Edison investment research

1 June 2011

DEO Petroleum

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/09	0.0	(0.1)	(0.3)	0.0	N/A	N/A
12/10	0.0	(0.8)	(7.4)	0.0	N/A	N/A
12/11e	0.0	(0.2)	(0.5)	0.0	N/A	N/A
12/12e	0.0	(1.7)	(3.5)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Investment summary: Established pedigree

DEO Petroleum is a new company to the North Sea, but its management team brings years of operating and production experience. The company is attracting top class partners such as Faroe Petroleum and Parkmead, with both stranded asset development and exploration as part of its strategy. With its core Perth asset set to move into production by 2014, DEO is working towards becoming a leading independent North Sea E&P player.

Core asset ready to go

DEO has a 42.08% interest in and is operator of the Perth field. With up to 11.6mmboe net 2C resources, an FDP is planned to be submitted in H211, with first oil expected by 2014. In addition, Perth North with 1.85mmboe net prospective resources is likely to be drilled near-term, while Gamma, Sigma and Dolphin are all potential additional targets with estimated net contingent resources of 17-33mmbbls. These prospects can all be tied back to the core Perth development, and it is likely that other discoveries will also be tied back to Perth in the future.

Key alliance points to growth

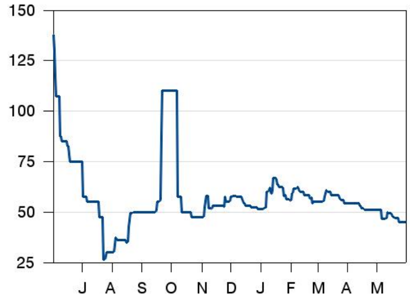
In a first step to expand beyond Perth, DEO has signed a strategic partnership with the Parkmead Group to identify joint acquisition opportunities. With Parkmead acting as exploration operator, DEO will concentrate on its core skills as development operator and we expect to see further acquisitions and potential new licences in the UKCS 27th round. Parkmead will also bring a wealth of experience to the alliance, with Chairman Tom Cross having previously led Dana Petroleum.

Valuation: Share price upside

Our core NAV of 62.5p is at a significant premium to the current share price and adding Perth North to our valuation increases our RENAV to 66.5p. Funding to develop Perth is an issue, although we expect debt financing will be available to DEO once the FDP is submitted in H211 and resources are converted to 2P reserves. Prior to first revenues in 2014 we anticipate most of DEO's losses will be driven by financing of estimated £60m of debt required to fund the Perth development.

Price	45p
Market Cap	£19m

Share price graph



Share details

Code	DEO
Listing	AIM
Sector	Oil & Gas
Shares in issue	43.1m

Price

	High	Low
52 week	137.5p	26.5p

Balance Sheet as at 31 December 2010

Net cash (£m)	4.9

Business

DEO Petroleum is an oil and gas development and production company with assets in the Central North Sea.

Valuation

Core NAV (p)*	62.5
RENAV (p)*	66.5

**Edison estimates.*

Revenues by geography

UK	Europe	US	Other
100%	0%	0%	0%

Analysts

Ian McLelland +44 (0)20 3077 5756
Elaine Reynolds +44 (0)20 3077 5700
Neil Shah +44 (0)20 3077 5715
oilandgas@edisoninvestmentresearch.co.uk

DEO Petroleum is a research client of Edison Investment Research Limited

Investment summary: Central North Sea focus

Company description: Develop existing discoveries

DEO Petroleum has entered the Central North Sea with a good starter asset in the form of Perth, with first oil expected by 2014. The company plans to become a leading independent North Sea energy company by accessing smaller discoveries that have not been developed and Perth sits in a key position to take advantage of the many small prospects that sit in the surrounding area and can utilise its infrastructure. As operator of the Perth field DEO is attracting strong partners, most notably Faroe Petroleum, which recently acquired an interest in the licence. In order to grow further, however, DEO has formed a strategic partnership with the Parkmead Group under which the companies will work together to identify joint acquisition opportunities. The deal plays to the core strengths of DEO since it will act as development operator for any discoveries, while Parkmead will act as exploration operator for the partnership.

Valuation: Core NAV of 62.5p

We calculate a core net asset value (core NAV) based on the Perth development of 76.6p, offering significant upside to current share price. We expect our core NAV will increase further as Perth field development options and funding are finalised and our assumed overall chance of success for field development can be increased from its current 60%. Further upside can be seen in the drilling of Perth North. The addition of this to our valuation gives a risked exploration net asset value (RENAV) of 66.5p. We have not included the Gamma, Dolphin and Sigma discoveries in our RENAV, as there are currently no firm drilling plans for these prospects.

Sensitivities: Finalising option will give certainty

Investors are exposed to a range of risks associated with the oil industry, as with any development and production company. We would highlight the following as specific risks to DEO.

- Funding: The Perth development will require further funding from 2011 to meet the first oil target date of 2014. We see this risk as low, given that any debt financing should be possible once the FDP is submitted and resources are converted from 2C to 2P.
- Conclusion of commercial discussions: A successful conclusion to the negotiations over the development options is required for the development to move forward to the submission of an FDP.
- Licence extension: Perth has been granted an extension of its fallow status until September 2011, by which time DEO must submit a plan for significant activity, or the licence will be relinquished. We expect that, with DEO working towards an FDP submission in H211, the company will be able to demonstrate the required activity to keep the licence.

Financials: Further funding required near-term

Having ended 2010 with net cash of £4.9m, DEO's share of the Perth development costs will be at least £102.8m between 2011 and 2013, so further funding will be required. We expect that post FDP submission the company will be in a position to seek for resources to be upgraded to reserves, giving DEO access to potential debt finance for the development programme.

Targeting Central North Sea assets

DEO Petroleum is a development and production company focused on the UK Central North Sea. The company acquired 42.08% of the Perth asset from Nexen in October 2010 for £10.5m, and is currently working to submit an FDP for the field in 2011, with a view to first oil at the beginning of 2014. Partners in the licence that contains the Perth field and surrounding assets are Maersk, Atlantic Petroleum and most recently Faroe Petroleum, which acquired an interest in January 2011. In addition to Perth there is further upside from Perth North and the Gamma, Dolphin and Sigma oil discoveries, which have all successfully flowed oil to surface during testing and are within subsea tie-back distance of the core Perth field.

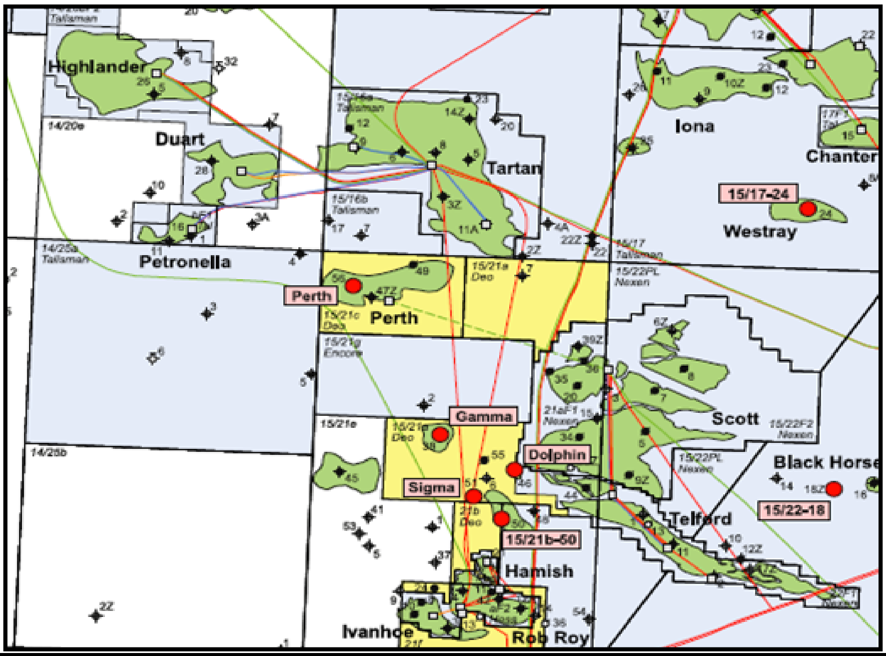
The company plans to target for future acquisition any adjacent undeveloped discoveries or ‘orphaned’ producing fields that can utilise the Perth infrastructure. In May 2011 the company announced that it had signed a strategic partnership with the Parkmead Group under which the two companies will pursue joint opportunities in the UK Central North Sea. This will allow DEO to expand beyond its current core assets while focusing on its expertise of development and production.

Perth: First oil 2014

Perth (WI 42.08%, operator)

The Perth field is located approximately 185km north-east of Aberdeen and 6km south of the Talisman-operated Tartan platform in a water depth of 127m.

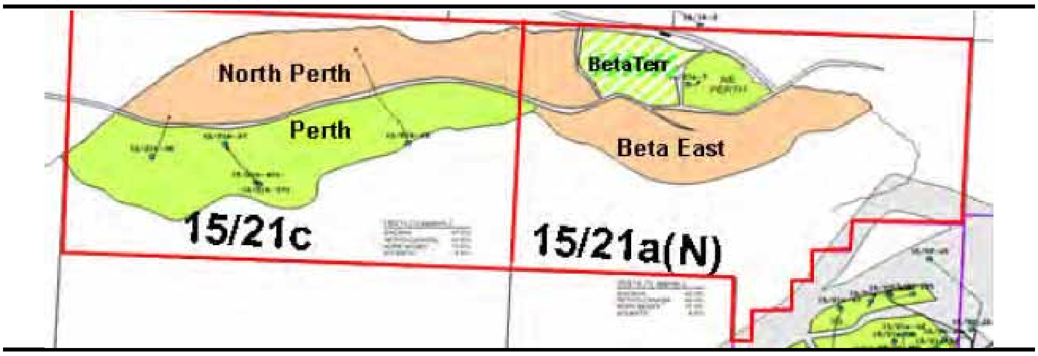
Exhibit 1: DEO asset locations



Source: DEO Petroleum

The field is a stratigraphic trap comprising Claymore member turbidite sands. A fault runs from east to west across the length of the reservoir, splitting the field into the Perth Core and Perth North areas, and a further north-south fault zone to the east further divides the field into the Beta Terrace and Beta East areas. The discovery well drilled in 1983, 15/21a-7, was drilled into the Beta Terrace area and tested oil. Three further appraisal wells, 15/21b-47, 15/21b-49 and 15/21b-56 and sidetrack 15/21b-47y, were drilled by Hess during the 1990s, with all of them targeting the Perth Core Area. This area will be the focus of DEO's initial development of the field, with the intention to develop Perth North at a later date. Although no wells have been drilled into Perth North to date, the discovery well, located 4km to the east of this area, encountered a hydrocarbon section that is considered to be correlatable with Perth North using well logs and biostratigraphy and as such it is considered to be highly likely that it will also contain hydrocarbons.

Exhibit 2: Perth field details



Source: DEO Petroleum

Reservoir complexity

The Perth structure is complex with significant faulting, low average permeability and with relatively high levels of H_2S and CO_2. As such DEO will have to take care with its development plans to most effectively exploit the asset and maximise oil recovery rates.

In addition to the main faults that subdivide the field into its four main areas (Exhibit 2), further faults can be seen on seismic, with some faults offset by up to 100ft. Fully sealing faults would result in the compartmentalisation of the reservoir and affect on key development issues such as pressure support and recovery. However, DEO believes that the core area is in pressure communication based on test and pressure data that suggest that the faults in Perth are not sealing.

The reservoir sands are in the region of 400ft thick and consist of thin sands inter-bedded with shales. Although average permeabilities derived from well tests are low at between 1mD and 12mD, there are some high permeability layers averaging 50mD to 100mD, with streaks of up to 600mD as derived from core. All of the wells were tested and produced oil at rates between 1,000bopd and almost 6,000bopd. The crude in the core area is between 29° and 32° API, with relatively high H_2S content of 2,500ppm to 8,500ppm and with CO_2 of 24 to 42 mole % in the associated gas.

Recovery factor assumptions

The presence of faults together with the interbedded sands indicates that the reservoir is complex. In order to reflect this, the October 2010 CPR prepared by TRACS applied a low base case recovery factor of 11.3%.

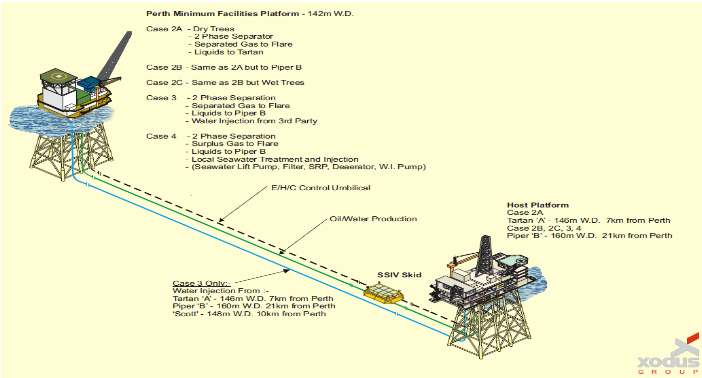
Since acquiring its Perth licence, DEO has had the opportunity to more carefully study available seismic information and test data across the Perth structure, and believes that much of the extensive faulting is not sealing and hence much of the core structure is in pressure communication. The company therefore believes there may be upside potential from improved recovery factors over and above those assumed by TRACS. It should be noted that a typical North

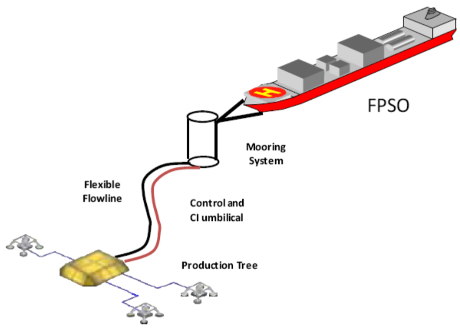
Sea oil field, albeit with water injection which is not included in this option, can be expected to achieve recovery factors between 30% and 45%.

Field development options

DEO will develop Perth with a subsea manifold tied back to either the Tartan platform, or to an FPSO, and plans to submit an FDP in H211. Schematic representations of both development options are shown in Exhibit 3.

Exhibit 3: Perth field development options





Source: DEO Petroleum

Tartan tie-back

The Tartan platform is located in Block 15/16, 6km to the north of Perth, and has been producing since 1981. The development would consist of three new production wells (as the appraisal wells have all been abandoned) tied back to the platform via an 8", 6km flowline to a dedicated separator on Tartan topsides. Following metering, the Perth fluids would then be processed through the existing sour production train at Tartan prior to export via transportation systems currently available. DEO is considering both sub-sea installation and normally unmanned platform options as part of its Tartan development plans, along with various different facilities options that could enhance oil recovery. However, the base case assumption in the case of tie-back options is natural depletion.

The Perth group has previously received an offer of service from the platform operator, Talisman, under which 6,000boepd of liquids would be accepted on Tartan, with best endeavours to accept excess over and above this rate. The offer is subject to the findings of four feasibility surveys. Material Integrity and Safety and Environmental Risk surveys to address the high levels of H_2S and CO_2 in the Perth fluids have been completed and are understood to have identified no significant issues. The remaining survey looked at the debottlenecking of the fluid processing systems on Tartan and raised the issue of removing mercaptans from the Perth fluids. Mercaptan is a sulphur containing compound that must be removed to achieve export gas specification. This is achieved by installing mercaptan removal beds, however the feasibility of doing this on Tartan has yet to be evaluated.

Under this development option DEO would produce 8.7mmboe net with first oil expected at the beginning of 2014. We have assumed production under this scenario would be restricted to 6,000bopd gross based on the previous offer of service from Talisman for use of the Tartan facilities.

FPSO development

An option to develop Perth via a 2-3km subsea tieback to a standalone FPSO vessel is also being considered. As in the Tartan option, the development would consist of three production wells; however, in this case, water injection becomes feasible due to the availability of space on the FPSO. The development therefore includes two water injection wells with the resulting pressure support allowing the base case recovery factor to be increased from 11.3% to 16.1%, thereby adding 2.9mmboe net to DEO from the project. Production under this scenario is forecast to peak at 13mbopd by 2016. Again DEO believes the 16.1% recovery factor may be conservative with water injection and can be increased.

Perth North and the Betas

DEO plans to develop Perth North at a later date, subject to discovery, with a single well tied in to the Perth subsea manifold under either of the development options. The prospect is estimated to contain 1.85mmboe of prospective resources net to DEO.

Beta Terrace, which contains the discovery well 15/21a-7, contains 2C resources of 0.4mmboe net to DEO. It is possible that with this low volume, a development well will not be justified, especially since 15/21a-7 exhibited poor reservoir quality and a flow rate, at 911bopd, at the low end of test rates for the field.

Beta East is estimated to contain prospective resources of 3.4mmboe net.

Perth "hub" potential development

Perth is strategically located in a prospective area of the Central North Sea with numerous potential satellite discoveries within sub-sea tie-back distance to the main Perth field. A number of these are located on DEO's blocks 15/21a and b, offering development potential as the company seeks to build a hub around its Perth field.

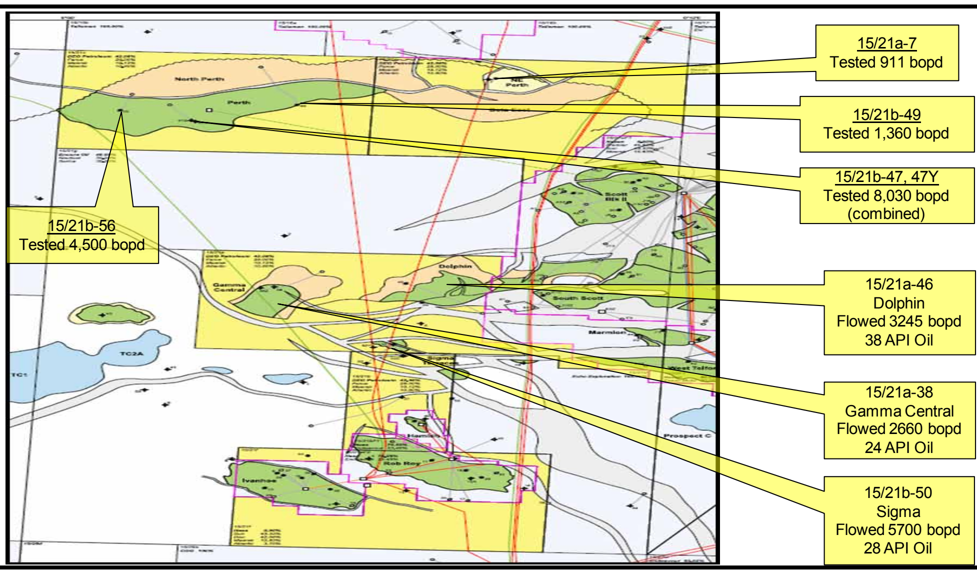
Gamma: Discovered by well 15/21-38 and its sidetrack 15/21-38z, the well produced 2,660bopd of sweet 23.6^{o} API oil from the Late Jurassic Burns sand. The prospect extends northwards into Block 15/21g operated by EnCore Oil where it is known as Spaniards. Licence holders from both blocks (Encore, Nautical Petroleum and Serica Energy for 15/21g and Deo, Faroe Petroleum, Atlantic Petroleum and Maersk for 15/21a) are in discussions regarding a potential joint appraisal well during the summer 2011. We understand a drill decision will be taken on this in June 2011.

The overall prospect is estimated by the 15/21g group to contain gross contingent resources of 100mmbbls of which 50% is on DEO's 15/21a block. Based on these assumptions DEO has net contingent resources in Gamma of 21mmbbls. DEO's own view is more conservative with resources within the 15/21a block of around 20-30mmbls giving it 8.5-12.5mmbbls net.

Dolphin: The discovery well 15/21a-46 produced 3,245bopd of 38˚ API oil with H_2S from the Upper Jurassic, Claymore sandstone. An appraisal well would be required, and the prospect is estimated to contain gross contingent resources in the order of 10-20mmbbls.

Sigma: Discovered by well 15/21b-50, drilled in 1993, the well flowed 28.4° API oil at a rate of 5,700mbopd from the Upper Jurassic Claymore Sandstone. An appraisal well would also be required here, and the prospect is estimated to contain gross contingent resources in the order of 10-20mmbbls.

Exhibit 4: Perth satellite fields



Source: DEO Petroleum

Strategy: Unlocking North Sea value

DEO's strategy is to unlock the value in stranded North Sea oil and gas assets by developing them and tying them back to existing infrastructure where possible. The company is well placed to realise this goal, with both its management and operations teams having had extensive North Sea experience particularly during their time with Oilexco North Sea, where, over the period 2004-08, they were responsible for around 30% of all UK North Sea exploration and appraisal wells drilled.

The acquisition of the Perth asset is a significant first step for DEO. With first oil targeted for the beginning of 2014, the asset sits in an area that is well positioned to develop adjacent prospects including the Gamma, Dolphin and Sigma discoveries that were included in the Perth acquisition.

In addition, the recent strategic partnership between DEO and Parkmead will allow DEO to expand beyond the core Perth assets. The companies have agreed to pursue joint opportunities in the UK Central North Sea, including acquisitions and working together in the UKCS 27th Licensing Round. Parkmead will act as exploration operator for the partnership, with DEO focusing on its core expertise and becoming development operator of any commercial discoveries.

The deal with Parkmead, whose chairman, Tom Cross, is the former CEO of Dana Petroleum, demonstrates DEO's ability to secure quality partnerships. This can also be seen in the fact that established North Sea player Faroe took up a 28% stake in the Perth asset after it was acquired by DEO.

Management

Kevin Burke, Chairman, was co-founder and executive chairman of two publicly listed companies, Dana Petroleum and Vanguard Petroleum; a pioneer Western company in oil production in the West Siberian oil province of the former Soviet Union (which was subsequently sold to Sibir Energy), and a Non Executive Director of Oilexco. Prior to that, he worked in corporate finance, M&A and venture capital. He is a qualified chartered accountant and holds a Sloan Fellowship from the London Business School.

David Marshall, CEO, has 30 years petroleum industry experience in USA, West Africa, North Africa, Turkmenistan, Middle East, Holland and the North Sea. He has oilfield management experience in major oil companies, Gulf, Hess, Lasmo and Eni and has operated large North Sea facilities including Tiffany, Balmoral and Markham. At Oilexco, he led the Brenda and Nicol tiebacks, the acquisition of Balmoral, and projects on Huntington, Shelley, Ptarmigan and Caledonia, in progress at the time of sale to Premier Oil and with combined drilling and project value of £350m. David has a master's degree in Petroleum Engineering from Heriot Watt University and a Bachelors degree (Hons) in Civil Engineering.

Gregor Goodwin, CFO, is a qualified Chartered Accountant with 19 years of Financial and Private Equity experience. He was a Director of European Buyouts & UK Private Equity with 3i, and a Senior Director with Lloyds Banking Group and has significant capital raising experience in debt and equity markets. Gregor is a Chartered Accountant (KPMG trained), B.Acc (Hons 1st) from Glasgow University.

Management team: The DEO board is supported by a senior management team with many years North Sea experience. Adrian Jones, VP Operations, has 24 years of petroleum industry experience, with drilling management experience from both an operator & contractor perspective with Marathon, Hess, Baker and Transocean. Mike Coulthard, VP Engineering, has 30 years experience in subsea developments and drilling engineering with Hess, Smedvig, Ingen and UWG in all aspects of subsea development and abandonment. Mike Cooper, VP Exploration and Subsurface, has 31 years experience mainly in the North Sea with a proven track record with operating oil companies, including with BP, Kerr-McGee, Lundin, Maersk, Amoco, & Enquest.

Sensitivities: Well managed

Financial risk: DEO's share of capex on Perth is estimated to be £32m in 2012 and £70.8m in 2013. The company raised £15.8m net in a private placement in November 2010 to fund the £10.5m acquisition of Perth, but will require further funds to develop Perth. Given the straightforward nature of the development, and assuming 2C resources are converted to 2P following the FDP submission, we believe DEO should have access to debt financing as well as equity options in order to fund its share of the Perth development.

Commercial/ licence risk: Commercial discussions are ongoing with Talisman regarding access to Tartan infrastructure, and the FPSO providers with regards to the FPSO option. A successful outcome to these negotiations is required to allow the project to move forward. In addition, the Perth discovery has been granted an extension of its fallow status until the end of September 2011 and DEO must submit a plan for significant activity by this date, or the licence will be relinquished. We assess the risk of this to be low, with DEO planning to submit an FDP before this date.

Partner alignment: The TRACS CPR highlighted concerns regarding partner alignment when DEO was acquiring its interest in Perth. In particular this related to the intentions of Dana Petroleum who had recently acquired a 43.33% interest via PetroCanada but who were under takeover pressure from KNOC. Since the CPR, Dana/ KNOC have left the group with Faroe Petroleum acquiring a 28% interest and Maersk and Atlantic increasing their stakes. All parties now appear aligned regarding Perth development.

Geological uncertainty/upside: DEO's planning assumptions are based on reserves information from TRAC's 2010 CPR for the Perth Field. However, since acquiring the Perth field and being able to study the seismic information more closely, DEO management are of the opinion that TRACS may have been overly conservative with its recovery factor assumptions. We consider the potential upside of increased recovery factors in our valuation section.

Oil price: Given that DEO has no current production and a lengthy development programme to first oil from the Perth field it is exposed significantly to oil price movements. A table showing valuation sensitivity based on oil price impacts on our core valuation is shown in Exhibit 5.

Valuation: Trading below core NAV

Our valuation is calculated using a NPV/boe approach to derive a risk-weighted EMV and includes the core Perth asset adjusted for cash and G&A. Our base case valuation is based on a 60% chance of success for the Perth core development, $80/bbl real oil price outlook and a 12% discount rate. We also assume the Perth field will qualify in part for the UK small field tax allowance, which we calculate, based on the size of the field, will be approximately £75m.

Exhibit 5: DEO Petroleum valuation table

FD Shares	43.1								
$/£	1.60					Unrisked			
					Reserves/Resources			Netback	
Assets	Country/ Licence	WI %	Hydroc. Fluid	CoS %	Gross mmboe	Net mmboe	NPV/boe $/boe	EMV $m	Value/sh p
Under Development									
Perth (Tartan tie-back)	UK North Sea	42.1%	Oil	60%	20.6	8.7	5.3	27.6	40.1
Perth (FPSO upside)	UK North Sea	42.1%	Oil	60%	6.7	2.8	6.9	11.7	17.0
					TOT	11.5		TOT	57.1
Cash/(Net Debt)								7.8	11.3
G&A								-4.1	-5.9
Core NAV								TOT	62.5
Exploration / Appraisal									
Perth North	UK North Sea	42.1%	Gas	30%	4.4	1.9	5.0	2.8	4.0
RENAV								TOT	66.5

Source: Edison Investment Research

We calculate a core NAV for DEO of 62.5p based on our evaluation of both the Perth Tartan tie back and FPSO options available to the company. 17.0p of our core NAV reflects the additional 2.8mmboe that would be added under the FPSO option.

We have based both the Tartan tie-back base case and FPSO options at 60% chance of success. This is consistent with the chance of commerciality applied by TRACS in their recent CPR, although may be slightly conservative given partner alignment has improved since the CPR. A successful outcome to ongoing commercial discussions would raise our chance of success, while FDP submission, approval and confirmation of reserves will further improve confidence and increase our core valuation.

Turning to the exploration and appraisal assets we have included a risk-weighted valuation for Perth North in our RENAV as it is the most likely near-term development option. We have not included Gama, Dolphin and Sigma in our RENAV pending confirmation of drill intentions. We calculate a RENAV of 80.6p for Perth and Perth North combined.

Our calculations are based on a 12% cost of capital reflecting DEO's current capital structure. However, given that the company expects its Perth resources to convert to 2P reserves upon FDP approval giving the company access to debt financing, we would expect to drop this to 10% once development funding is secured, driving an increase in core NAV to 76.6p.

Our base case oil price assumption is currently $80/bbl real. However, as mentioned previously, the oil price can have a significant impact on valuation. We estimate that a drop in oil price to $60/bbl would reduce our valuation significantly to only 22.1p per share. Equally using $100/bbl, a figure closer to current prices, would suggest a valuation of 103.7p. Exhibit 6 shows the impact of both oil price and cost of capital assumptions on our core NAV valuation.

Exhibit 6: Core NAV sensitivity table

CoreNAV	Cost of capital (%)			
Oil price ($/bbl)	8%	10%	12%	14%
60	42.8	31.6	22.1	14.0
80	93.1	76.6	62.5	50.4
100	144.4	122.6	103.7	87.5
120	196.1	168.6	145.0	124.6

Source: Edison Investment Research

Finally, as previously mentioned, DEO management believes the recovery factors assumed by TRACS in its CPR, and on which we have based our core NAV valuations, may be conservative. Adjusting for recovery factor in our models we estimate that our core NAV will increase by approximately 6p per share for every 1% increase in recovery factor. This is based on our 60% chance of success and for the FPSO upside case.

Financials

DEO held £0.1m at the beginning of 2010. The company was spun out of a shell company, Microcap Equities, and hence financial results prior to 2010 do not bear any relevance to DEO's current and future financial performance.

In 2010 the company raised £17.2m (£15.8m net), which facilitated the £10.5m purchase of the Perth asset. The company ended 2010 with net cash of £4.9m. We estimate it will require a further £2m of funding to reach FDP submission.

We estimate DEO's G&A costs will be around £0.875m in 2011, increasing by 10% per annum thereafter as the company grows. However, in the near term 58% of these costs are recovered from Perth partners, hence reported G&A costs are only expected to be £0.368m in 2011.

For the purposes of our financial models we assume the company will develop the Perth field using the Tartan tie-back option. However, this is only one of several options open to the company and we expect confirmation of concept select in the coming months prior to FDP submission in H211.

Assuming the Tartan tie-back option we estimate DEO's capex demands will total £102.8m over 2012 and 2013 (£32m in 2012 and £70.8m in 2013). We estimate this will increase to £118m if the FPSO option is selected. Given we expect the Perth assets to move into the reserves category upon FDP submission and approval we assume in our models that this will be 50% funded through long-term debt finance with 50% funded through equity. We assume finance costs on debt at 7% pa.

In our model we have assumed Perth will be fully in production by the start of 2014. We forecast revenues of £47.6m in 2014 based on production of 6,000boepd gross.

Exhibit 7: Financials

Note: Shares outstanding assumed issued at current share price of 45p.

£'000s	2009	2010	2011e	2012e	2013e	2014e	2015e
Dec	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	0	0	0	0	0	47,589	48,244
Cost of Sales	0	0	0	0	0	(10,871)	(11,143)
Gross Profit	0	0	0	0	0	36,718	37,101
EBITDA	(80)	(797)	(368)	(405)	(446)	10,372	10,707
Operating Profit (before amort. and except.)	(80)	(797)	(368)	(405)	(446)	10,372	10,707
Intangible Amortisation	0	0	0	0	0	0	0
Exceptionals	0	0	0	0	0	0	0
Other	0	16	0	(1,400)	(4,200)	(4,200)	(700)
Operating Profit	(80)	(782)	(368)	(1,805)	(4,646)	6,172	10,007
Net Interest	0	1	146	(1,260)	(3,871)	(3,724)	576
Profit Before Tax (norm)	(80)	(797)	(222)	(1,665)	(4,316)	6,649	11,283
Profit Before Tax (FRS 3)	(80)	(781)	(222)	(3,065)	(8,516)	2,449	10,583
Tax	0	0	0	0	0	0	0
Profit After Tax (norm)	(80)	(781)	(222)	(3,065)	(8,516)	2,449	10,583
Profit After Tax (FRS 3)	(80)	(781)	(222)	(3,065)	(8,516)	2,449	10,583
Average Number of Shares Outstanding (m)	23.8	10.5	43.1	87.6	176.4	176.4	176.4
EPS - normalised (p)	(0.3)	(7.4)	(0.5)	(3.5)	(4.8)	1.4	6.0
EPS - normalised and fully diluted (p)	(0.3)	(7.4)	(0.5)	(3.5)	(4.8)	1.4	6.0
EPS - (IFRS) (p)	(0.3)	(7.4)	(0.5)	(3.5)	(4.8)	1.4	6.0
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	N/A	N/A	N/A	N/A	N/A	77.2	76.9
EBITDA Margin (%)	N/A	N/A	N/A	N/A	N/A	21.8	22.2
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	N/A	N/A	21.8	22.2
BALANCE SHEET							
Fixed Assets	1	10,527	10,535	42,577	113,386	87,541	61,697
Intangible Assets	0	10,520	10,520	42,553	113,353	87,498	61,643
Tangible Assets	0	4	12	20	30	40	50
Investments	1	3	3	3	3	3	3
Current Assets	127	4,977	4,775	11,100	16,008	50,805	38,000
Stocks	0	0	0	0	0	447	458
Debtors	10	101	111	122	135	7,823	7,931
Cash	117	4,876	4,664	10,977	15,873	42,535	29,611
Other	0	0	0	0	0	0	0
Current Liabilities	(20)	(283)	(312)	(343)	(377)	(2,681)	(2,748)
Creditors	(20)	(283)	(312)	(343)	(377)	(2,681)	(2,748)
Short term borrowings	0	0	0	0	0	0	0
Long Term Liabilities	0	0	0	(20,000)	(60,000)	(60,000)	(10,000)
Long term borrowings	0	0	0	(20,000)	(60,000)	(60,000)	(10,000)
Other long term liabilities	0	0	0	0	0	0	0
Net Assets	108	15,221	14,999	33,334	69,017	75,666	86,948
CASH FLOW							
Operating Cash Flow	(67)	(575)	(350)	(385)	(424)	30,396	36,510
Net Interest	0	1	146	(1,260)	(3,871)	(3,724)	576
Tax	0	0	0	0	0	0	0
Capex	0	(10,520)	0	(32,033)	(70,800)	0	0
Acquisitions/disposals	0	(6)	(8)	(8)	(10)	(10)	(10)
Financing	164	15,859	0	20,000	40,000	0	0
Dividends	0	0	0	0	0	0	0
Net Cash Flow	98	4,759	(212)	(13,687)	(35,104)	26,662	37,076
Opening net debt/(cash)	(20)	(117)	(4,876)	(4,664)	9,023	44,127	17,465
HP finance leases initiated	0	0	0	0	0	0	0
Other	0	0	(0)	0	0	0	0
Closing net debt/(cash)	(117)	(4,876)	(4,664)	9,023	44,127	17,465	(19,611)

Source: Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
N/A	N/A	N/A	Litigation/regulatory	○
			Pensions	◖
			Currency	◖
			Stock overhang	○
			Interest rates	◖
			Oil/commodity prices	●

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 08-12e	N/A	ROCE 11e	N/A	Gearing 11e	N/A	Address:	
EPS CAGR 10-12e	N/A	Avg ROCE 08-12e	N/A	Interest cover 11e	N/A	39 Queens Road Aberdeen AB15 4ZN	
EBITDA CAGR 08-12e	N/A	ROE 11e	N/A	CA/CL 11e	N/A		
EBITDA CAGR 10-12e	N/A	Gross margin 11e	N/A	Stock turn 11e	N/A		
Sales CAGR 08-12e	N/A	Operating margin 11e	N/A	Debtor days 11e	N/A	Phone	01224 672111
Sales CAGR 10-12e	N/A	Gr mgn / Op mgn 11e	N/A	Creditor days 11e	N/A	www.deo-petroleum.com	

Principal shareholders	%
Och-Ziff Management Europe Ltd	19
RAB Capital plc	14
Bluegold Capital Management	12
DEO Management	10
Hargreave Hale Ltd	5
Altima Partners LLP	5
Novum Securities Ltd	3
Sector Investment Managers Ltd	3

Forthcoming announcements/catalysts	Date *
2010 final results	June 2011*
AGM	June 2011*
Perth FDP submission and approval	H211*
*Note: * = estimated*	

Management team
CEO: David Marshall
Mr Marshall has 30 years global petroleum industry experience with Gulf, Hess, Lasmo and Eni and has operated large North Sea facilities including Tiffany, Balmoral and Markham. At Oilexco he led the Brenda and Nicol tiebacks, the acquisition of Balmoral, and projects on Huntington, Shelley, Ptarmigan and Caledonia with combined drilling and project value of £350m.
CFO: Gregor Goodwin
Mr Goodwin is a qualified CA with 19 years of Financial and Private Equity experience. He was Director of European Buyouts & UK Private Equity with 3i, and a Senior Director with Lloyds Banking Group with significant capital raising experience in debt and equity markets.
Chairman: Kevin Burke
Mr Burke was co-founder and Executive Chairman of two publicly listed companies, Dana Petroleum and Vanguard Petroleum; a pioneer Western company in oil production in the West Siberian oil province of the former Soviet Union (subsequently sold to Sibir Energy), and a Non Executive Director of Oilexco. Prior to that, he worked in corporate finance, M&A and venture capital.

Companies named in this report
Faroe Petroleum, Maersk, Atlantic Petroleum, Encore Oil, Nautical Petroleum, Serica Energy, Premier Oil