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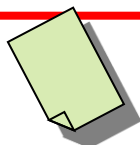
Barbados Offshore Licensing Round

Potential Local Company Participation

Bridgetown 6th June 2008

Principal Steps in Petroleum Exploration

Obtain Permit



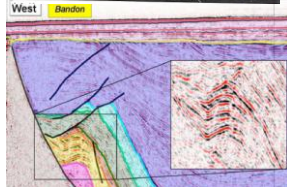
Year 1

**Analyse Data,
Acquire Seismic**



Year 2

Identify Prospects



Year 3

Drill Prospects



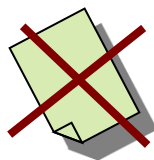
Year 4

**If Successful
Move to Appraisal/
Development**



Year 5+

**If Unsuccessful
Relinquish Block**



**Anytime from
Year 2**

Time





Risk in the Upstream

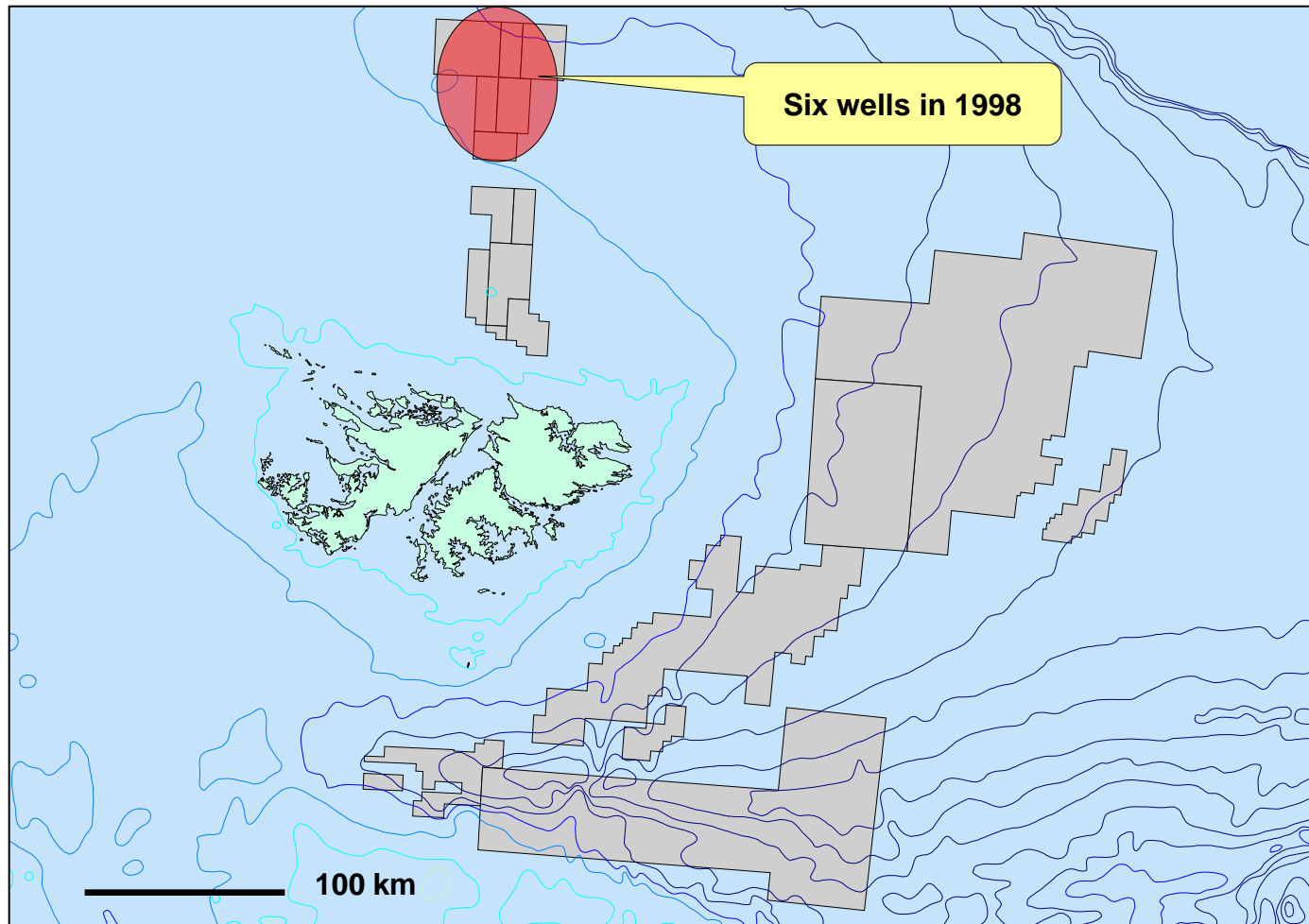
- Principal risk is exploration success
- A commercial success is required, not technical
- Global average commercial success is approximately 1 in 5
- Global average for frontier basins is 1 in 10
- Barbados' basins are quasi-frontier with discoveries having been made in the Tobago Fore-Arc Basin and the Barbados Trough in Trinidadian waters and with the onshore Woodbourne field being an onshore extension of the Barbados Ridge
- As in all business, managing the risks increases the chances of success
- ***This is not a game for widows and orphans!***

Example of Exploration Risk

Falkland Islands



Six wells drilled in 1998 found uncommercial oil and gas. Despite interesting potential prospectivity it has taken 10 years for the drilling to start again.





Farm Out Business Model

Farm out business model widely practiced in the industry:

- Company A acquires an initial exploration licence from a government
- Company A “added values” to the licence by acquiring new seismic and studies
- This allows prospects to be mapped and ready to be drilled
- Company B, typically larger, comes into the licence and funds the drilling
- Company A keeps a small interest in the licence and has its costs “carried” by Company B
- **It is more than turning or “flipping” a licence without undertaking any work!**
- Some examples of companies that follow this model:





The Farm-Out Business Model

“The Company sees its role in the Petroleum Industry as one where it generates ideas, secures acreage, funds the early stage exploration, with the acquisition of 2D and/or 3D seismic data, takes out significant risk from the opportunity prior to attracting the larger companies to help fund the drilling campaigns.”

“Frontier exploration projects characteristically have a higher technical risk profile than exploration projects in mature hydrocarbon provinces. However, the scale of reward in the success case is typically large. The Company intends to focus on countries where the political / commercial risks are considered to be relatively low.”

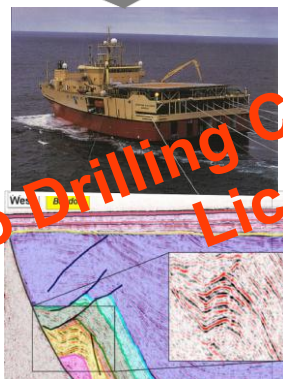
An active small independent in the
Falkland Islands

Managing the Financial Risk

Obtain Permit

Analyse Data,
Acquire Seismic

Identify Prospects



No Drilling Commitment in 1st Licence Term

US\$10,000+

US\$5 – 10 million

Drill Prospects



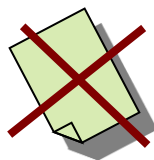
US\$10 – 200 million

If Successful
Move to Appraisal/
Development



US\$200++ million

If Unsuccessful
Relinquish Block



Time





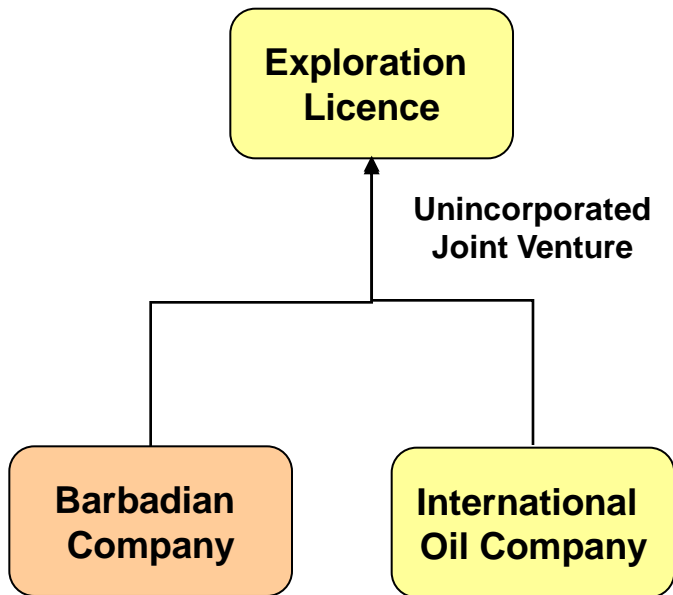
Structuring the Licence Group

- In line with international best practice companies applying to operate licences are required to have previous offshore operating experience
- Barbadian investors will therefore have to partner with an international oil company in order to participate
- There are a number of methods of structuring this partnership, the main methods include:
 - Unincorporated Joint Ventures
 - Incorporated Joint Ventures
 - Equity Investments

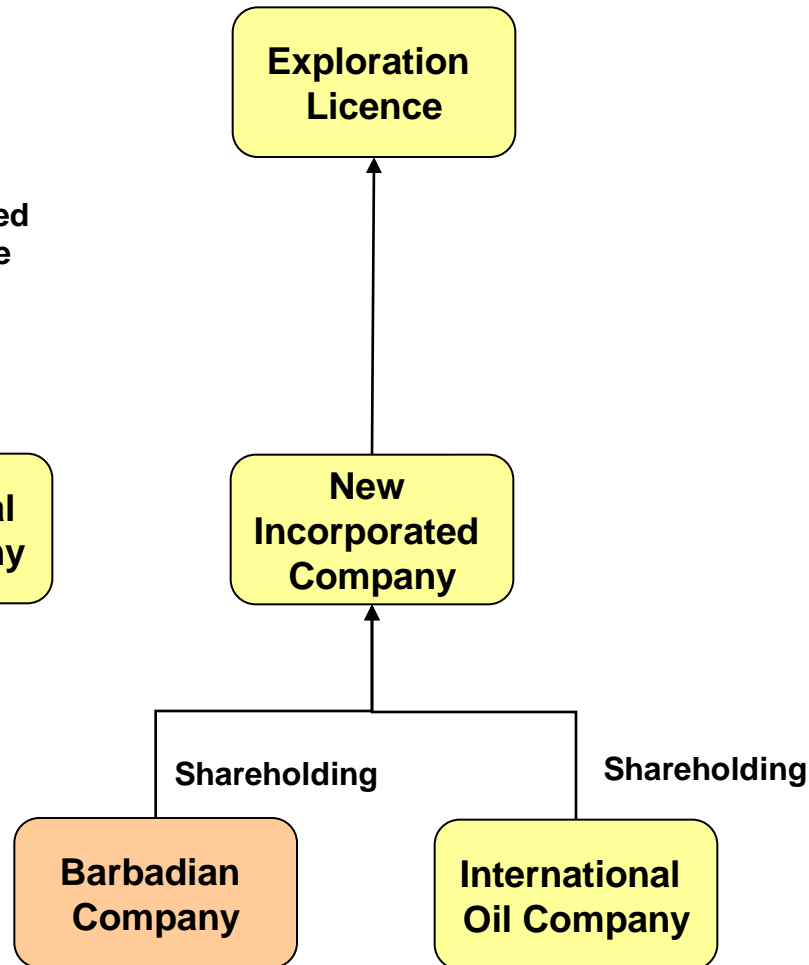


Structuring the Licence Group

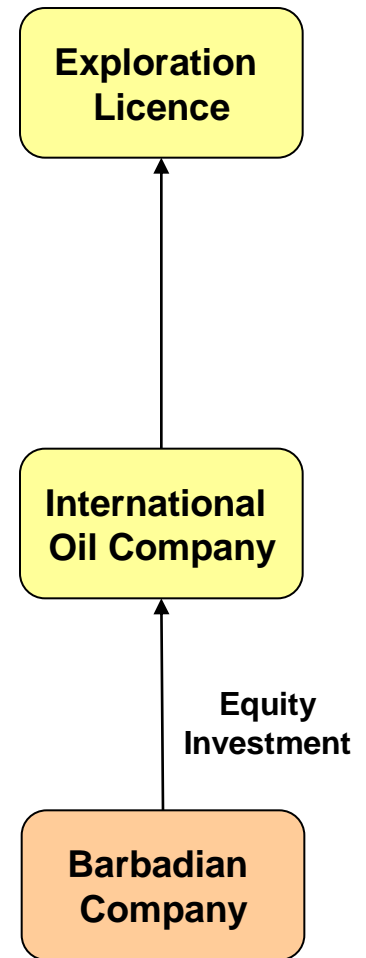
Unincorporated Joint Venture



Incorporated Joint Venture



Equity Investment





What are Partners Looking For?

- Understanding of the petroleum business and the timescales
- Ability to fund your financial commitments
- Bring the local dimension to the partner group
- Relationship with the government and other Barbadian companies



What to look for in a partner?

- Track record in the industry of the company or individuals
- Technical ability
- Ability to meet financial commitments
- Commitment to Barbados both before and after the round
- A strategy for attracting drilling partners to the licence



Universe of oil companies

Some companies you have heard of:

Supermajors

- ExxonMobil
- BP
- Shell
- Total

Majors

- Chevron
- ConocoPhillips
- Lukoil
- Statoil
- ENI
- Repsol
- CNPC



Universe of oil companies

And some companies you might have heard less of:

Large Independents

- MOL
- OMV
- Talisman Energy
- Husky Energy
- Apache Oil
- EnCana
- Perenco
- Mauriel & Prom
- Woodside
- Tullow Oil
- Addax
- Newfield
- Pioneer
- Cairn Energy
- Anadarko
- BHP

Independents

- Tullow Oil
- Addax
- Premier Oil
- Dana Petroleum
- DNO
- SOCO
- Venture Production
- Sterling Energy
- Heritage Oil
- Lundin Oil
- Afren Oil
- Coastal Energy
- Salamander Energy
- Amerisur
- Melrose Resources



Structuring the Deal

There are three principal options for monetorising the interest:

Exit in a Cash Sale	Retain a Carried Interest	Exit & Retain an Overriding Royalty
<p data-bbox="34 535 511 571">Sell entire interest for cash</p> <p data-bbox="34 714 241 749">Advantages</p> <ul data-bbox="34 756 444 971" style="list-style-type: none">• Simple clean exit• Avoid drilling risk and downside• No ongoing potential liabilities <p data-bbox="34 1028 289 1063">Disadvantages</p> <ul data-bbox="34 1071 463 1242" style="list-style-type: none">• Can be harder to find a buyer• Do not participate in upside	<p data-bbox="589 535 1091 664">Reduce interest in return for being carried on exploration costs</p> <p data-bbox="589 714 801 749">Advantages</p> <ul data-bbox="589 756 1081 842" style="list-style-type: none">• Maintains exposure to potential exploration upside <p data-bbox="589 1028 850 1063">Disadvantages</p> <ul data-bbox="589 1071 1139 1328" style="list-style-type: none">• If exploration is unsuccessful retained interest can have zero value• Most farm-out have a cap on carried costs – if costs overrun there can be cash calls	<p data-bbox="1217 528 1825 614">Exchange interest a percentage of future gross cashflow</p> <p data-bbox="1217 706 1429 742">Advantages</p> <ul data-bbox="1217 749 1864 963" style="list-style-type: none">• Maintains exposure to potential upside• Avoids possible future cash calls• Can be potentially combined with a cash sale <p data-bbox="1217 1021 1477 1056">Disadvantages</p> <ul data-bbox="1217 1063 1903 1149" style="list-style-type: none">• Have no future influence on the asset• Only pays out on production

Examples from the Falklands Islands & Faeroe Islands



- Falkland Oil and Gas
 - Falkland Island Company is a major shareholder
- Desire Petroleum
 - Significant Falkland shareholding
- Faeroes Petroleum
 - Incorporated JV between Faeroese investors and Dana Petroleum
- Atlantic Petroleum
 - Takes a small direct equity interest in licence



Conclusions

- The upcoming licence round presents a unique potential opportunity for Barbadian to participate in the upstream petroleum industry
- It is essential to understand the technical risk and potential financial liabilities of participation
- Choice of a good partner is important
- Select the appropriate structure for the consortium
- Have a strategy, can be to exit or to build