ON POINT

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GORDON ENERGY SOLUTIONS

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

IN THE NEWS

ExxonMobil Backs Out of Barnett

Chesapeake recently acquired ExxonMobil's Barnett shale interests including 24,000 acres and a pipeline. These interests were held through a partnership with Harding Energy Partners. The purchase price of the deal is not known. Shell sold its 50,000 net acre position in the play last November for US$150 million. In a contrasting move, BP has further increased is shale gas position in a deal discussed inside this issue.

Anadarko's Planned Sale Blocked in Venezuela

The US$200 million agreement between Anadarko and PetroFalcon to sell Anadarko's Venezuelan operations has been blocked by the government. The deal included an 18% interest in Petroritupano and US$58 million in credits for new oil and gas investment.

Shtokman

An additional US$800 million budget has been approved for the pre-FID phase of the Shtokman project in 2008 and 2009. Total's CEO expect FID by late 2009 or 2010.

Chesapeake Cuts Capital Budget Again

Chesapeake has announced a further US$1.5 billion cut in planned capital expenditures in 2009 and 2010. This is planned to be part of a net cut in drilling and leasehold spending and comes on the heels of a previous announced cut of US$3.2 billion (17%) in spending from the last half of 2008 through 2010. The original US$3.2 billion cut was composed of US$0.8 billion due to the carried interest in the BP deal in the Fayetteville Shale, US$0.5 billion due to an expected carried interest associated with a yet to be completed Marcellus Shale deal, and the remaining US$1.9 billion is due to reduced drilling plans (a net cut of 10.1%. The combined cuts represent a reduction of roughly 25% of previously planned spending.

Ichthys LNG

Inpex and Total have announced that the Ichthys project will pipe natural gas production to new-build liquefaction facilities at Darwin.

The 850 km pipeline (compared to the 190 km preferred option to the Maret Islands) is at least one reason for the very large increase in the estimated cost of the Ichthys development. The current estimated cost of the full project is more than US$20 billion. Estimated Ichthys reserves include 12.8 Tcf gas and 527 mmbbls condensate. The development plan includes liquefaction capacity of 8 mmtpa in two trains.

Elsewhere, Chevron re-iterated its commitment to proceed with the Gorgon project despite the current financial market difficulties. The company expects FEED to be completed in 2009.

Indonesia

It has been reported that Pertamina is looking to take a 10% working interest in Chevron gas fields in East Kalimantan and the Inpex Abadi field in the Timor Sea.

Apparently the focus on Chevron assets off East Kalimantan is limited to planned development projects involving Gendalo, Gehem and Ranggas. The legacy producing assets (Attaka and other shallow water fields) are not included. All of these assets were part of the portfolio associated with the Unocal deal.

Indonesia is also seeking an interest in Inpex's 10 Tcf Abadi discovery in the Timor Sea. Development of Abadi is difficult. Inpex would prefer shipping the gas to Darwin while the Indonesian government favors offshore liquefaction.

Ecuador/Petrobras Deal on Block 18

Ecuador and Petrobras have reached an agreement on a deal on a one-year delay conversion of Block 18 from a participation agreement to a service contract. Ecuador's share in production will be increased from 51% to 60% and the windfall profit tax rate will be reduced from 99% to 70% during the interim period.

Ugnu Formation CHOPS Test Results

BP has indicated that its initial test of Cold Heavy Oil Production with Sand (CHOPS) has succeeded in producing 10 degree gravity oil from the Ugnu formation at Milne Point on a continuous flow basis. Oil content in the mix has ranged from 50 to 80%.

The next phase of the company's Milne Point program will involve drilling three more wells. Two of these will be CHOPS wells. The third will be a horizontal well to provide a comparison of CHOPS and horizontal well performance. It is reported that testing will continue for another three to five years.

MIGAS 2008 Round

Indonesia just announced the results of its most recent licensing round.

On 17 October 2008 Indonesia's Ministry of Energy and Mines announced the award to 22 new blocks to a diverse group of companies.

Total capital committed in winning bids included US$45.5 million in signature bonus and US$330 million in spending over the first three years.

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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.

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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

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Table 1: Awards in Latest Indonesian Round

Company	Block	Area Sq Km	Signature Bonus $mm	Work Obligation $mm
Chevron	West Papua Block I	Na	Na	$24.50
Chevron	West Papua Block III	Na	Na	$24.50
ConocoPhillips	Arafura Sea	Na	Na	$30.00
Husky Energy	North Sumbawa II	Na	Na	$12.40
Marathon and Kaizan Oil & Gas	Bone Bay	Na	Na	Na
Niko Resources	West Sageri, South East Ganal I, South Matindok, Seram	20,000 combined gross	Na	Na
Serica Energy	East Seruway	5,864	Na	Na
Ranhill Energy	South CPP	Na	Na	Na
Salamander Energy and PT Kutai Timur Resources	South East Sangatta	3,168	Na	Na
Adelphi Energy	South Bengara II	Na	Na	Na
Sinochem	Madura	Na	Na	Na
PT Radiant Nusa Investama	South West Bukit Barisan	Na	Na	Na
PT Tiga Musim Mas Jaya	Lirik II	Na	Na	Na
Gujarat State Petroleum and Essar E&P	South East Tungkal	Na	Na	Na
PT Harpindo Mitra Kharisma	Lampung III	Na	Na	Na
Pearl Energy and Australian Worldwide Exploration	East Muriah	Na	Na	Na
PT General Energy	North Bone	Na	Na	Na
PT Putindo Bintech	Buton I	Na	Na	Na

Note: Niko is in partnership with Kaizan Oil & Gas in the West Sageri, South East Ganal I and South Matindok blocks and with Konsorsium Biak Petroleum in the Seram block. Adelphi Energy plans to farm out part of its interest in South Bengara II to two other companies

Details are spotty at this time but winning companies are shown in Table 1.

Sinochem continues to expand its international operations. In addition to the Madura block award in this round, in August the company announced that it had acquired a 20% working interest in Megrangin II and a 40% working interest in Belida from PT Sele Raya. Both blocks are located in onshore Sumatra. In addition, Sinochem is also reportedly in discussions to acquire assets from SOCO International.

It should also be noted that Gujarat State Petroleum and Essar E&P have now expanded their international upstream operations to include Indonesia.

BP Acquires Fayetteville Shale Position

BP and Chesapeake reached an agreement on 2 September 2008 in which BP will acquire a 25% working interest in Chesapeake's Fayetteville Shale acreage. BP will pay US$1.1 billion in cash at closing and will fund an additional US$800 million of Chesapeake's share in drilling and completion costs over the rest of 2008 and 2009.

The US$1.9 billion acquisition involves 540,000 net acres held by Chesapeake and gives BP:

- 135,000 net acres
- A share in output of 180 Mmcfe/d
- Access, according to Chesapeake, to as many as 6,700 horizontal well locations as the companies develop the acreage
- Rights to participate with a 25% working interest in any additional acreage Chesapeake acquires in the Fayetteville shale play

This is the second major BP deal in which the company has acquired significant acreage in US shale gas plays. The previous deal was also with Chesapeake and involved a US$1.7 billion acquisition of Chesapeake's Woodford Shale assets in Oklahoma.

Table 2 shows the metrics of the latest deal. Results are calculated assuming a 20% royalty and 5% state severance tax rate. Table 3 reproduces the same

Table 2: BP Fayetteville Shale Acquisition Metrics

$mm		Acquisition Price $mm	Contingent Payment $mm	Future Development Cost $mm	All In Costs $mm
Net Reserves mmboe		**$1,100.0**	**$800.0**	**$419.5**	**$2,319.5**
Proved	**0.0**				
Proved & Probable	**1,188.1**				
BP Share	**25%**				
Proved mmboe	**0.0**				
Proved & Probable mmboe	**297.0**				
$/boe Proved		**na**	**na**	**na**	**na**
$/boe Proved & Probable		**$3.70**	**$2.69**	**$1.41**	**$7.81**

Note: Future development costs are estimated based on Chesapeake stated estimate of potential wells

Table 3: BP's Woodford Shale Acquisition Metrics

		Acquisition Price $mm	Contingent Payment $mm	Future Development Cost $mm	All In Costs $mm
Net Reserves mmboe		**$1,750.0**		**$2,896.6**	**$4,646.6**
Proved	**15.2**				
Proved & Probable	**333.3**				
Buyer Share	**100%**				
Proved mmboe	**15.2**				
Proved & Probable mmboe	**333.3**				
$/boe Proved		**$115.38**	**$0.00**	**$190.98**	**$306.37**
$/boe Proved & Probable		**$5.25**	**$0.00**	**$8.69**	**$13.94**

Note: Estimated Bitumen resources of 1.673 billion barrels. Future development cost based on most recently revised estimated of C$4.4 billion in 2006 dollars. Royalty rate estimated.

table from the July issue of On Point for purposes of comparison.

On a net basis, BP is paying US$8,148 per net acre (US$6,059 per acre after adjusting for the cost allocated to current production). To give this figure some context, on 28 July 2008 Chesapeake won rights to 3,959 acres in the Gulf Mountain Wildlife Management Area in Van Buren County for a bonus of US$29.3 million or US$7,165 per net acre.

In the Woodford deal (again, after reducing the purchase price by the cost allocated to current production), BP paid US$15,888 per acre. As noted in our discussion of this deal in July, this is clearly at the upper range of recent bids placed in competitive auctions in Oklahoma's Woodford play (upper range bids in 2008 have varied from US$16,000 at the top to US$3,000 per acre at the midpoint of the distribution). However, BP's price was probably not out of line given the number of acres involved in this play where much of the acreage has been awarded.

As we consider this deal we are reminded of how EnCana built its position in the Deep Bossier play of West Texas and the lessons it offers as to how a relatively large company can still build a strategic position in North America. Specifically, (1) EnCana farmed in to a minority interest on Leor acreage as the initial tactical move, (2) as the play is proven up, EnCana increased that working interest to 50%, (3) ultimately the company acquired Leor's share.

Given BP's circumstances in Russia and its rapidly maturing assets elsewhere we strongly suggest that, beyond the interests acquired in these two deals, there may be a larger move on the horizon. The Fayetteville deal positions BP in such a way that at least three options are available:

- Develop the Woodford shale and Fayetteville shale positions recognizing that while they may not replace the barrels that are currently at risk of being lost in Russia they will (1) go a long ways towards replacing the earnings and future value created, (2) add considerable stability to future production and (3) give the company a level of flexibility in near and medium-term investment programs that is not provided by extended spending commitments that are typical of large mega-projects

- Pursue the same strategy EnCana did in the Deep Bossier with the likelihood that BP eventually buys Chesapeake out of the Fayetteville entirely

- If the opportunity arises because of differing effects of weaker natural gas prices on Chesapeake's shares as opposed to BP shares, acquire Chesapeake as a means of gaining positions in multiple shale gas plays and refreshing the base acquired from Amoco nearly a decade ago

The degree to which this may already be a very real strategic opportunity is illustrated in Figure 1. At Chesapeake's recent share price of US$22.15 per share, the enterprise value per Mcfe of proved reserves only is just slightly more than US$2.50. This is clearly much more than BP has paid on a per Mcfe basis in its two deals. However, using Chesapeake's published estimate of risked unproved reserves, the current enterprise value for this more speculative upside case is only US$0.80/Mcfe.

ConocoPhillips Joins Australian CBM/LNG Play

While BP is opting for a larger position in unconventional North American natural gas, ConocoPhillips is looking elsewhere. Specifically, COP has pushed BG out of its efforts to acquire Origin and has taken a 50% interest in a potential LNG project to export Australian coal bed methane. The full scope of the deal is conditional on results as multiple phases progress.

The transaction includes (1) a US$5 billion cash payment to gain entry (2) additional US$2 billion (US$500 million payments as each of the four trains are approved) and (3) an estimated additional US$938 million carry of Origin's costs to the point of Final Investment Decision (FID) for Train 1 (expected by end of year 2010).

The development of this project will ultimately extend over a substantial period of time. First LNG from Train 1 is not expected until 2014. Train 2 FID is expected in late 2010 or 2011 with first gas by 2015 and Trains 3 and 4 are planned for post 2015.

Table 4 shows the acquisition metrics associated with this deal. The substantial

Figure 1: Hypothetical Chesapeake Acquisition Metrics at Recent Share Price

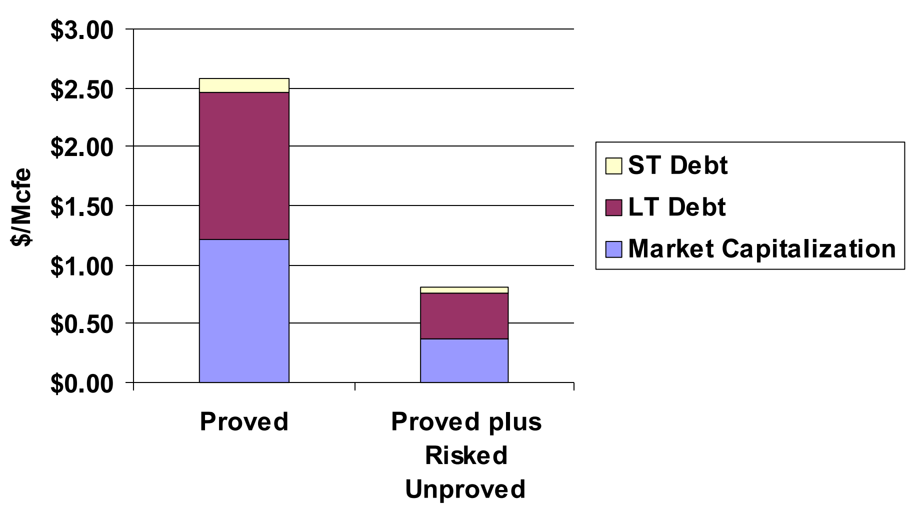

Table 4: ConocoPhillips' Australian CBM/LNG Acquisition Metrics

$mm		Acquisition Price $mm	Contingent Payment $mm	Future Development Cost $mm	All In Costs $mm
Net Reserves mmboe		$5,000.0	$2,000.0	$5,585.4	$12,585.4
3P	1,778.60				
3P + Contingent	4,562.63				
COP Share	50.00%				
3P	797.70				
3P + Contingent	2,046.34				
$/boe, 3P		$6.27	$2.51	$7.00	$15.78
$/boe, 3P + Contingent		$2.44	$0.98	$2.73	$6.15

entry cost (US$5.9 billion) and the multi-phase nature of the project makes the resulting metrics highly sensitive to the degree to which the project volumetric potential is actually realized.

Table 3 compares results under two upside cases: (1) full 3P resource potential is realized and (2) 3P plus contingent resources are realized. In both alternatives we assume all four trains are built. The resulting estimated per boe cost will range from US$15.78 in the 3P case to US$6.15 in the most optimistic case in which contingent resource estimates are realized.

In a less optimistic case (using only proved and probable reserves), the boe cost more than doubles from the 3P case: rising from US$15.78 per boe to US$33.67. In short, more than half of the 3P reserves are in the more uncertain possible class.

In opting for the Australian deal, rather than building on its existing North American gas base ConocoPhillips is increasing its potential share of the market for oil-linked gas to Japan. However, it is also

- Opting for a higher cost supply option by adding LNG investments to the CBM project (particularly exposing itself to resulting cost inflation risks)
- Exposing itself to the current uncertainties surrounding Australian environmental policies to reduce CO2 emissions and
- Placing a very large up-front cash bet on a project that is subject to a long lead time

ENI Buys First Calgary

In a US$868 million deal, ENI has acquired First Calgary Petroleum for C$3.60 per share (compared to the closing price of C$2.36 on 2 September 2008). FCP's sole asset is its interest in Algeria's Block 405b and the MLE and CAFC field development projects.

Gas production will be priced on a netback basis with the Southern European gas benchmark. Table 5 shows the estimated costs of this deal.

While relatively small compared to ENI's size, this deal obviously fits well with ENI's strategic position in the Mediterranean sector including North Africa. It also provides needed boost to the company's future production from new projects as a means of getting closer to its previously stated production targets.

Table 5: ENI/First Calgary Petroleum Acquisition Metrics

$mm		Acquisition Price $mm	Future Development Cost $mm	All In Costs $mm
Net Reserves mmboe		$868.4	$1,874.2	$2,742.6
Proved	55			
Proved & Probable	190			
ENI Share	100%			
Proved mmboe	-			
Proved & Probable mmboe	190			
$/boe Proved		$15.79	na	na
$/boe Proved & Probable		$4.57	$9.86	$14.43

Note: Future development costs are based on FCP estimates of 2P costs per the 2007 AIF

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US Asset Sale Value Indicators
Trailing 12-Month Period, June 2007-June 2008

Non-Operated Working Interests 6:1

	Average (Mean) $/BOE/D	Average (Weighted) $/BOE/D	Average Multiple (Average Income)	Average Multiple (Last Income)
Appalachians	$45,873	$28,278	38.50	35.19
Ark-La-Tex	$42,975	$34,667	47.56	50.36
Gulf Coast	$35,729	$23,611	35.62	45.01
Michigan Basin	$37,138	$26,415	40.11	55.73
Mid Continent	$47,948	$41,969	51.24	55.85
Permian Basin	$74,420	$75,092	56.99	51.72
Rockies	$48,652	$56,898	44.52	42.26
South Texas	$36,738	$31,067	35.53	39.14
West Coast	$42,260	$27,675	44.73	44.48
Column Average	$45,748	$38,408	43.87	46.64

Operated Working Interests 6:1

	Average (Mean) $/BOE/D	Average (Weighted) $/BOE/D	Average Multiple (Average Income)	Average Multiple (Last Income)
Appalachians	$85,524	$56,867	45.70	54.69
Ark-La-Tex	$32,972	$28,431	29.47	32.74
Gulf Coast	$31,344	$23,493	26.30	48.76
Michigan Basin	$44,967	$44,967	31.40	41.35
Mid Continent	$56,945	$28,516	53.39	51.61
Permian Basin	$45,293	$51,050	54.59	45.04
Rockies	$39,791	$46,338	38.03	44.97
South Texas	$23,632	$21,145	36.68	54.64
Column Average	$45,058	$37,601	39.44	46.73

EnergyNet data on US deal metrics over the 12-month period from June 2007 through June 2008 are shown here.

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.

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COST WATCH

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UPSTREAM

September Cost Inflation Results

On a year to date basis, drilling costs in 2008 are only marginally lower than in 2007. While preliminary September estimates show a 1% decline compared to August, month to month increases in 2008 have generally been upward.

Inflationary pressures continue to be considerably stronger in the oil field machinery sector. On a year to date basis, oil field machinery costs are up 7.6%. This is generally consistent with the rates of inflation experienced in each of the past two years. Rotary drilling machinery costs are up 5.1% thus far in 2008. Support services are only modestly up so far this year.

The upward pressure on costs in the oil field machinery sector are particularly strong. In the production machinery sub-sector double digit percentage inflation rates have been posted compared to the same months in 2007 beginning in March of this year and continuing through September.

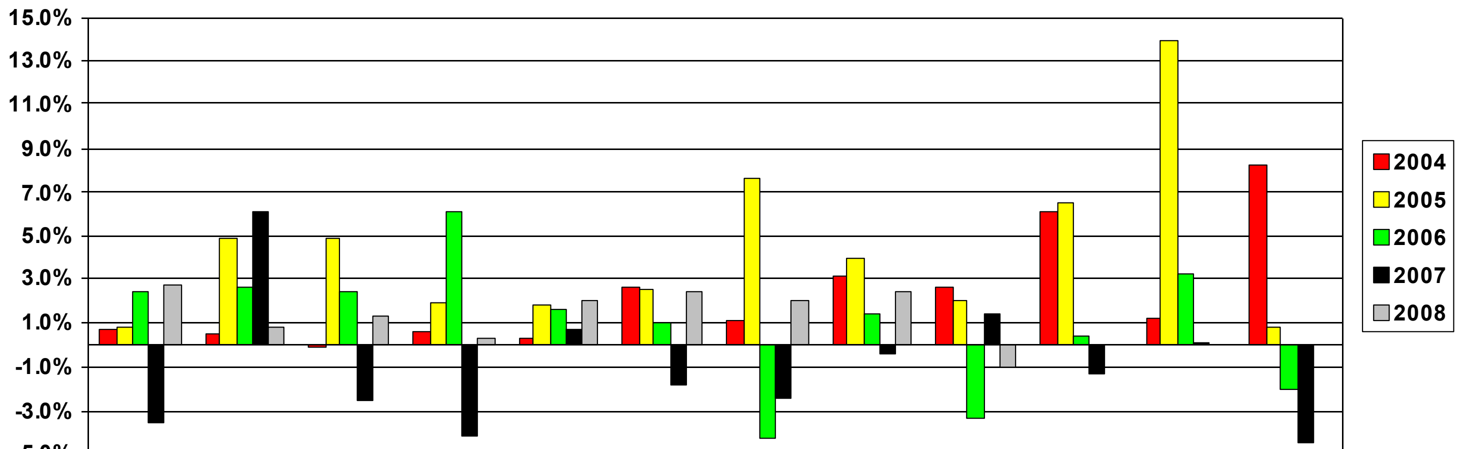
Our composite index of onshore US drilling and completion costs has been increasing since March of this year. In the third quarter of this year the rate of

Annualized Cost Inflation Rates: 2006, 2007 and 2008 YTD

Cost Component	2006/2005	2007/2006	2008 YTD/ 2007
Drilling Cost	**37.8%**	**-4.6%**	**-0.3%**
O&G Support Activities	**13.1%**	**3.6%**	**0.7%**
Oil Field Machinery	**8.7%**	**7.0%**	**7.6%**
Rotary Drilling Machinery	**11.5%**	**8.9%**	**5.1%**

Note: 2008 YTD inflation estimates subject to revision

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

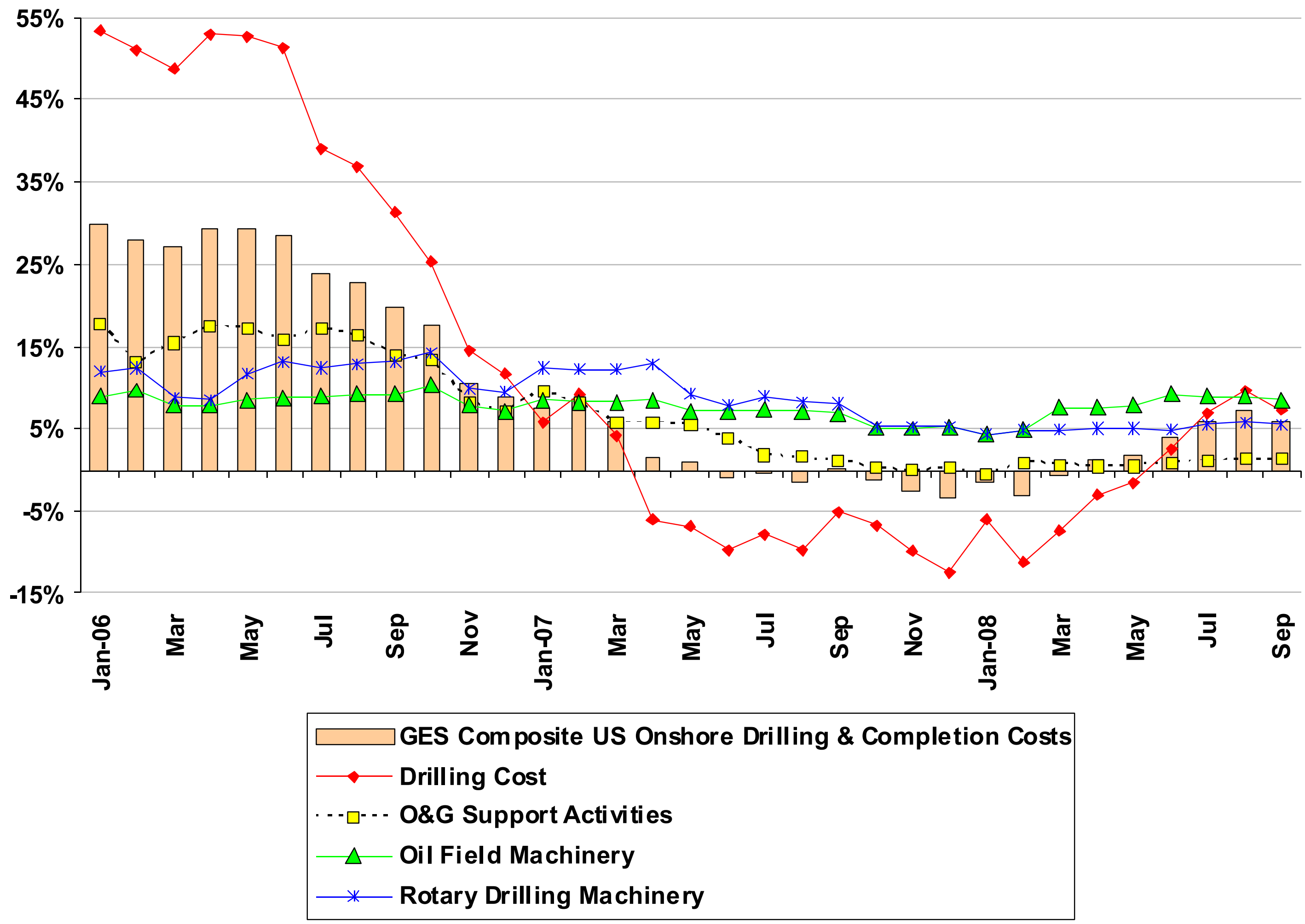


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2004	0.70%	0.50%	-0.10%	0.60%	0.30%	2.70%	1.10%	3.20%	2.70%	6.10%	1.20%	8.20%
2005	0.80%	4.90%	4.80%	1.90%	1.80%	2.50%	7.70%	4.00%	2.00%	6.50%	14.00%	0.80%
2006	2.40%	2.70%	2.40%	6.10%	1.60%	1.00%	-4.30%	1.50%	-3.40%	0.40%	3.30%	-2.10%
2007	-3.50%	6.10%	-2.60%	-4.10%	0.70%	-1.80%	-2.40%	-0.40%	1.40%	-1.30%	0.10%	-4.50%
2008	2.80%	0.80%	1.30%	0.30%	2.10%	2.40%	2.00%	2.40%	-1.00%			

Year over Year Percentage Change

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
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%	-9.8%	-5.0%	-6.7%	-9.9%	-12.4%	-4.6%
2008	2.8%	0.8%	1.3%	0.3%	2.1%	2.4%	2.0%	2.4%	-1.0%				

Monthly Year over Year Inflation of Selected Industry Costs



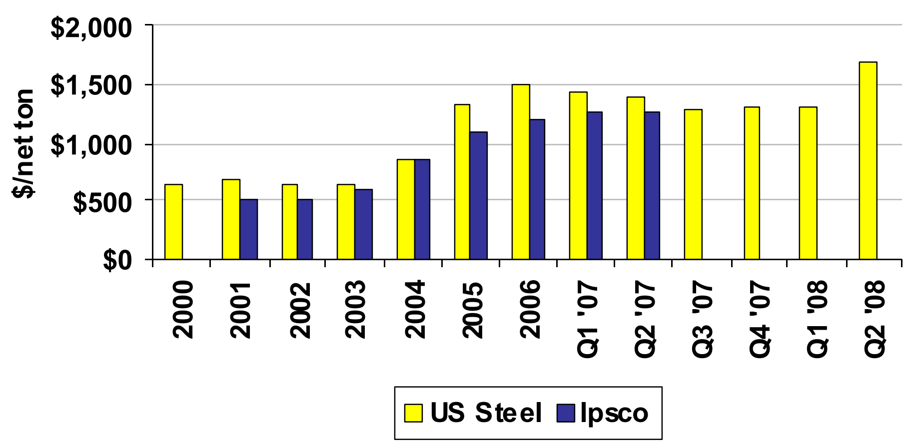
inflation of composite costs has been in excess of 5% per month.

Tubular steel prices increased very substantially in the 2nd quarter of 2008. At US$1,690 per ton the most recent price of tubulars is now greater than the average in 2006.

Announced cutbacks in capital spending in response to the current financial distress and the sharp drop in natural gas prices are significant. These are likely to choke off some of the inflation pressures that we have seen building of late.

How deep these cutbacks will become and, just as importantly, how long they will be sustained remains to be seen. A substantial number of companies have built very substantial land positions in recent years. While significant portions of these positions may be held by production much is not. The threat of lease expirations will be a significant limiting factor on the capacity of a number of companies to limit drilling other than for a relatively short period of time.

Tubular Steel Products Price



Ilpsco was acquired by SSAB and its Tubular Division was sold to Evraz