

Seismic reflections

Fully funded explorers?

Investors in Chariot Oil & Gas received good news earlier this month when the company confirmed it had secured a rig to drill its first exploration well offshore Namibia on Tapir South. In a tight rig market, the company had managed to seal a deal and pave the way for drilling to begin in April, taking the company closer to a well result and a potential discovery. Two weeks later, Chariot announced that it had conditionally placed shares to raise around \$49m to fund additional activity in the well. As pure exploration companies like Chariot look to keep options open and adapt to changing requirements as new information is acquired, can investors judge when such a company is really fully funded?

Unexpected dilution

In choosing to invest in a pure exploration player, particularly in an under-explored area such as Namibia, a shareholder is accepting the high risk/high reward binary nature of the investment. As with all investments however, they are not so keen on the dilution of their holdings. Chariot is not alone in advising that it is fully funded only to go on to raise funds further funds to meet a revised programme. For example, in December 2011 another frontier explorer, Falkland Oil and Gas (FOGL), raised just under \$78m through a placing in order to allow flexibility to its drilling options.

Flexibility key for explorers

In Chariot's case, the additional funds will allow it to drill deeper in Tapir South and evaluate an additional identified target. For FOGL, an increased focus on the hot Mid Cretaceous play resulted in the high grading of its Scotia prospect and a requirement for more funds to drill this deeper well. In this way, explorers are particularly prone to changing and adapting plans with the consequence that further funds are required. Yet this is not exclusively the case. FOGL peer Borders & Southern raised \$195m to fund its \$100m two well programme currently underway in the Falklands and, with a comfortable contingency of \$95m, it is unlikely to run out of cash anytime soon. However, such a contingency is difficult to obtain, with institutions often stipulating that a company raise only enough to meet an immediate and defined programme of work and forcing it to return to the market when this is not enough. Too often under these circumstances it is the broker that primarily benefits.

Funding balancing act

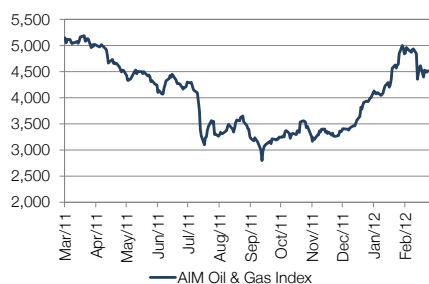
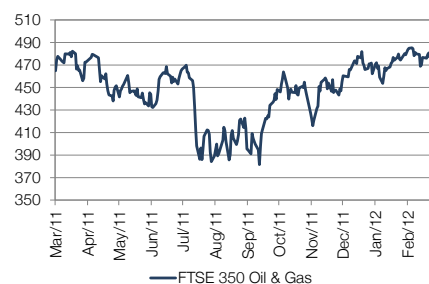
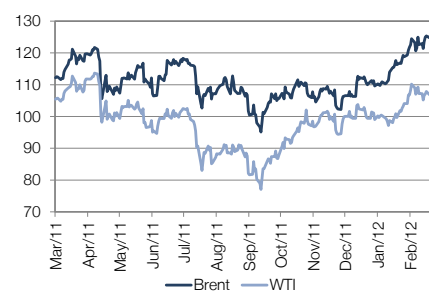
It seems then that in addition to the inherent uncertainty in the outcome of exploration programmes, there is also the risk that plans will change and dilution will occur. A fully funded explorer can never be guaranteed therefore, and investors can only look to those with large contingencies such as Borders & Southern to feel comfortable that their shares will not be diluted in the near term.



Analysts

Elaine Reynolds	+44 (0)20 3077 5700
Ian McLelland	+44 (0)20 3077 5756
Peter J Dupont	+44 (0)20 3077 5741
Colin McEnery	+44 (0)20 3077 5731

oilandgas@edisoninvestmentresearch.co.uk



For institutional enquiries please contact:

Andrew Chesny	+44 (0)20 3077 5746
Gareth Jones	+44 (0)20 3077 5704

institutional@edisoninvestmentresearch.co.uk

Exhibit 1: Best and worst performers

		1 week			
No.	Best performers	% change	No.	Worst performers	% change
1	NORTHERN PETROLEUM	19.9%	1	EXILLON ENERGY	(15.4%)
2	SERICA ENERGY	17.3%	2	ENEKI OIL	(14.9%)
3	BPC LIMITED	11.9%	3	ROXI PETROLEUM	(14.0%)
4	SOUND OIL	7.8%	4	GULFSANDS PETROLEUM	(13.3%)
5	GLOBAL PETROLEUM	7.4%	5	AMERISUR RESOURCES	(11.8%)

		1 month			
No.	Best performers	% change	No.	Worst performers	% change
1	PROVIDENCE RESOURCES	72.1%	1	GULF KEYSTONE PETROLEUM	(27.3%)
2	SERICA ENERGY	35.9%	2	EXILLON ENERGY	(24.5%)
3	JKX OIL AND GAS	34.4%	3	GULFSANDS PETROLEUM	(24.3%)
4	NORTHERN PETROLEUM	18.5%	4	EGDON RESOURCES	(22.6%)
5	TOWER RESOURCES	17.9%	5	BOWLEVEN PLC	(22.2%)

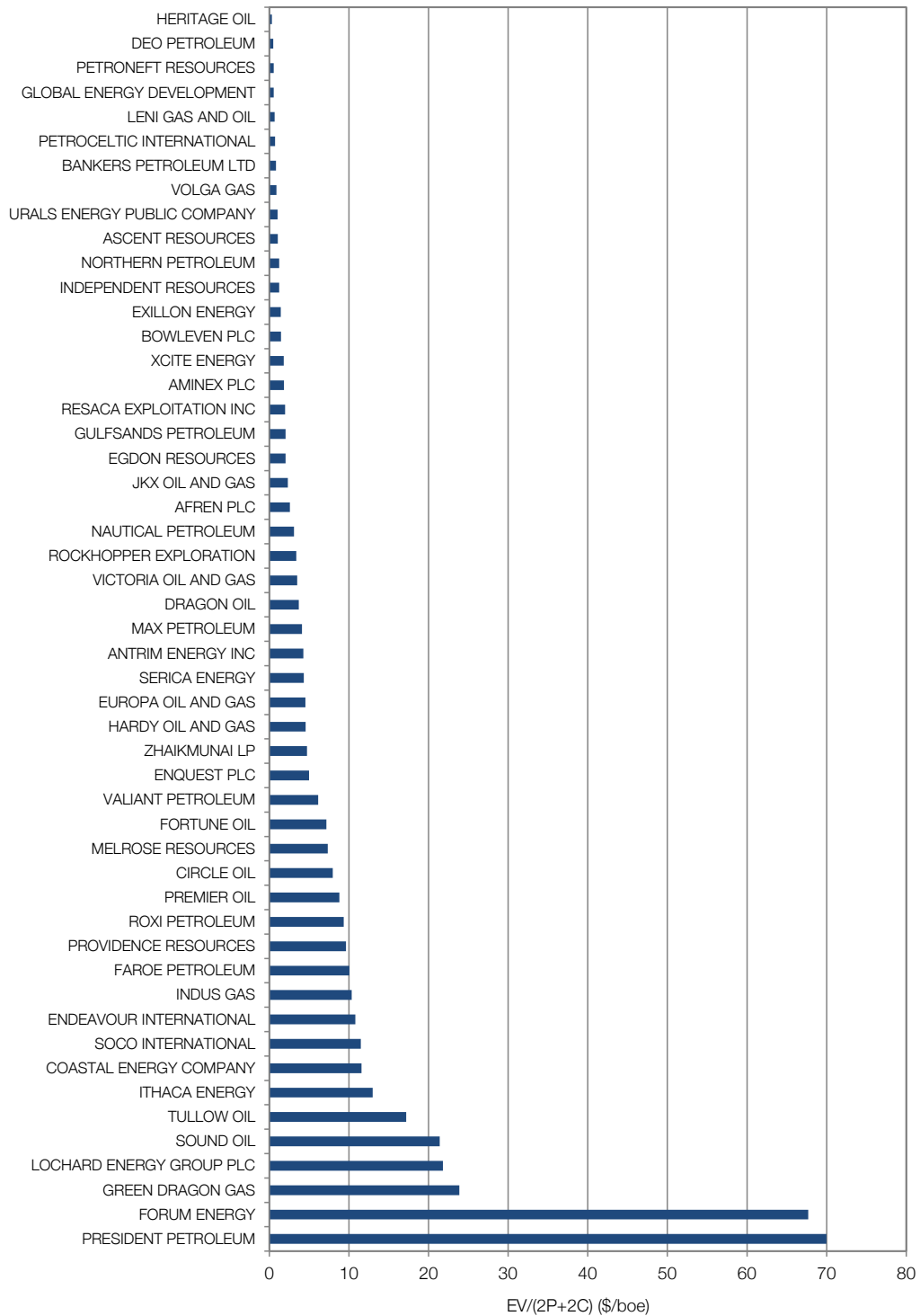
		3 months			
No.	Best performers	% change	No.	Worst performers	% change
1	LENI GAS AND OIL	188.9%	1	PETRONEFT RESOURCES	(49.3%)
2	PROVIDENCE RESOURCES	140.5%	2	GULFSANDS PETROLEUM	(35.5%)
3	SERICA ENERGY	104.8%	3	RESACA EXPLOITATION INC	(25.9%)
4	BPC LIMITED	95.8%	4	EXILLON ENERGY	(25.8%)
5	ENDEAVOUR INTERNATIONAL	88.9%	5	EGDON RESOURCES	(21.0%)

		6 months			
No.	Best performers	% change	No.	Worst performers	% change
1	COVE ENERGY PLC	180.4%	1	PETRONEFT RESOURCES	(60.9%)
2	PROVIDENCE RESOURCES	138.2%	2	RESACA EXPLOITATION INC	(53.4%)
3	PETROCELTIC INTERNATIONAL	23.4%	3	MEDITERRANEAN OIL AND GAS	(37.5%)
4	SERICA ENERGY	100.7%	4	PETRO MATAD	(35.3%)
5	PRESIDENT PETROLEUM	85.9%	5	GASOL PLC	(34.6%)

		1 year			
No.	Best performers	% change	No.	Worst performers	% change
1	COASTAL ENERGY COMPANY	157.5%	1	FRONTERA RESOURCES CORPORATION	(83.3%)
2	COVE ENERGY PLC	119.4%	2	PETRO MATAD	(82.5%)
3	PROVIDENCE RESOURCES	77.4%	3	PETRONEFT RESOURCES	(82.3%)
4	GULF KEYSTONE PETROLEUM	64.3%	4	BOWLEVEN PLC	(75.1%)
5	INDUS GAS	40.6%	5	AURELIAN OIL AND GAS	(73.8%)

Source: Bloomberg

Exhibit 2: EV/2P + 2C rankings



Source: Bloomberg, company releases, Edison Investment Research

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Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
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