December 2013.

Exclusions: We excluded two companies whose activities are not primarily focused on oil and gas exploration and production despite the above categorisation. The exclusions were based on principal activities and review of the business sections as described in the companies' latest Annual Report and Accounts.

Funding

Access to finance continued to be challenging for the UK upstream independents in 2013 as appetite for riskier assets has been subdued since the financial downturn. This is because financiers, in search of dividend streams, have been seeking to rebalance their portfolio and have diverted much of their funding to larger assets in safer geographies, such as the US and the North Sea Continental Shelf. Therefore, the funding needs of exploration and production companies have never been greater. At the same time, exploration and production costs have increased significantly. As traditional sources of funding have become more difficult to access, alternative sources started to emerge, targeting companies at the smaller end of the scale. These include private investors and 'boutique' funding houses providing finance during the riskier phase of exploration (very often through overriding royalties or net profit interests). Since these sources will only fill a relatively small part of the funding gap, more upstream independents may be forced to 'farm out' interests in their assets to finance exploration programmes. A number of companies, including Tullow Oil, Afren, Premier Oil, EnQuest, Salamander Energy and IGas, issued bonds to diversify sources of funding and take advantage of the improved terms available once capital projects are complete.

IPO market

Following a handful of recent IPOs, where the companies have struggled to meet expectations, market confidence in oil and gas explorers seems to have been shaken. This has had a negative impact on sentiment particularly towards the junior oil and gas explorers. For example, only one company, Trinity Exploration & Production, entered the UK upstream independents league table through listing in early 2013. The shares were issued as part of a reverse takeover of Bayfield Energy the year before. The company is the largest Trinidad and Tobago-focused explorer and has additional assets in South Africa.

Companies entering the league table

Tower Resources, a junior oil and gas explorer with assets in Africa, saw its share price jump in the last quarter of 2013 after it announced the acquisition of Wilton Petroleum Ltd. Wilton owned 20 per cent of an onshore block in Madagascar where drilling was scheduled to start in the spring of 2014. However, Ophir, the majority owner and operator of the block, pulled out of developing it and compensated Wilton. Therefore, the deal, which originally represented a drilling opportunity, turned into a fund raising exercise for Tower Resources. With the three-fold increase in its market capitalisation, the explorer was catapulted to 20th place in the league table at the end of 2013, up 26 places from 2012.

UK upstream independents league table 2013

Moving into the top 25:

- Trinity Exploration & Production – in at 18 following its listing in January 2013
- Tower Resources – in at 20 (up from 46)
- Nighthawk Energy – in at 23 (up from 36)
- President Energy – in at 24 (up from 29)
- Sterling Energy – in at 25 (up from 26).

Company	Market	Market cap £m	Position end of Dec 2013	Position end of Dec 2012	Movement
Tullow Oil plc	Main	7,750	1	1	►◄
Ophir Energy plc	Main	1,900	2	2	►◄
Afren plc	Main	1,838	3	6	▲
Premier Oil plc	Main	1,659	4	4	►◄
Indus Gas ltd	AIM	1,629	5	3	▼
Cairn Energy plc	Main	1,603	6	5	▼
SOCO International	Main	1,311	7	7	►◄
EnQuest plc	Main	1,076	8	8	►◄
Amerisur Resources plc	AIM	601	9	11	▲
Rockhopper Exploration plc	AIM	438	10	12	▲
Heritage Oil plc	Main	433	11	9	▼
Salamander Energy plc	Main	285	12	10	▼
Exillon Energy plc	Main	278	13	14	▲
Faroe Petroleum plc	AIM	253	14	13	▼
Fortune Oil	Main	244	15	17	▲
IGas Energy plc	AIM	192	16	16	►◄
Eland Oil & Gas plc	AIM	140	17	20	▲
Trinity Exploration & Production	AIM	132	18	N/A	N/A
The Parkmead Group	AIM	127	19	24	▲
Tower Resources plc	AIM	123	20	46	▲
Bowleven plc	AIM	123	21	18	▼
JKX Oil & Gas plc	Main	123	22	21	▼
Nighthawk Energy plc	AIM	111	23	36	▲
President Energy plc	AIM	104	24	29	▲
Sterling Energy plc	AIM	95	25	26	▲

Falling out of the top 25:

- Valiant Petroleum left the top 25 after being acquired by Ithaca Energy.
- RusPetro – down to 26 (from 15)
- Gulfsands Petroleum – down to 29 (from 22)
- Borders & Southern Petroleum – down to 30 (from 25)
- Regal Petroleum – down to 33 (from 23).

Note: Despite being included in the LSE list of oil and gas producers, Iofina plc and Quadrise Fuels International have been excluded from the league table. This is because the former is primarily focused on the exploration and production of iodine, while the latter is an oilfield services company.

The Parkmead Group has been omitted from the December 2013 London Stock Exchange List of All Companies as it was going through a capital reorganisation. Therefore, for this company we included the November 2013 market capitalisation data.

Sterling Energy, another Africa-focused oil & gas operator, also had a good last quarter in 2013. The company is attracting investor interest because of farm out agreements signed for production sharing contracts for blocks in Madagascar and in the Republic of Somaliland, as well as a positive interim management statement in late October.

Nighthawk Energy's share price increased significantly during the summer on announcements of record production levels. The US company brought a number of wells onstream during the year. While the share price dropped somewhat towards the end of the year, it still ended the year considerably higher than at the start.

Following a positive seismic acquisition programme, President Energy saw its share price soar on announcing that Schlumberger would be drilling its Paraguay asset. The drilling programme is financed through cash flow from the onshore explorer's producing assets in Argentina and Louisiana.

North Sea showing the positive impact of the UK tax policy

According to the *North West Europe Year End Review 2013* published by the Deloitte Petroleum Services Group, UK government tax allowances have had a positive impact on oil and gas exploration in the North Sea. Field developments increased by 24 per cent between 2012 and 2013 and the majority of these qualify for small field allowances. A total of 13 fields came online in 2013, compared with nine in 2012, of which 77 per cent were eligible for some kind of tax relief. For example, heavy oil allowances led EnQuest to plan a £4 billion investment in developing two heavy oilfields that form part of the Kraken field east of Shetland. EnQuest has the controlling majority stake in the developments, while Cairn Energy holds a 25 per cent stake and First Oil owns 15 per cent.

The Deloitte report also shows that UK licensing activity reached record levels in 2013 with the Department of Energy and Climate Change awarding 213 licences in the 27th Licensing Round. The Parkmead Group was awarded 30 offshore blocks under a total of eight licences in the first and second tranches of the 27th Round. This had a positive impact on the company's market perception and led to The Parkmead Group climbing five places in the league table to 19th place.

Companies leaving the league table

Valiant Petroleum left the league table after being acquired by Ithaca Energy in March 2013. The deal consolidated the two companies' North Sea assets and expanded the Canada-incorporated Ithaca Energy's footprint in the region.

Four other companies dropped out of the league table due to various geopolitical and operational issues. For example, Gulfsands Petroleum suffered substantial revenue losses due to the situation in Syria and it focused on assets in Morocco, Tunisia, Colombia, Ecuador and the US. Its share prices dropped further after the quantity of gas in two of its four Moroccan assets was not sufficient for commercial production.

Regal Petroleum is the operator of two oil and gas fields in the Ukraine. The combination of declining production and lower gas prices caused its share price to drop.

RusPetro, which entered the London Main Market in 2012, lost 65 per cent of its market capitalisation between the end of 2012 and 2013 due to lower than expected production levels. The company has now said that it is in the process of restructuring its operations.

The Falklands explorer Borders & Southern Petroleum slipped out of the league. The company is currently focusing on engineering studies, acquiring and processing 3D seismic data and planning for the next drilling campaign for the Darwin reservoir, while also trying to find a farm-out partner. This will likely delay drilling into 2015.

Contacts

Talk to our oil and gas team about any of the topics covered in this publication.

Carl Hughes
Global Leader – Energy & Resources
020 7007 0858
cdhughes@deloitte.co.uk

Ian Sperling-Tyler
Partner – Corporate Finance
020 7007 1967
isperlingtyler@deloitte.co.uk

Julian Small
UK Leader – Energy & Resources
Global Leader – Oil and Gas Tax
020 7007 1853
jsmall@deloitte.co.uk

Derek Henderson
Managing Partner – Aberdeen
01224 847344
dehenderson@deloitte.co.uk

Rajeev Chopra
Global and UK Leader – M&A Energy & Resources
020 7007 2933
rchopra@deloitte.co.uk

Graham Hollis
Partner – Audit (Aberdeen)
01224 847710
ghollis@deloitte.co.uk

Justin Watson
Partner – Consulting
020 7007 2777
juwatson@deloitte.co.uk

Graham Sadler
Managing Director – Petroleum Services
020 7007 0760
gjsadler@deloitte.co.uk

Max Kendall
Assistant Director – Corporate Finance
020 7007 8936,
mkendall@deloitte.co.uk

www.deloitte.co.uk/upstream

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

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