

ON POINT

Vol 2, No. 12 December 2007



GORDON ENERGY SOLUTIONS

Candid, Forward-Looking Analysis of the Oil & Gas Industry

IN THE NEWS

Sinopec – Sinopec farmed out a 40% working interest in two onshore blocks in Yemen’s Marib and Masila basins to Total. Block 69 (1,333 sq km) in the Marib basin is near the route of the gas pipeline from the Marib fields to the Yemen LNG plant in Balhaf. Block 71 (1,800 sq km) is in the Masila basin near Total’s Block 10.

Sinopec won the blocks in 2005 and retains operatorship and a 45.5% WI. Coming on the heels of rumors that Galp may replace Sinopec in re-awarded sections of Blocks 15, 17 and 18 in Angola, the farm out of this acreage may have more significance than appears at first glance. Is Sinopec re-evaluating its international role, is such a re-evaluation likely to spread to other NOCs and is this likely to offer a means for IOCs to gain opportunities?

ENI Acquires Burren -- In a US\$3.6 billion deal, ENI followed up on its US\$1.4 billion Maurel & Prom acquisition in February. Burren increases ENI’s WI in the Congo contributing working interests ranging from 31.5% to 37% in onshore fields (M’Boundi and Kouakouala) and exploration licenses. ENI also picks up the Nebit Dag production concession (Burun field) and exploration blocks in Egypt, Yemen and Oman as well as an indirect interest in Indian assets. More in Mergers Acquisitions & Divestitures ...

Two Libyan Contracts Extended -- In two separate deals, Occidental and OMV, on the one hand, and Petro-Canada have reached agreement with NOC to extend existing contracts by 30 years within the framework of EPSA IV.

Under the Oxy/OMV agreement, a US\$1 billion signature bonus will be paid over a three year period and an additional US\$5 billion (US\$2.5 billion by Occidental and OMV) of investment will be undertaken over a five year period to roughly triple existing output from 100 to 300 mb/d. Estimated gross recoverable reserves are 2.5 billion barrels. Oxy and OMV anticipate 10% to 12% after tax entitlement shares of output.

Petro-Canada reached similar terms: US\$1 billion bonus, US\$7 billion development spend for gross reserves of 2 billion barrels with Petro-Canada accounting for half of this outlay. More inside . . .

Inpex/Total Alliance Continues Expansion Globally

Inpex has pursued an aggressive program of growth in its E&P operations in recent years. In addition to the combination with Teikoku, an integral element of this program is a broadening alliance between Total and Inpex.

The companies have long been joint venture partners in the Mahakam block gas project and related efforts to prove up new gas reserves for the Bontang LNG plant. Recently, the Total/Inpex alliance is taking on a global scope. Key actions extending the relationship outside Indonesia have included:

- In August 2006 Total acquired a 25% interest (Inpex 75% after the deal) in the Ichthys gas development project in Australia’s Browse Basin
- In October 2007 Inpex and Total (on a 60/40% basis respectively) acquired an additional three Browse Basin blocks

previously awarded to ConocoPhillips that are in the Ichthys area

- The most recent move was made in November 2007, when Total sold a 10% interest in its Joslyn oil sands project to Inpex

The Joslyn deal extends Inpex’s position to include the Canadian oil sands play. In the process, it adds an asset with extended long-term potential and relative production stability to the company’s portfolio.

Brazil Round 9

Round 9 results confirm the signals from October’s Central Gulf of Mexico lease sale: competition for new acreage in prospective areas open to the IOCs is hot and land acquisition cost inflation is heating up.

- The industry capital commitment in Brazil’s Round 9 rivaled that of Central GoM Sale 205
Continued on p. 3

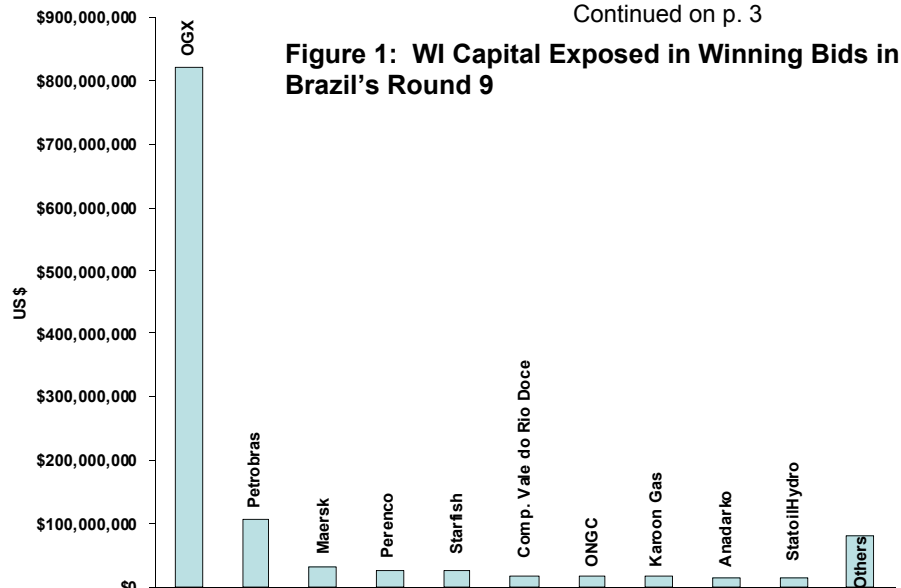


Figure 1: WI Capital Exposed in Winning Bids in Brazil’s Round 9

OUR PERSPECTIVE



BP/Husky Oil Sands Alliance

Following ConocoPhillips and Marathon's lead, BP has finally opted to enter the Canadian oil sands play through an integrated alliance with Husky.

In our January issue we warned clients that "in 2007, do not be surprised if BP makes another world scale acquisition to reduce its exposure in Russia."

The just announced oil sands alliance is not as spectacular as a corporate deal and the scale is modest relative to BP needs. Very high oil prices in the last half of 2007 have made corporate deals more expensive than BP probably wants. Nevertheless this and the company's other moves in 2007 confirm the pressures driving BP's choices. Moreover, the Husky alliance is best seen as an initial, positioning move with more likely to come.

The moves by ConocoPhillips, Marathon and now BP also confirm two key points that we have made before. Specifically, (1) midstream and downstream assets held by the large IOCs in major oil and gas markets are a key strategic strength and (2) the

industry is in the midst of a long-term trend of re-integration.

The BP/Husky project includes US\$3 billion in future investments to achieve a long-term plateau bitumen production rate of 200 Mb/d in the period from 2015 to 2020. Husky has estimated that total Sunrise reserves could be as high as 3.2 billion barrels. On the downstream side of the alliance, the companies will spend an estimated US\$2.5 billion to expand Toledo Refinery's heavy oil and bitumen processing capacity from 60 Mb/d to 120 Mb/d by 2015.

Husky's share in Toledo fits well with its previous acquisition of the Lima, Ohio refinery and plans to adapt Lima's 160 Mb/d capacity to process heavy oil. From Husky's perspective the deal is also advantageous since it allows deferral of the previously planned expansion of the Lloydminster Upgrader.

CONTACTS

Gordon Energy Solutions is an energy consulting firm specializing in competitor analysis, strategic decisions, political risk analysis, and global issues concerning the international, integrated oil & gas industry. We anticipate future opportunities and challenges confronting our clients and assist in exploiting those opportunities.

By integrating the corporate and financial dimensions of strategy and performance with detailed project level analytics, we maintain a unique approach to your business. GES provides value to our clients through our forward-looking, critical analysis and unique perspective.

Richard Gordon, Ph.D

President & CEO

rgordon@gordonenergysolutions.com

Steve Gordon

Vice President

sgordon@gordonenergysolutions.com

Gordon Energy Solutions

11286 Hadley St

Overland Park, KS 66210

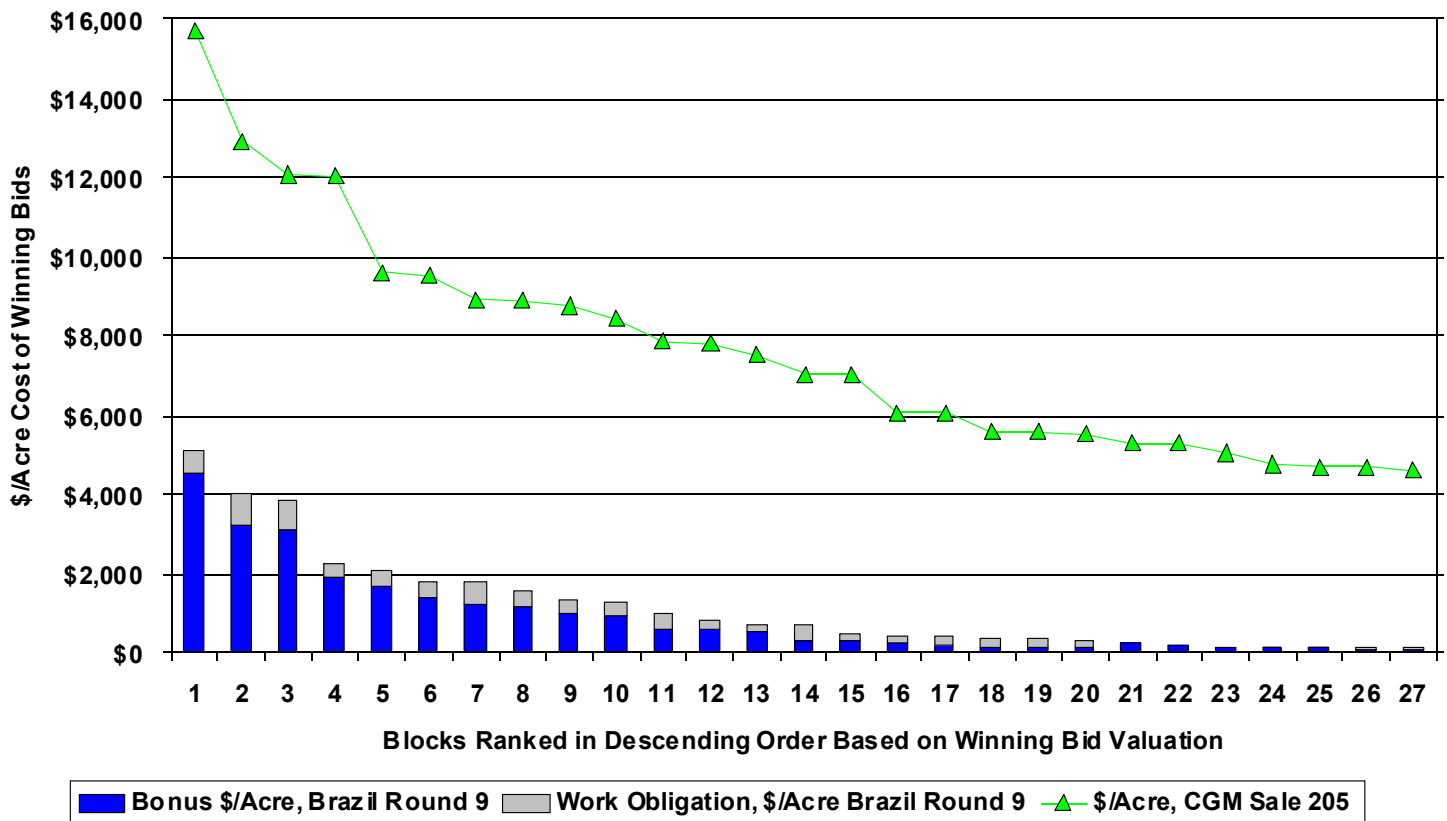
(913) 451-9539

The cornerstone of our firm is supplying Research Services on Demand, enabling GES to deliver the analysis you want, when it's needed. Our services are uniquely tailored to fit your company's needs and reflects our role as a source of independent research and analysis.

Please feel free to distribute this to your colleagues. If you received this issue as a forward, and wish to receive it directly, please send an e-mail to subscribe@gordonenergysolutions.com. If you no longer wish to receive this newsletter and would like to have your e-mail address removed from our list, please send an e-mail to unsubscribe@gordonenergysolutions.com. Please let us know how we may improve this service.

For additional information concerning our most recent work or to find out more about our company, please visit <http://www.gordonenergysolutions.com>.

Figure 2: Per Acre Values of Leading Blocks in Sale 205 and Round 9



- Companies committed, in aggregate, slightly less than US\$1.2 billion in winning signature bonus bids
- An additional estimated US\$1.2 billion was committed in the form of work spending obligations on winning bids

- Brazilian valuations are shown in two parts: the signature bonus and the estimated US\$ value of minimum work spending for the winning bids

Chilean Round

Chile announced the results of its Tierra del Fuego round in mid-November. Results of this round are summarized in Table 1 page 4.

Nine of ten blocks received bids and were awarded to five IOCs and ENAP. Total work obligations bid were US\$102 million in the first, three-year exploration phase, US\$92 million and US\$72 million in each of two following phases.

Blocks were awarded to Total, Apache, Pan-American Energy (BP and Bidas), Greymouth Petroleum and IPR-Manas. A group including Wintershall, GeoPark and Methanex plus an Argentine company Roch also bid but did not win blocks.

Greymouth (a privately held New Zealand company) was the most aggressive bidder in the round, committing to total work spending programs of US\$107.4 million (40% of the total). The company bid on five blocks and won four blocks with a combined area of 9,000 sq km.

As shown in Figure 1, Round 9 was also similar to Sale 205 in that a relatively small number of bidders dominated the sale. However, the degree of individual company domination was particularly extreme in the Brazilian round as a result of the very aggressive bidding of OGX. Also, the absence of most leading global competitors is noteworthy.

Figure 2 compares Sale 205 and Round 9 land values on a US \$/acre basis

- The comparison includes valuations of the winning bids for the 27 most highly valued GoM blocks (Brazilian results are limited to blocks classified as high potential)

Brazilian land values are relatively high but the results show a strong premium on US Gulf of Mexico acreage.

Bidding is likely to have been substantially restrained by the government's decision to withhold a large number of possibly high potential sub-salt blocks

In light of Petrobras' announced estimates of Tupi reserve potential it seems likely that bids for the withheld blocks would have been more comparable to those of the recent Central GoM.

Moreover, the withdrawal of these blocks may have played a significant role in the decisions of some leading players in the GoM to abstain from Round 9.

OUR PERSPECTIVE



Table 1: Results of Chile's Tierra del Fuego Round

Apache was awarded two blocks in the Chilean section of Tierra del Fuego. The blocks cover a combined area of 1.2 million acres (1 million acres net to Apache).

Work obligations in the first exploration phase include 600 square kilometers of 3-D seismic and two exploration wells. The combined work spending obligation is US\$18.3 million or US\$15/acre. Following the award Apache announced results of a well on other Tierra del Fuego acreage on the Argentine side of the border: 1.6 Mb/d oil and 1.3 mmcf/d gas. Apache currently produces 5.2 Mb/d oil and 122 Mmcf/d gas from its Tierra del Fuego operations.

<i>Block</i>	<i>Company</i>	<i>Work Obligation \$mm</i>	<i>ENAP Carry During Exploration</i>
Tranquilo	IPR-Manas	\$33.20	n/a
Russfin	Apache	\$23.40	n/a
Porvenir	Greymouth	\$11.30	n/a
Brotula	Greymouth	\$48.60	n/a
Isla Magdalena	Greymouth	\$13.60	n/a
Otway	Total	\$44.50	n/a
Coiron	Pan-American (50%), ENAP (50%)	\$34.00	100.0%
Caupolican	Greymouth (50%), ENAP (50%)	\$33.90	28.0%
Lenga	Apache (50%), ENAP (50%)	\$24.90	100.0%

Libyan Contract Extension Costs -- Further information on the results of Libyan contract negotiations to extend existing license agreements is provided in Table 2. The focus in Table 2 is on the total cost of reserves including bonus payments and future capital spending by the IOCs. We compare the estimated costs on a "project basis" (from a gross development cost perspective) and a "company basis" (including bonus payments and IOC share of capital spending compared to net reserves to the IOCs).

The resulting cost on a per boe basis to the IOCs varies with the specific contracts but is clearly quite high and is roughly comparable to recent reserve acquisition costs such as the cost of the Burren deal discussed in the Mergers Acquisitions & Divestitures section of this issue.

Table 2: Libyan Contract Extensions: Key Parameters and Unit Costs

	<i>Bonus \$mm</i>	<i>Capex \$mm</i>	<i>Estimated Reserves mboe</i>	<i>\$/BOE</i>
Project Basis				
Oxy/OMV	--	\$5,000	2,500	\$2.00
Petro-Canada	--	\$7,000	2,000	\$3.50
Company Basis				
Oxy/OMV	\$1,000	\$2,500	300	\$11.67
Petro-Canada	\$1,000	\$3500	240	\$18.75
Combined Company Basis	\$2,000	\$6,000	540	\$14.81

Notes: Company net reserves estimated at 12% of gross reserves; NOC incurs 50% of capex. Petro-Canada results do not include US\$460 million in planned exploration and appraisal spending.

MERGERS, ACQUISITIONS, & DIVESTITURES



US

Petrohawk Energy acquired 24,000 net acres in the Fayetteville Shale play, increasing its position to 125,000 net acres. The US\$343 million acquisition involved properties held by Contango Oil & Gas and Alta Resources LLC. On 6 November, Contango announced that it was undertaking a "strategic review" to enhance shareholder value. This review includes possible corporate sale or merger or asset sales including its Fayetteville position or its interest in the Freeport LNG project.

The acquired acreage is located primarily in Conway County (extending Petrohawk's position to the southwest of its existing positions in Van Buren and Cleburne counties) with 11 mmcf/d net output. Petrohawk estimates the properties hold 60 Bcfe proved reserves

and possibly as much as 500 Bcfe reserve potential.

As might be expected in the hot gas shale play, the company appears to have paid a substantial premium compared to prices paid by others in the play in the past two years.

This is attributable at least in part to Petrohawk's reserve expectations from the acreage. Per Mcfe reserve costs in the deal range from \$5.72 proved to US\$0.69 in the 500 Bcfe potential reserve case. Reported results and expectations for Fayetteville wells suggests another US\$1.38/mcf cost of drilling and completing wells.

The previously announced results of Anadarko's auction of non-core assets in the Fayetteville and Arkoma offers an imperfect but interesting contrast. The per acre value of bonuses on land leased in this auction

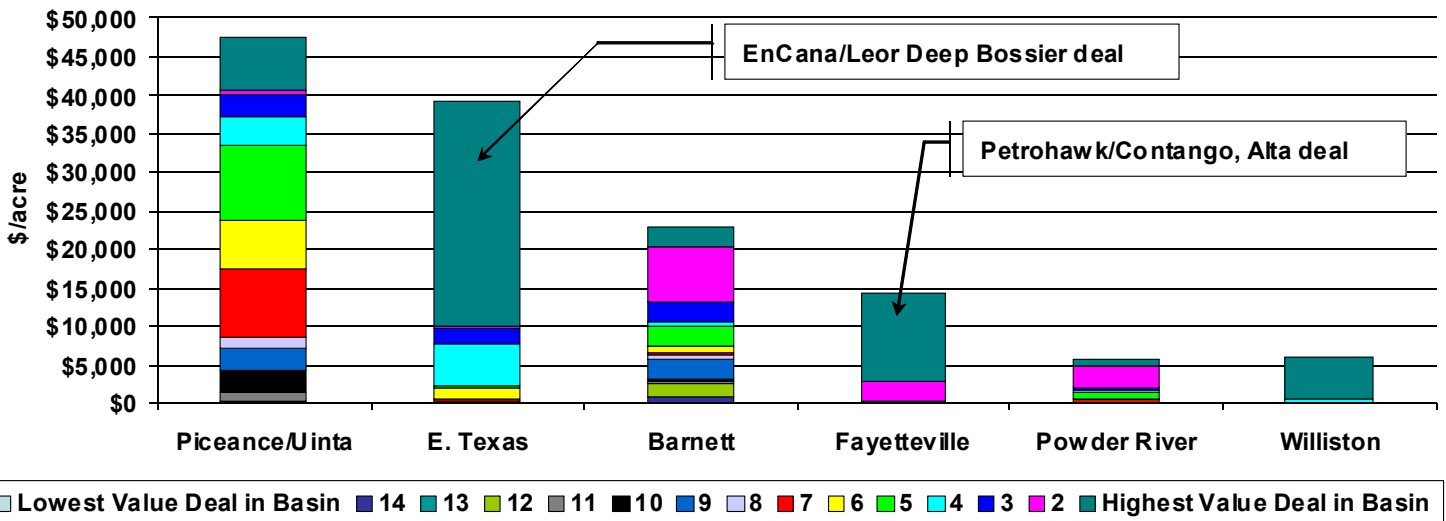
was \$2,733 compared to \$14,292 per acre in the Petrohawk deal.

Figure 3 provides further perspective. It compares land values in several key US onshore plays. For each deal in a play the incremental per acre cost paid to acquire acreage is calculated. The stacked column shows these incremental costs starting at the lowest price paid and total height reflects the highest price paid.

Two recent deals, EnCana's acquisition of Leor's Deep Bossier position and the Petrohawk deal are highlighted. Both deals represent very high valuations of the associated acreage and output. Additional data on the key components of these two deals is shown in the table.

Continued on p. 7

Figure 3: The Range of Per Acre Land Costs in Selected US Onshore Plays



Source: GES MA&D database

Buyer/Seller	Play	Purchase Price \$mm	Net Output, mmcf/d	\$/Mcfe/d	Proved Net Reserves, bcfe	\$/Mcfe	Upside Net Reserves Bcfe	\$/Mcfe	Acres	\$/Acre
EnCana/Leor	Deep Bossier	\$2,200	75	\$29,333			1,550	\$1.42	56300	\$39,076
Petrohawk/Contango, Alta	Fayetteville	\$343	11	\$31,182	60	\$5.72	500	\$0.69	24000	\$14,292

MERGERS ACQUISITIONS & DIVESTITURES



US Asset Sale Value Indicators

EnergyNet Regional Sales Data 2006

Working Interests 6:1

	Average \$/BOE/D	Average \$/MCFE/D	Average Multiple (Average Income)	Average Multiple (Last Income)
Appalachians	\$73,565	\$12,261	43.62	50.38
Central Texas	\$48,902	\$8,150	37.81	40.12
East Texas	\$62,972	\$10,495	44.78	49.16
Gulf Coast	\$45,285	\$7,248	37.19	45.30
Michigan Basin	\$44,347	\$7,391	41.24	40.58
Mid Continent	\$52,819	\$9,148	50.14	54.44
Panhandle	\$43,592	\$7,028	43.84	51.81
Permian Basin	\$62,599	\$10,433	45.32	46.10
Rockies	\$66,418	\$11,070	45.93	68.58
South Texas	\$37,688	\$5,484	34.34	44.28
National Average	\$53,819	\$8,871	42.4	49.1

EnergyNet data on US deal metrics is shown on the following page.

EnergyNet provides a way to high-grade a portfolio of assets, maximizing value for each individual property or field, without expending significant time and effort. EnergyNet maximizes value by efficiently offering the elemental properties (single well, lease, or field) to the largest audience of qualified and accredited oil and gas investors. There are simply more Buyers in the marketplace capable of competing to win a \$1MM property than a \$100MM package of properties, and EnergyNet has established relationships with over 12,500 Buyers. Geographically diverse packages benefit by being broken down into their elemental parts. By marketing and selling properties in the most logical, elemental pieces, Sellers maximize value for each part of the package and do not exclude Buyers from the process.

EnergyNet Regional Sales Data 2007

Working Interests 6:1

	Average \$/BOE/D	Average \$/MCFE/D	Average Multiple (Average Income)	Average Multiple (Last Income)
Appalachians	\$47,237	\$7,873	38.72	34.44
Central Texas	\$52,151	\$8,281	45.56	44.93
East Texas	\$49,862	\$6,599	50.39	56.93
Gulf Coast	\$32,371	\$12,734	37.56	44.08
Michigan Basin	\$50,574	\$8,429	31.79	75.45
Mid Continent	\$55,110	\$8,491	52.60	58.43
Panhandle	\$39,728	\$6,621	45.60	50.09
Permian Basin	\$49,800	\$7,609	51.07	47.98
Rockies	\$43,093	\$7,182	40.92	41.95
South Texas	\$33,828	\$5,032	38.56	50.07
National Average	\$45,375	\$7,885	43.3	50.4

EnergyNet can prepare, market, and close a set of property transactions much faster than any other divestment-focused company in the industry. The Continuous Model allows EnergyNet to handle as much for a company as requested, including gathering data, preparing properties, filing the conveyance documents, escrow and post-closing services.

For More Information Contact EnergyNet, Inc.: Toll Free: 877.351.4488
E-mail: energy@energynet.com Or visit their website: www.energynet.com

MERGERS, ACQUISITIONS, & DIVESTITURES



ENI Acquires Burren Energy

Key Facts of the Deal -- ENI has acquired Burren Energy in an all-cash deal for US\$3.6 billion. The offer represented a 33% premium over Burren share values.

As shown in Table 3, ENI acquires assets in multiple countries. Production is underway in two (Turkmenistan and Congo) with operations in Egypt and Yemen at the exploratory phase. In addition, ENI acquires Burren's shares in Hindustan Oil Exploration Company (HOEC).

Burren holds substantial acreage (6.9 million net acres). However, 60% is in Yemen's Block 17 and much of the rest of the acreage is associated with three unproven exploration blocks in Egypt.

While Burren assets are diverse it seems likely that ENI's primary target was the producing properties in the Congo (most notably the M'Boundi field). As such, this deal seems to be, in large part, a follow-up to the US\$1.4 billion purchase of interests in the Congo from Maurel & Prom (M&P) earlier this year. In addition, the producing assets in Turkmenistan are an important part of the acquired assets.

The appeal of both the Congo and Turkmenistan assets is rooted in expectations of improved recovery rates in coming years.

Figure 4 shows prospect high and low reserve range expectations in the Burren exploration acreage portfolio. While the reserve potential for the exploration blocks varies widely, the values are relatively low for a company of ENI's size.

Egypt is a core area of upstream operations for ENI, although the resource potential of the acreage acquired is not material to the company's interests. In addition, the company is not operating in Yemen and the Indian assets are held indirectly. As a result, it is certainly possible that ENI will choose to divest these assets in the future, using their liquidation value to reduce the net cost of the acquisition.

Economics of the Deal -- Estimated reserve acquisition costs for the Maurel & Prom and Burren Energy deals are shown in Figure 5. These cost estimates are generated under two alternative cases. The first case is based on published reserve estimates as reported by the participants. The second case is based on GES estimates which include resource upside associated with the exploration acreage.

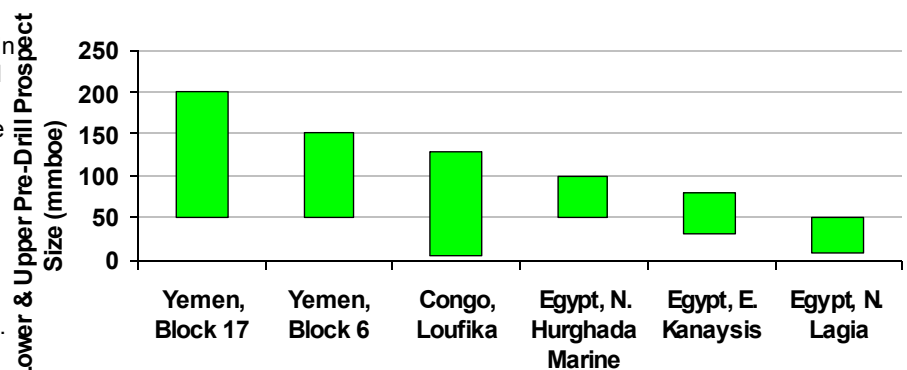
Based solely on published reserve estimates, both deals are expensive but Burren reserves are

Table 3: Burren Energy Acreage Holdings by Country and Block

Country	Block	Net Acres	Working Interest
Turkmenistan	Nebit Dag	49,421	100.00%
Congo	Kouilou/M'Boundi	117,852	37.00%
	Kouakouala	5,184	33.30%
	La Noubi	258,744	37.00%
Egypt	East Kanayis	797,655	100.00%
	North Hurghada Marine	59,305	100.00%
	North Lagia	324,696	90.00%
Yemen	Block 6	888,886	92.00%
	Block 17	4,191,364	87.50%
India	PY-1	5,004	27.00%
	PY-2	1,135	5.67%
	CY-OSN-97/1	197,753	21.60%
	Asjol	500	13.50%
	North Balol	450	6.75%
	CB-ON-7	4,103	13.50%
	CB-ON-1	4,678	15.39%
	AAP-ON-94/1	17,534	10.80%
Total		6,924,264	

Source: Burren Energy

Figure 4: Pre-Drill Prospect Reserve Ranges, Burren Energy



Source: Burren Energy

MERGERS, ACQUISITIONS, & DIVESTITURES



particularly dear. However, incorporating the resource upside associated with Burren exploration acreage reduces the per boe cost of the deal dramatically.

Reserve acquisition cost estimates are an often used metric for comparing acquisitions. Their value as a standard for evaluating comparable deals is widely recognized. However, the ultimate measure of the success or failure of an acquisition is simply this: does the deal add value to the acquiring company's shares? A boe-based comparison does not fully address this more fundamental question.

Addressing this more fundamental value issue on a consistent basis is a central element of the GES MA&D service.

Figure 6 shows GES estimates of the discounted value of the Maurel & Prom and the Burren deals using GES cash flow models and based on ENI's cost of capital. Estimates are prepared under each of our price cases. Detailed estimates of the value contributions of each of the key Burren assets are shown in Figure 7.

Do these acquisitions return at least ENI's cost of capital? The Maurel & Prom deal adds value in the high price case, breaks even in the mid-price case, but fails this test in the low price case. The Burren acquisition, including the resource upside associated with exploration acreage, adds value in the mid and high-price cases but does not add value in the low-price case examined here.

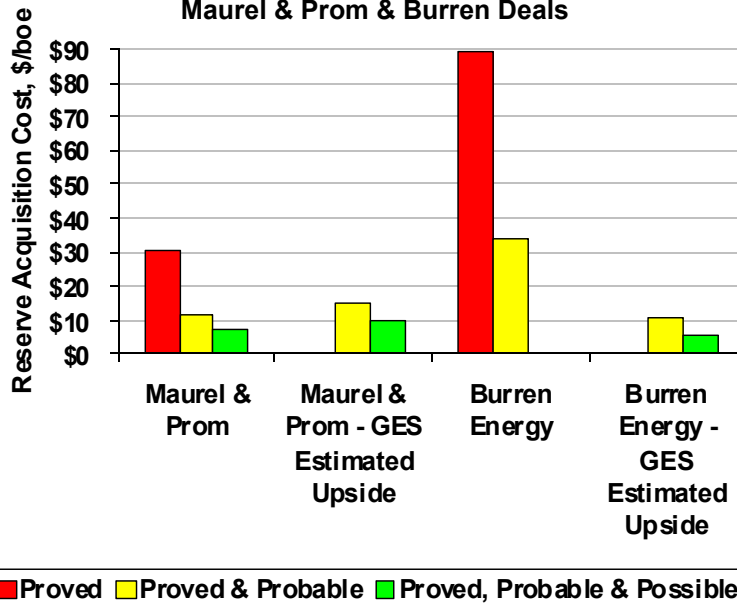
Key Asset Value Estimates

Figure 7 shows, for each price case, GES estimates of the discounted after-tax cash flows of Burren assets using ENI's cost of capital. The cash flow models are used to generate projections of recoverable reserves in each price case. A comparison of reserve estimates as published by the participants with GES estimates incorporating resource upside is provided in Figure 8.

For purposes of the cash flow projections, the resource potential of exploration assets is set to the mid-point of the pre-drill prospect low and high reserve cases shown in Figure 4.

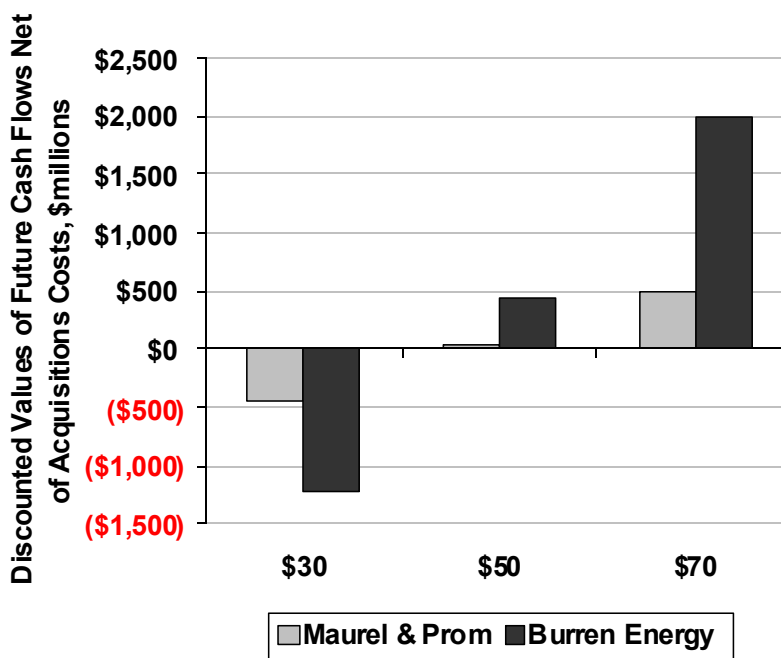
Potential timing of drilling and the subsequent startup of production from possible discovered reserves is based on future exploration plans as published by Burren Energy.

Figure 5: ENI Per BOE Reserve Acquisition Cost Estimates, Maurel & Prom & Burren Deals



Sources: Published estimates by Maurel & Prom, Burren Energy and ENI as well as GES estimates

Figure 6: Projected NPV of ENI's Acquisitions Based on GES Estimates Including Resource Upside



Sources: Published estimates by Maurel & Prom, Burren Energy and ENI and GES estimates of exploration acreage potential reserves

MERGERS, ACQUISITIONS, & DIVESTITURES



For any price case the results in Figure 7 show the likely liquidation values of these assets from ENI's perspective.

Assets in Turkmenistan (Burun Oil, Burun Gas, and Balkan/Uzboy) and the Congo (M'Boundi, Loufika) account for 34% and 21% of total estimated value, respectively. The exploration acreage in Yemen is also an important value contributor due to the relatively large potential reserve size of prospects.

Figure 8: Published Reserve Estimates and GES Estimates including Resource Upside

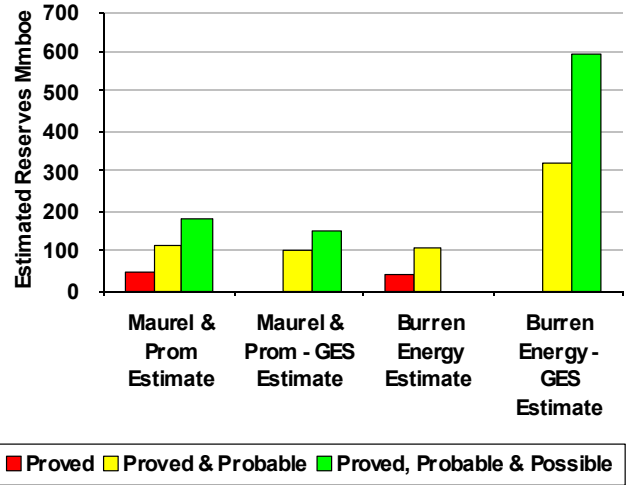
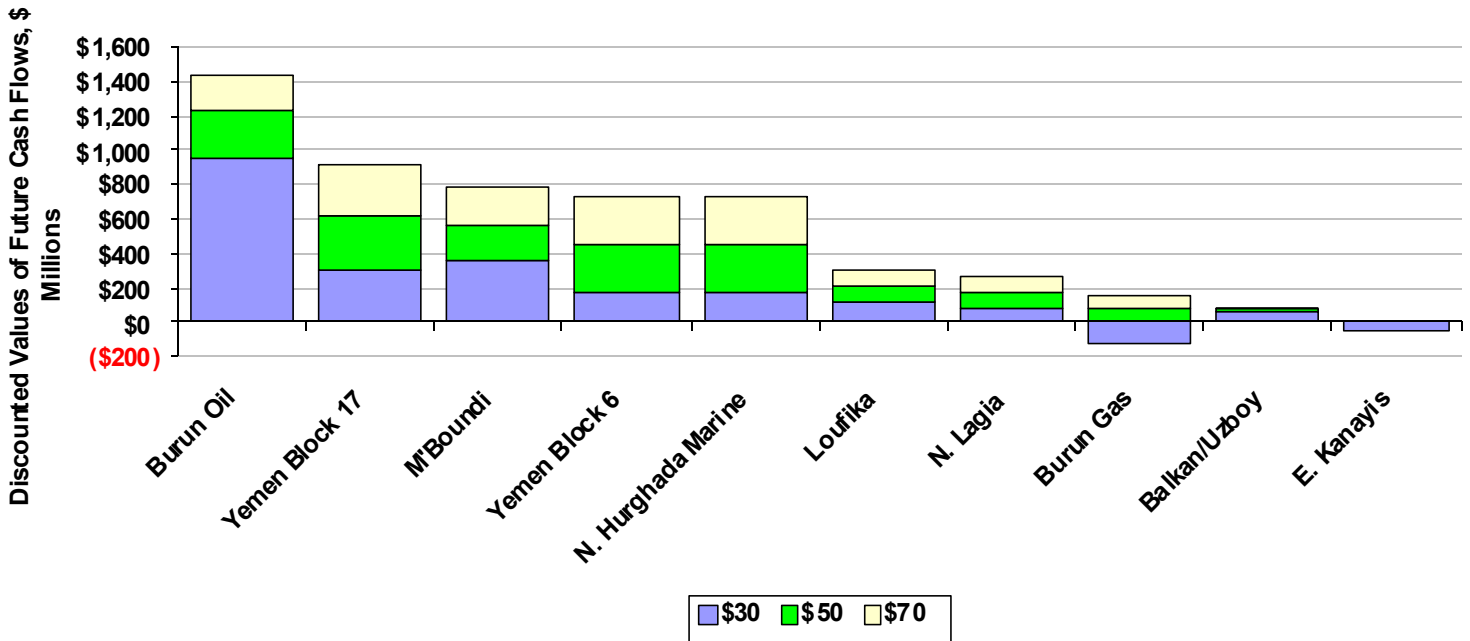


Figure 7: GES Estimated Asset Economic Value including Resource Upside



Sources: GES asset economic model estimates based on published estimates of producing field development programs and exploration acreage potential reserves

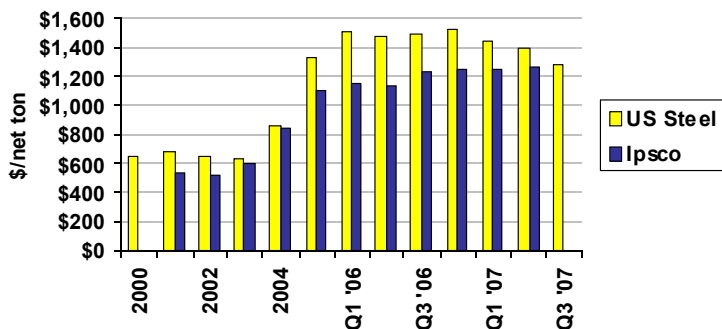
COST WATCH



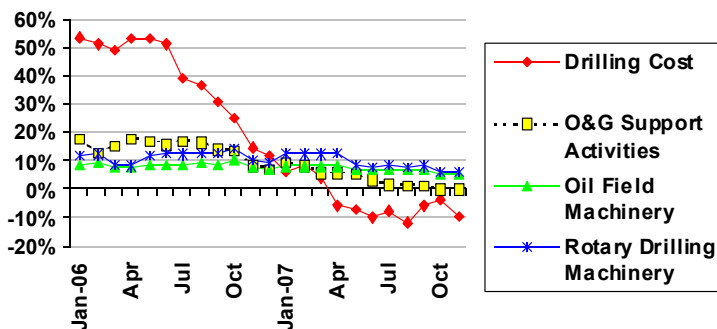
After running into the first quarter of 2007, cost inflation pressures have fallen more or less continuously for the rest of the year. Preliminary November results show this process continuing across all key cost components followed here. On a year-to-date basis, percentage changes in key costs are: drilling wells, -3.9%; oil and gas support activities, 3.6%; oilfield machinery, 16.9%; production machinery, 15.1%; and rotary drilling machinery, 9.4%.

As capital spending plans are announced we will gain some insight into company expectations for future cost inflation pressures. EnCana is a recent example. The company anticipates the following inflation rates: (1) US capital costs, 5%, (2) oil sands costs, 5% to 10%, (3) operating costs, 10%.

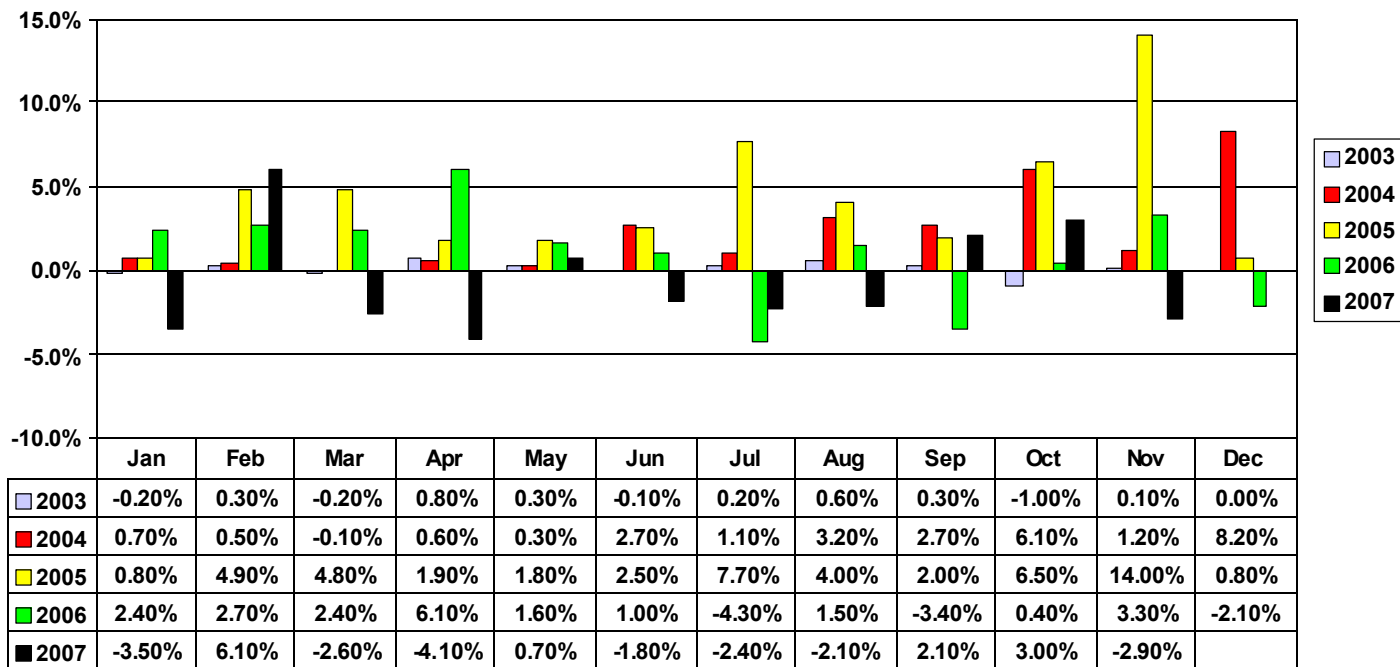
Tubular Steel Products Price



Annual Inflation of Selected Industry Costs



US Producer Price Index: Monthly Percentage Change in the Cost of Drilling Oil & Gas Wells



Year over Year Percentage Change

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2005	27.2%	31.7%	36.5%	37.8%	39.4%	39.2%	45.8%	46.6%	45.9%	46.3%	59.1%	51.7%	43.2%
2006	53.3%	51.1%	48.7%	53.0%	52.7%	51.3%	39.2%	36.7%	31.3%	25.2%	14.5%	11.6%	37.8%
2007	5.7%	9.1%	4.2%	-6.1%	-7.0%	-9.8%	-7.9%	-11.5%	-6.1%	-3.5%	-9.6%		