Falkland Oil & Gas

Combination and farm-out

Deals boost portfolio

Oil & gas

Falkland Oil & Gas's combination with Desire Petroleum and farm down to Premier/Rockhopper substantially increases the number of its near-term catalysts and balances the company's frontier Southern Basin acreage with lower-risk exploration potential close to the Sea Lion development. FOGL will now feature prominently in the 2014/15 multi-operator Falklands drilling campaign with five exploration/appraisal wells, offering investors multiple opportunities to unlock value.

Year end	Revenue ($m)	EBITDA ($m)	PBT* ($m)	Debt ($m)	Net cash ($m)	Capex ($m)
12/11	0.0	(3.7)	(4.7)	0.0	92.0	(53.0)
12/12	0.0	(5.1)	(2.4)	0.0	184.6	(48.4)
12/13e	0.0	(5.0)	(2.4)	0.0	144.1	(90.0)
12/14e	0.0	(5.2)	(3.0)	0.0	140.4	(0.0)

Note: *PBT is normalised, excluding intangible amortisation, exceptional items and share-based payments. Historic numbers reflect a combination of FOGL and Desire.

Northern assets bring balance

FOGL's deals bring it 40% of three Northern Basin licences together with a share in the Sea Lion development. The de-risked exploration prospects in these blocks complement the company's high risk/high reward portfolio in the frontier Southern basin and boost the number of wells to be drilled in late 2014/15 from two to five. Under the terms of the farm-out, FOGL is carried for two of its three Northern Basin exploration wells thereby participating in a $150m three-well programme at a net cost of $20m. We highlight exploration/appraisal well Zebedee as of particular interest, targeting 140mmbbl in the primary target with a 52% CoS estimated by Rockhopper. At Sea Lion, the company's share of development costs is not yet clear and we do not expect this to be finalised for some time, with unitisation talks likely to take place through Phase 1 of the development, due onstream in 2018.

High impact wells in the South

FOGL has concentrated on acquiring extensive 3D seismic across the Southern Basin in 2013, with two surveys completed and a third and final survey underway bringing the total survey area to over 10,000km^2. Preliminary analysis has indicated at least two material potential oil prospects, Humpback and Finback, in the Diomedea fan. These prospects sit within FOGL's modelled oil window. We believe the first of the two planned Southern wells will be on Diomedea, with the second to be confirmed based on full seismic interpretation results expected in 2014.

Valuation: Fully funded for more wells

The combined June cash position of $170m leaves FOGL fully funded for its anticipated five-well campaign in late 2014/15. This drives our RENAV of 73p/share, representing a significant premium to the current share price. Our valuation of the Northern basin assets is based on identified drill targets, although we currently use a farm-out valuation approach for the Southern basin interests. We expect to firm this up during H114 as Southern drill targets are identified following the extensive 3D acquisition programme carried out in 2013.

6 December 2013

Price	**27.5p**
Market cap	**£147m**
	US$1.5/£
Net cash ($m) at 30 June 2013	170
Shares in issue	533.3m
Free float	92%
Code	FOGL
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(3.5)	(3.5)	(7.6)
Rel (local)	(0.2)	(3.4)	(18.0)
52-week high/low		34.5p	25.3p

Business description

Falkland Oil & Gas (FOGL) is an exploration, appraisal and development company operating in the Northern and Southern Basins in the Falklands.

Next events

Complete Northern seismic	March 2014
Southern and fault block seismic results	End Q114
Southern Basin targets	Q214

Analysts

Elaine Reynolds	+44 (0)20 3077 5713
Ian McLelland	+44 (0)20 3077 5756

oilandgas@edisongroup.com

Edison profile page

Falkland Oil & Gas is a research client of Edison Investment Research Limited

Investment summary

Company description: Catalyst boost through deals

With drilling on track to return to the Falklands in about a year, FOGL looks set to feature prominently in the upcoming drilling campaign, with an expected five wells on the schedule. A combination with Desire Petroleum gives the company assets across all Falklands basins and diversifies the portfolio to include de-risked assets close to infrastructure together with an interest in the Sea Lion oil development. The farm-out to Premier/Rockhopper ensures that FOGL will be involved in the drilling of three $50m wells in the Northern Basin at a net cost of only $20m, while the company's original frontier acreage in the Southern basin will also enter an interesting phase. Two wells will be drilled here, focused on finding oil and selected on extensive new 3D seismic data.

Valuation: Premium to share price with upside

We have included the Casper South discovery in our RENAV given the current resource discrepancies between partners and since further appraisal drilling is required. Together with the three exploration/appraisal wells planned in the Northern basin in 2014/15, and a read-across from the Noble/Edison farm-out deals to value the Southern basin interests, this gives us a RENAV of 73p/share. Sea Lion is also included in this valuation at an assumed WI of 4%, although this share could change as unitisation discussions develop.

Sensitivities: Partner alignment with balanced risk

In addition to the usual E&P risks we would highlight the following as being relevant to FOGL:

- **Partner risk:** FOGL's partners Premier and Rockhopper are likely to have aligned interests in the exploration and development of the assets, however, there are currently some discrepancies in the resource estimates, and Sea Lion unitisation discussions are not likely to be formalised for some time.
- **Technical risk:** The addition of the de-risked Northern Basin assets balances the higher risk frontier prospects in the Southern Basin. Recently acquired 3D seismic in the South will provide more detailed and extensive seismic coverage than was available for the 2012 campaign. This data, alongside the results of the 2012 wells should allow the drill target selection process to be optimally refined.
- **Financial risk:** FOGL will need to raise funds to finance its share of the Sea Lion development. and a 4% share of Sea Lion costs could come to around $240m, not including the additional costs for the development of any Sea Lion satellites. Timing around this is currently unclear, and will be subject to the terms of any unitisation agreement.

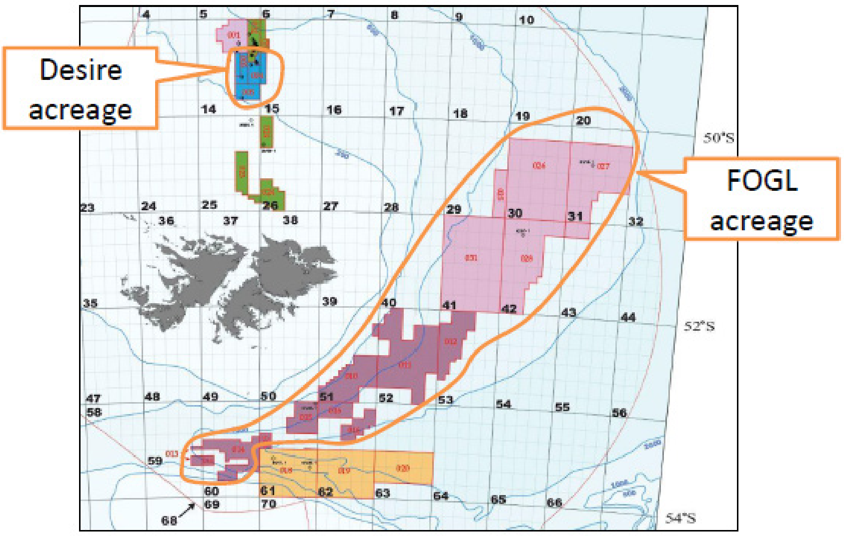
Financials: Funded for five-well campaign

FOGL held cash of $170m at the end of June 2013 and is fully funded to carry out its five-well drilling programme in 2014/15 and complete its 3D seismic acquisition in the Southern Basin. However, the company will need to secure further capital to fund its share of the Sea Lion development. At this early stage the company's required contribution is uncertain, but based on current resource estimates could be c 4% of development costs resulting in a share of around $240m. This assumed share will, however, be dependent on the outcome of any unitisation talks.

Company description: Exposure across all basins

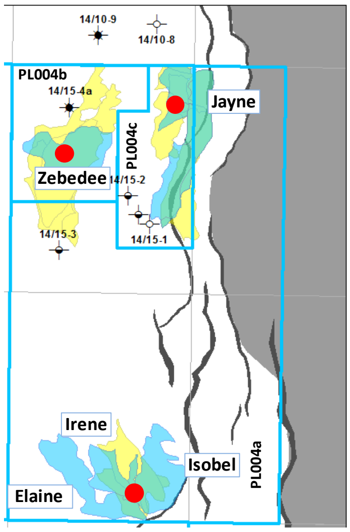
FOGL has combined with North Falkland explorer Desire Petroleum to create the only E&P company with exposure to all the major hydrocarbon plays in the Falklands. In addition, the company has farmed out the combined group's interest in its licences adjacent to the Sea Lion field to Premier and Rockhopper in exchange for a full carry in two exploration wells. These two separate deals have broadened FOGL's portfolio and increased the number of catalysts that investors can expect once drilling recommences in the Falklands at the end of 2014 from two to five wells, while also gaining an interest in the Sea Lion oil development. These are the latest in a series of shrewd deals that FOGL has negotiated, bringing financial clout and technical endorsement of its portfolio from a range of industry players. The company is fully funded for its planned five-well programme with the newly added three Northern Basin wells being estimated to cost only an additional $20m net to FOGL.

Exhibit 1: Combined group acreage



Source: Falkland Oil & Gas

Exhibit 2: North Falkland Basin new acreage



Source: Falkland Oil & Gas

Northern Basin acreage brings balance and catalysts

Prior to the combination and farm-out, FOGL's forward drilling programme consisted of two high risk, high impact wells in the South and East Falkland Basin. Post these deals, the company has added three lower risk, high value drilling opportunities in the near term in the North Falkland Basin where it now holds 40% of PL04a, PL04b and PL04c. These wells are expected to be the exploration/appraisal well Zebedee and exploration wells Jayne and Isobel.

Transactions secure three new licences

Under the terms of the combination deal, Desire shareholders will receive 0.6233 new FOGL shares for every Desire share. This values Desire at 17.76p/share and represents a 45% premium to the share price of 12.25p at closing on the day before the combination announcement. In the face of funding uncertainties Desire shares had been on a steady downward trend over the last 12 months, but only fell below FOGL's offer price as recently as February 2013.

Under the farm-out agreement to Premier and Rockhopper, the combined group will retain a 40% interest in PL04a and PL04c in exchange for a carry on one exploration well in each licence, expected to be Jayne and Isobel. Both Premier and Rockhopper have significantly increased their working interests in these licences, with Premier now holding 36% and Rockhopper 24% (Exhibit 3). With both these companies having a deep knowledge of the adjacent Sea Lion field and satellite discoveries, their increased involvement in these licences serves as a technical endorsement of FOGL's new acreage.

With a well in the Northern basin now costing around $50m, we can see that Premier/Rockhopper will pay $20m to farm in to each licence. This then results in an inferred licence value of $38m for PL04a and $57m for PL04c.

Exhibit 3: Working interest table

	PL04a pre farm-out working interest	PL04a post farm-out working interest	PL04c pre farm-out working interest	PL04c post farm-out working interest
Combined group	92.5%	40%	75%	40%
Premier	4.5%	36%	15%	36%
Rockhopper	3%	24%	10%	24%

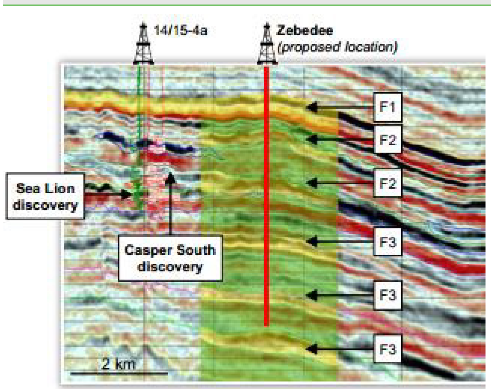
Source: Edison Investment Research

PL04b – low risk at Zebedee

FOGL is particularly interested in exploration and appraisal prospect Zebedee, located in PL04b. The company's interest is shown by its decision to retain PL04b as part of the combination deal rather than remain as a pure explorer with PL04a and PL04c only. Zebedee will test the extension of the Sea Lion play and in particular the southern extension of the Casper South reservoir that was proven in the 14/15-4 well and other new reservoir targets such as Zebedee and Hector. At present we do not have clarity on the number of reservoirs that will be targeted here, for example with Rockhopper looking at eight stacked objectives while FOGL highlights five zones (see exhibits 4 and 5). What is not in doubt is that all the partners agree the primary objective, the Zebedee fan, carries a favourable risk, with Rockhopper assigning a chance of success (CoS) of 52% and Premier assigning a low risk to the sand. We further understand that FOGL's risk assessment is closest to Rockhopper's.

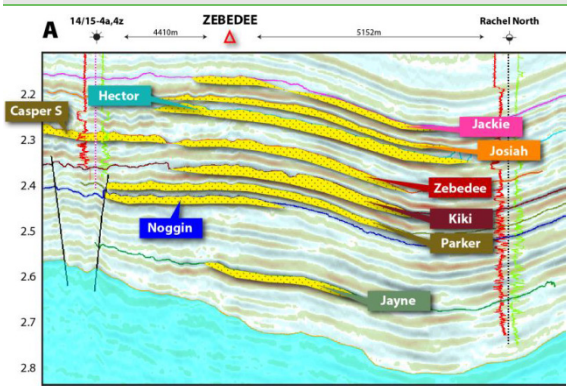
The Zebedee fan is an easterly fed fan that FOGL believes is likely to be oil prone and is estimated to contain gross resources of 140mmbbl. Resource estimates for the remaining targets should become clearer in 2014 as the partners align their objectives before the drilling campaign, although the total potential STOIIP for the well is currently in the region of 1bnbbl. As the company has acquired this licence as part of the combination deal, Zebedee is not subject to a carry and FOGL will pay an estimated $20m net to drill the well. We presume that if the Zebedee well is successful, it may form part of the Phase 2 development of Sea Lion.

Exhibit 4: Zebedee target horizons (FOGL)



Source: Falkland Oil & Gas

Exhibit 5: Zebedee target horizons (RKH)



Source: Rockhopper

PL04a/PL04c – farm-out covers Jayne and Isobel wells

In PL04c, Desire estimated that exploration well Jayne will target gross prospective resources of 405mmboe, based on the Senergy CPR of November 2012. However, Rockhopper estimates a STOIIP of only 289mmboe for Jayne. By applying the estimated Sea Lion recovery factor of 30% we can infer a resource estimate of 87mmboe, while Premier assumes even lower resources of 37mmboe. We would highlight that, under the terms of Rockhopper's farm-out to Premier, it has been Rockhopper that has taken the subsurface lead on exploration activities in the North Falkland basin so we suggest its resource estimate should be well informed. We expect the newly combined group will reassess its own resource estimates and the new estimate is likely to become more aligned with that provided by Rockhopper. The CoS in Jayne ranges between 19% and 37% across the six targeted sands, with the key risks expected to be the reservoir seal and trap. In the event of success, the prospect is close enough to Sea Lion that it should be possible to develop via a tie back.

The exploration well planned in PL04a is Isobel, containing 281mmboe gross prospective resources, according to the Senergy CPR. The resource estimates here vary more widely, with Premier estimating just 44mmboe. Isobel is further south than Jayne, and is 24km from Sea Lion. As such it is the least de-risked of the prospects and carries the greatest uncertainty regarding the presence of good quality reservoir. If there is a discovery, Isobel would probably require a standalone development.

Drilling on track for late 2014/early 2015

FOGL is planning to share a rig with Rockhopper and Premier to start drilling in late 2014. Noble Energy is conducting a rig search and we understand that its recently issued expression of interest (EOI) included three or four slots for the Northern Basin campaign and two for drilling in the Southern Basin with the possibility of further options. We expect the Northern Basin wells to be Zebedee, Jayne and Isobel, with a fourth well most likely to be Chatham for Premier/Rockhopper and located in PL032 outside of FOGL's licences. In the Southern basin we expect a well to be drilled on the Diomedea fan complex with the second well still to be determined. For the rig to also be suitable to drill FOGL's two southern wells, the rig specification will need to be higher than necessary for drilling in the north. Although this will result in a higher day rate for the rig, the Northern Basin operators believe that this cost can be offset through the sharing of the mob/demob costs and time savings that can be achieved with a state of the art rig. Rig negotiations are currently expected to be completed by the end of 2013 and we do not expect to have an indication of the rig schedule until after the rig has been secured. Southern basin peer Borders & Southern has started a farm-out process, and would need to be able to secure a partner to participate in the rig sharing programme. Borders' involvement would be advantageous to FOGL as it would allow greater flexibility in the scheduling of the wells to be drilled in the south.

Sea Lion development: Due onstream in late 2018

In addition to diversifying its risk profile, FOGL's combination with Desire also gives it an interest in the Sea Lion oil development as, together with further discoveries Casper, Casper South and Beverley, the field extends from PL032 into PL04b. Based on the Senergy CPR of November 2012, FOGL holds net 2C resources here of 85mmbbl of which 14mmbbl is attributable to the main Sea Lion reservoir.

Premier and Rockhopper are planning to develop the field in two phases. Phase 1 will target 284mmbbl in the north of the field produced from 30 development wells at initial rates over 100,000boe/d. Phase 2 will target the remaining 110mmbbl in the south and use 22 wells. Phase 1 is targeting project sanction by the end of 2014, with first oil planned to be three-and-a-half to four years from project sanction.

While Phase 1 of the development is well defined, the results of the 2014/15 exploration and appraisal wells will be required to refine the resource distribution in PL04b and in turn finalise the Phase 2 development scheme. We do not anticipate Phase 2 coming onstream until beyond 2020. However, taking FOGL's share of the Sea Lion development without the satellite discoveries, this would indicate a share in the region of 4% and a cost to FOGL of c $240m.

While FOGL and Premier/Rockhopper are broadly in agreement with their respective estimates of resources in the Sea Lion extension, there is a greater discrepancy in the satellite discovery estimates particularly in Casper South. The Senergy CPR, carried out for Desire, allocates net 2C resources to FOGL/Desire for Casper South of 49.2mmbbl, while Rockhopper's 2012 CPR from GCA estimates more conservative net 2C resources of 14.6mmbbl. This difference may be better resolved by the results of the Zebedee well, which will also evaluate the southern extension of the Casper South reservoir.

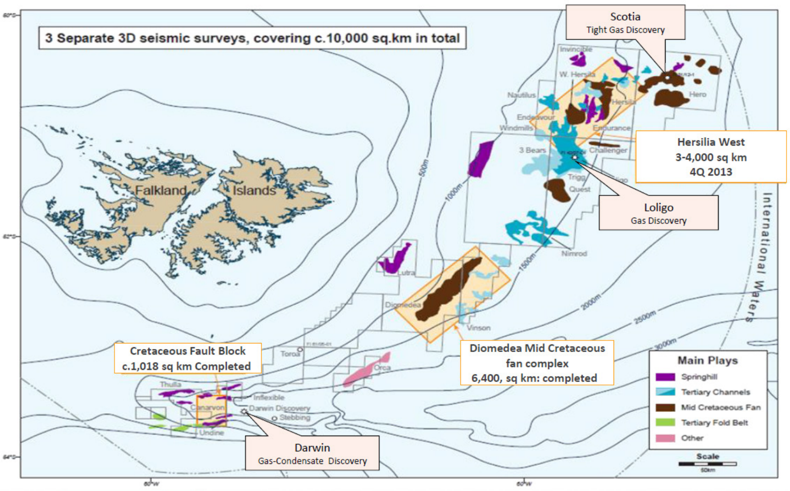
Although Premier has confirmed that an FPSO development is viable for Sea Lion, it is also assessing a Tension Leg Platform (TLP) with a drilling rig as an alternative concept. The company expects to take a final facility decision by the end of 2013. Potential benefits of the TLP option include:

- A fixed location allows increased recovery through cost-effective infill drilling and easier tie back of satellites and new discoveries.
- Cost predictability in times of rising FPSO, subsea and rig costs.
- Lower opex.

High-impact wells in Southern Basin

FOGL is planning to drill two exploration wells in the Southern Basin as part of the late 2014/15 drilling campaign.

Exhibit 6: Southern Basin acreage



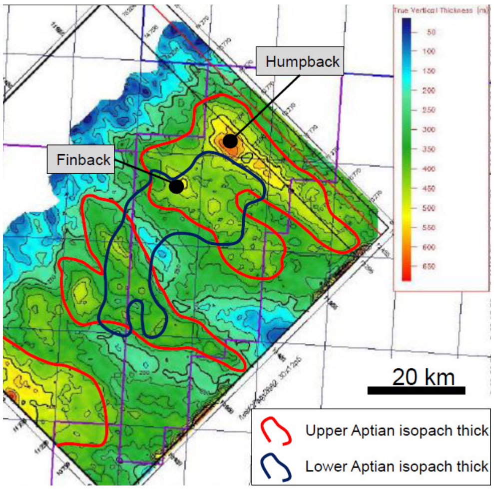
Source: Falkland Oil & Gas

Since drilling the gas-bearing Loligo and Scotia in 2012, the company has reviewed and analysed the data from both wells and focused on identifying oil prone areas across its Southern acreage. 2013 has so far seen two 3D seismic surveys completed across the Diomedea fan complex and the fault block area to the west of Borders and Southern's Darwin gas condensate recovery. Interpretation results from these two surveys should be available by the end of Q114. A third survey across the Hersilia fan complex in the northern area licences, held with partners Noble Energy and Edison SpA, began in November 2013. Operated by Noble, the survey should take up to four months and will complete the current acquisition programme. Once completed, FOGL and its partners will have acquired over 10,000km^2 of 3D seismic in the Southern Basin, giving it an extensive data set across the region from which to optimally select its drill targets.

Initial drill targets

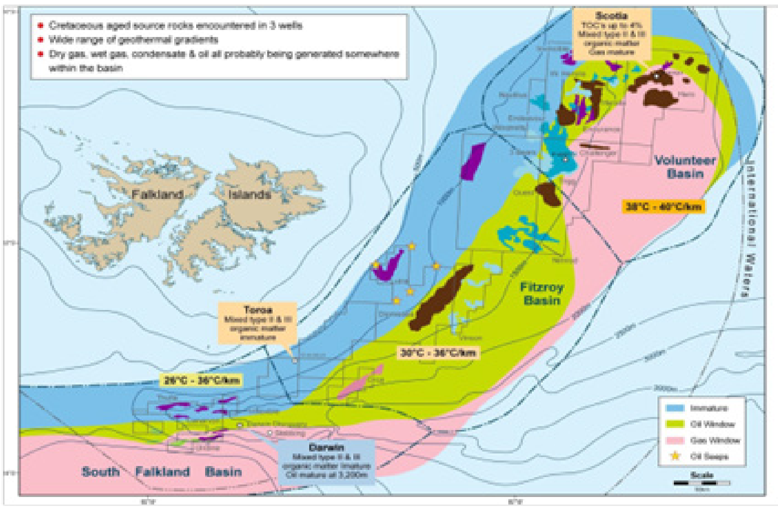
The company received fast-track data from the Diomedea and fault block surveys in August 2013 and FOGL has started mapping the Diomedea data. With over 7,000km^2 of data acquired, it will take some time to be fully interpreted; however so far the company has indicated that it has identified two material oil prospects, Humpback and Finback in Diomedea (Exhibit 7), with preliminary prospective resource estimates of between 400mmbbl and 1,200mmbbl. Diomedea has already been identified as being in the optimal oil window area (Exhibit 8), and so the first well to be drilled for FOGL in the Southern Basin in 2014/15 will be on this prospect. The choice of the second well will depend on the resource assessment from all three seismic surveys and potentially on the results of the first well. FOGL has estimated that both wells can be drilled for $77m net.

Exhibit 7: Diomedea prospects



Source: Falkland Oil & Gas

Exhibit 8: Oil window model



Source: Falkland Oil & Gas

Management: FOGL led by existing executive team

Three Desire directors will join the FOGL board as non-executive directors, although the combined group will be led by FOGL's existing management team. In addition, technical expertise and continuity for the Northern licences will be secured by the retention of Ken Black, Desire's exploration director as a consultant.

Richard Liddell, chairman joined the FOGL board in 2005. Previously he was operations director of Premier Oil for six years, and he has many years of oil and gas industry experience including two years as director of development at BG Exploration and Production. He also spent 18 years in a range of senior international positions with Philips Petroleum.

Tim Bushell, CEO joined FOGL in 2006, having previously spent five years as managing director, Norway for Paladin Resources. Previously, he spent 10 years at Lasmo, including some time as manager of its South Atlantic business during the 1998 North Falklands drilling campaign. A geologist by background, he has 30 years' experience in the oil and gas industry.

Colin More, exploration director has 30 years' experience in the oil industry. He joined FOGL in 2006, having previously held the position of exploration manager for Cairn Energy in China and India, and for Paladin Resources in the UK. Mr More joined the board of FOGL in March 2009.

Sensitivities: Development funding required

Political risk: The historical dispute between Argentina and Britain over the sovereignty of the Falkland Islands continues to bubble under the surface with occasional flare ups. We suggest that with the Sea Lion development moving closer to sanction and the involvement of prominent industry players such as Premier and Noble, this is likely to remain as a background concern.

Partner risk: FOGL's new partners in the Northern basin are likely to be aligned in ensuring the progression of the development of Sea Lion and any neighbouring future discoveries. Sea Lion development costs to FOGL are still unclear and could financially stress the company. At present there are also some discrepancies between the partners in the resource estimates of the assets, particularly in Casper South. We expect this will be resolved through further appraisal drilling.

Geological risk: The combination with Desire has balanced the pre-deal portfolio of high-risk, high-reward frontier prospects in the Southern Basin with a number of de-risked prospects in proximity to planned Sea Lion infrastructure. In the south, the involvement of partner Noble has allowed the financing of 3D seismic across extensive areas of the licences, which can now be calibrated with a small number of well data points, allowing FOGL to further refine its geological model and mitigate risk in selecting drill targets. We highlight that this model is still untested and will evolve as further wells are drilled.

Financial risk: FOGL is fully funded to drill all five wells in its drilling programme and complete the third and final 3D seismic survey in the south. The company will also need to fund its share of the Sea Lion development. We do not expect this figure to be finalised in the near term, but it could be in the region of $240m based on a 4% share of Sea Lion only.

Valuation: Southern Basin still holds greatest potential

Our valuation includes the Northern basin, where the near-term activity is most clearly defined, and here we assume an $80/bbl oil price inflating at 2.5% pa, a 12.5% DCF discount rate and a 7% discount to Brent for Sea Lion crude. Our core NAV of 25p/share covers an assumed 4% share of the Sea Lion development (see below). However, this share may change subject to unitisation agreement.

Exhibit 9: FOGL valuation

Fully diluted shares	533.3									
$/£	1.50	WI	Hydroc.	Net capex	CoS	Unrisked		Netback	NPV/boe	EMV
		%	fluid	$m	%	Reserves/resources		Netback	NPV/boe	Value/sh
Assets						Gross mmboe	Net mmboe	$/boe	$m	p
Sea Lion		4%	Oil		70%	337	14	6.4	62.8	8
Net cash									144	18
G&A									-10	-1
Core NAV							14		197	25
Exploration/Appraisal										
Casper South		38%	Oil	20.0	30%	39	15	6.1	13.1	2
Zebedee		40%	Oil	20.0	31%	140	56	4.0	55.4	7
Jayne		40%	Oil	0.0	10%	405	162	3.5	59.0	7
Isobel		40%	Oil	0.0	5%	281	112	3.3	19.8	2
Southern Basin licences		42.5%	Oil/gas						243.0	30
							345		390	49
RENAV							359		587	73

Source: Edison Investment Research. Note: *Southern Basin WI is average across licences following Edison and Noble farm-outs.

With the target prospects still to be clarified in the Southern Basin, we have looked to value this acreage based on the terms of the farm-ins with Edison and Noble. This approach results in a valuation of 30p/share, demonstrating FOGL's significant exposure to the upside in this basin. This valuation can serve as a proxy figure until the drill targets and their resource estimates become available around the end of Q114 with the expected release of the 3D seismic interpretation results.

Given the uncertainty over the resource estimate for Casper South and that further appraisal will be necessary to refine the figures, for now we have included the prospect valuation in our RENAV. Adding in the exploration and appraisal wells Zebedee, Jayne and Isobel results in a built-up RENAV of 73p/share.

Northern basin: Drill targets clearly identified

In modelling Sea Lion, we have used the most recent guidance from the Premier/Rockhopper JV of 337mmbbl of 2C resources for the Sea Lion Main Complex, of which 14mmbbl is net to FOGL. This would result in a 4% share of the development costs for FOGL, estimated at $240m on a $6bn development. As discussed previously, there is some variation between the three North Falkland basin partners in their resource assessments for both the Sea Lion satellites and the exploration and appraisal wells. The Premier/Rockhopper JV estimates 2C resources of 57mmbbl in the satellites and these will be developed during Phase 2. This satellite resource figure is more conservative than the 71mmbbl estimated in Senergy's 2012 CPR for Desire. The main difference can be attributed to Casper South, with Rockhopper's GCA CPR estimating resources of 14.6mmbbl net to FOGL/Desire compared to the Senergy estimate of 49.2mmbbl net. In this case we have opted to use the more prudent lower option for our valuation. We note that Phase 2 will not come onstream until a couple of years after Phase 1 has started up, currently expected around 2020. We believe that the bulk of FOGL's share of costs will come into play in Phase 2 and that this time frame allows the company ample time to finalise its share and develop its strategy for funding. A further farm-out deal by the company similar to that achieved by Rockhopper in its 60% farm-out to Premier could leave FOGL with c 16% of the assets and a full development carry.

For our RENAV, we would highlight our valuation of Zebedee. As the number of target zones and respective resources are not yet clear, we have chosen at this stage to value the Zebedee fan only and have used Rockhopper's most recent guidance of 140mmbbl gross, which we understand is in alignment with FOGL's current understanding of the prospect. We have then applied a high geological CoS of 52% to the valuation. We expect our valuation of Zebedee to increase in 2014 with the addition of further zones as we get sight of the agreed number of target sands and their resources.

In the absence of clear consensus between the partners over resource estimates for Jayne and Isobel we have used the figures provided in the 2012 Senergy CPR. We caution however that these could decrease when the combined group reviews its resource assessments in 2014.

To reflect the differing degrees of partner alignment and development options across the three exploration and appraisal wells, we have also applied a different commercial CoS to each prospect. For example we have allocated a higher commercial CoS to Zebedee since it is highly favoured across all the partner companies, and is within tie back distance of Sea Lion. We assess Isobel as carrying the highest risk since it is furthest away from the proven Sea Lion area, requiring a standalone development and carries a greater uncertainty over reservoir quality. As such we apply a lower commercial CoS here.

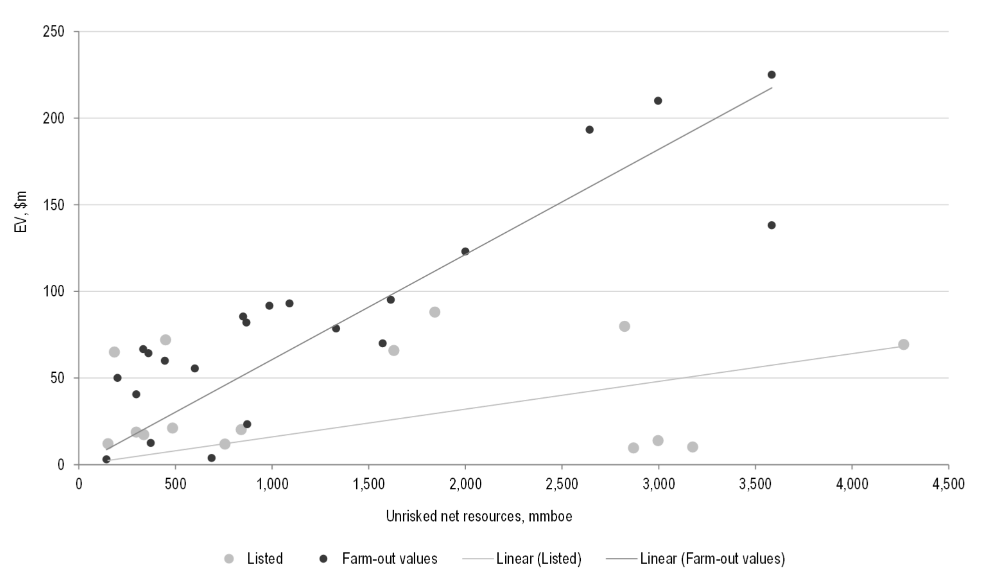
Our model also assumes that Zebedee and Jayne would be developed through a tie back to Sea Lion, thereby requiring a lower capex than Isobel. The tie back option does result in greater potential constraints on both the timing of first oil and production profiles to fit around production capacity at Sea Lion and we have reflected this in our model. Zebedee and Jayne could be developed more quickly on a standalone basis, although the additional capex necessary for this would increase the scale of any further farm down or equity raise required to fund the developments.

Southern basin: Exposure to upside

In the absence of confirmed drill targets and resource estimates for the two prospects that FOGL will drill in the Southern Basin in the 2014/15 campaign, we propose a valuation of the acreage based on the terms of its farm-out to Noble. Assuming $100m per well to be drilled and an assumed split of the cash consideration between the Northern and Southern licences results in a value of c $500m. On a consistent basis, under the 2012 Edison farm-out the acreage could be valued at c $400m. Taking the more recent Noble figure suggests an acreage valuation of $243m net to FOGL at 30p/share. We expect to refine this figure once we have a more detailed sight of the prospects that are selected to be drilled.

We believe this valuation gives the investor a guide to the potential of the southern acreage, although we recognise that equities currently lag what is being achieved in deals such as FOGL's farm-outs as per Exhibit 10. Taking this as a guide, we suggest the market is currently valuing the acreage at closer to c $150m or 7p/share.

Exhibit 10: E&P farm-in deals vs equities on EV/resource basis (unrisked)



Source: Edison Investment Research

Financials: Funded for upcoming drill programme

The combined group held cash of $170m as at 30 June 2013. This leaves the company fully funded to carry out all of its planned activity to the end of 2015, including the five-well drilling programme and the 3D seismic acquisition in the Northern licences. We estimate that FOGL's share of the Sea Lion development could be in the region of $240m, and the company will need to secure additional funding for this. The timing of this has not yet been determined, but will be subject to any unitisation agreement. We expect that FOGL's share of the development costs is likely be met through a further farm down of the assets combined with debt. A deal similar to that secured by Rockhopper could leave FOGL with c 16% of the assets and a full development carry.

Exhibit 11: Financial summary

$'000s	2011	2012	2013e	2014e	2015e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	0	0	0	0	0
Cost of Sales	0	0	0	0	0
Gross Profit	0	0	0	0	0
EBITDA	(3,735)	(5,119)	(5,038)	(5,164)	(5,293)
Operating Profit (before amort. and except.)	(3,802)	(5,195)	(5,120)	(5,164)	(5,293)
Intangible Amortisation	0	0	0	0	0
Exceptionals	(1,813)	(1,087)	(474)	0	0
Other	(41,673)	(1,815)	0	0	0
Operating Profit	(47,288)	(8,097)	(5,594)	(5,164)	(5,293)
Net Interest	(928)	2,774	2,769	2,161	(3,175)
Profit Before Tax (norm)	(4,730)	(2,421)	(2,351)	(3,003)	(8,468)
Profit Before Tax (FRS 3)	(48,216)	(5,323)	(2,825)	(3,003)	(8,468)
Tax	0	(483)	0	0	0
Profit After Tax (norm)	(4,730)	(2,904)	(2,351)	(3,003)	(8,468)
Profit After Tax (FRS 3)	(48,216)	(5,806)	(2,825)	(3,003)	(8,468)
Average Number of Shares Outstanding (m)	525.6	657.1	533.4	533.4	533.4
EPS - normalised (c)	(0.9)	(0.4)	(0.4)	(0.6)	(1.6)
EPS - normalised and fully diluted (c)	(0.9)	(0.4)	(0.4)	(0.6)	(1.6)
EPS - (IFRS) (c)	(9.2)	(0.9)	(0.5)	(0.6)	(1.6)
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)	N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets	81,072	62,501	122,420	122,420	288,639
Intangible Assets	78,636	58,912	118,912	118,912	285,131
Tangible Assets	2,436	71	5	5	5
Investments	0	3,518	3,503	3,503	3,503
Current Assets	162,189	196,247	144,770	141,004	1,024
Stocks	0	0	0	0	0
Debtors	19,114	652	652	652	652
Cash	92,032	184,575	144,067	140,352	372
Other	51,043	11,020	51	0	0
Current Liabilities	(41,532)	(11,283)	(8,170)	(8,170)	(8,170)
Creditors	(41,532)	(11,283)	(8,170)	(8,170)	(8,170)
Short term borrowings	0	0	0	0	0
Long Term Liabilities	0	0	0	0	(40,000)
Long term borrowings	0	0	0	0	(40,000)
Other long term liabilities	0	0	0	0	0
Net Assets	201,729	247,465	259,020	255,254	241,493
CASH FLOW					
Operating Cash Flow	(11,646)	(6,608)	(14,204)	(10,327)	(10,586)
Net Interest	1,198	2,824	2,769	2,161	(3,175)
Tax	0	(483)	0	0	0
Capex	(52,960)	(48,362)	(90,016)	0	(166,219)
Proceeds from farm down	15,735	19,820	0	0	0
Financing	49,737	71,790	0	0	0
Other	(44,719)	47,263	60,943	4,451	0
Net Cash Flow	(42,655)	86,244	(40,508)	(3,715)	(179,980)
Opening net debt/(cash)	(113,110)	(92,032)	(184,575)	(144,067)	(140,352)
HP finance leases initiated	0	0	0	0	0
Other	21,577	6,299	0	0	0
Closing net debt/(cash)	(92,032)	(184,575)	(144,067)	(140,352)	39,628

Source: Edison Investment Research

EDISON

Contact details	Revenue by geography
8th Floor 101 Wigmore Street London W1U 1QU UK +44 207 563 1260 info@fogl.co.uk	N/A

CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS YY-YYe	N/A	ROCE YY	N/A	Gearing YY	N/A	Litigation/regulatory	●
EPS YY-YYe	N/A	Avg ROCE YY-YYe	N/A	Interest cover YY	N/A	Pensions	○
EBITDA YY-YYe	N/A	ROE YY	N/A	CA/CL YY	N/A	Currency	◖
EBITDA YY-YYe	N/A	Gross margin YY	N/A	Stock days YY	N/A	Stock overhang	○
Sales YY-YYe	N/A	Operating margin YY	N/A	Debtor days YY	N/A	Interest rates	◖
Sales YY-YYe	N/A	Gr mgn / Op mgn YY	N/A	Creditor days YY	N/A	Oil/commodity prices	●

Management team

Chairman: Richard Liddell

Richard Liddell joined the FOGL board in 2005. Previously he was operations director of Premier Oil for six years and has many years of oil and gas industry experience including two years as director of development at BG Exploration and Production. He also spent 18 years in a range of senior international positions with Philips Petroleum.

CEO: Tim Bushell

Tim Bushell joined FOGL in 2006 having previously spent five years as managing director, Norway for Paladin Resources. Before that he spent 10 years at Lasmo, including some time as manager of its South Atlantic business during the 1998 North Falklands drilling campaign. A geologist by background, he has 30 years' experience in the oil and gas industry.

Exploration director: Colin More

Colin More has 30 years' experience in the oil industry. He joined FOGL in 2006, having previously held the position of exploration manager for Cairn Energy in China and India, and for Paladin Resources in the UK. Mr More joined the board of FOGL in March 2009.

Principal shareholders	(%)
Rab Capital Plc	9.38
Capital Research & Mgmnt	7.57
Hargreaves Lansdown	4.85
Barclays Personal Investment	4.56
TD Direct Investing	4.03
Falkland Island Holdings	4.01
DWP Bank	3.10

Companies named in this report

Noble Energy, Premier Oil, Rockhopper, Borders & Southern, Edison SpA