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Daily Oil & Gas Filter

IN TODAY'S ISSUE

- PETROFAC
- DRAGON OIL
- GULF KEYSTONE PETROLEUM
- DESIRE PETROLEUM
- NORTHERN PETROLEUM
- PETRO MATAD

MACRO NEWS

One day after selling off, oil staged a strong recovery yesterday as again a weaker US dollar proved supportive of higher prices. But the bigger catalyst came later in the day when inventory data from the EIA showing a larger than expected draw in gasoline helped propel crude higher.

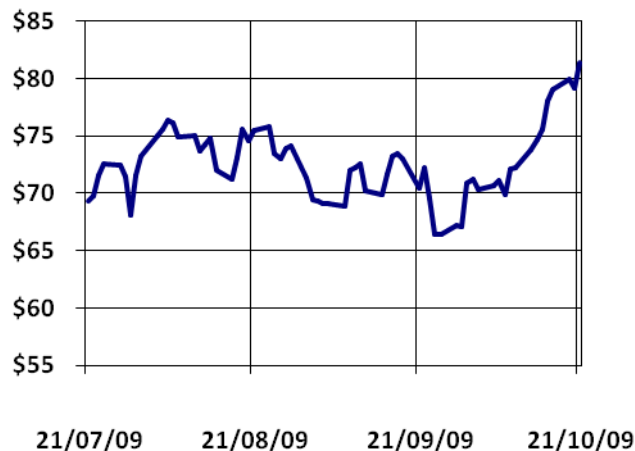
OIL & GAS PRICES (Yesterday's Close)

WTI*	\$81.37	+\$2.25
Brent*	\$79.69	+\$2.45
Henry Hub Gas	\$4.79	+\$0.19

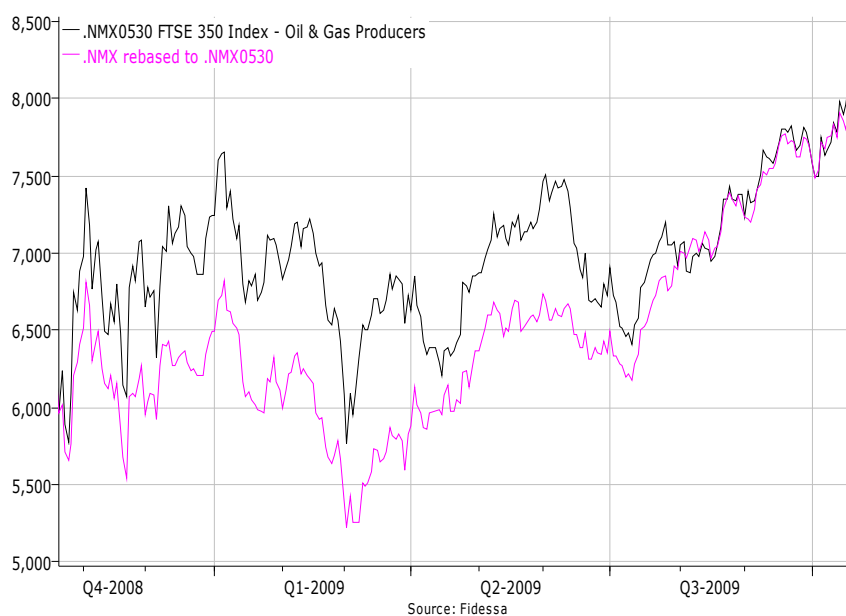
* December contract

This morning, WTI and Brent are trading lower at \$80.11 and \$78.60, respectively.

WTI (DEC09) CRUDE 3-MONTH PERFORMANCE



OIL INDICES PERFORMANCE



DAILY SECTOR PERFORMANCE

Yesterday's % Change

FTSE 350 - Oil & Gas	0.49%
FTSE 350 Index	0.16%
FTSE AIM Oil & Gas	-0.71%
FTSE AIM All-Share Index	-0.44%

COMPANY NEWS

PETROFAC released an interim management statement (IMS) this morning in which the group confirmed it is on track to deliver earnings growth of at least 20% this year. In Engineering & Construction and Offshore Engineering & Operations, bidding activity remains good, while in Engineering Services and Training Services higher oil prices are beginning to encourage customers to raise discretionary spending after weakness earlier in the year. Production at Energy Developments is still expected to be between 3 million and 5 million barrels as previously guided, however, the group now believes this will be towards the lower end of the range.

The group's backlog of orders at the end of September was up slightly to \$8.5 billion compared to \$8.4 billion at the end of June.

Comment: With the exception of lower oil production from the Don fields, today's announcement offered no material surprises. Petrofac has maintained its strong order book and appears to have solid prospects in the pipeline. Attention to margins and profitability is demonstrated by the earnings growth guidance and also references to selective bidding in Engineering & Construction. Given the group's current state of affairs and good visibility of future revenue streams, we retain our **BUY** recommendation.

DRAGON OIL also announced an IMS today for the third quarter. Since the start of July, the group has put into production four new wells. Average production during Q3 was 46,060 bopd, a 9% increase over last year. Cash balances have swollen to \$962 million (including \$114 million set aside for decommissioning activities). Looking ahead the group plans to complete two additional wells by year end and achieve 10% growth in full year average production. With additional rigs in service next year, Dragon is confident that higher growth rates are achievable in 2010 and 2011.

Comment: There is still no word on developments regarding a possible offer from majority shareholder Emirates National Oil Company which was first announced back at the start of June. Dragon did however say that the "New Ventures Team" was actively reviewing opportunities in North Africa, Middle East and Central Asia, so perhaps some of the cash pile will be put to work in the near future.

GULF KEYSTONE PETROLEUM released the results of a preliminary independent report of the Shaikan-1 discovery well by Dynamic Global Advisors (DGA). Previous estimates by the company of 2-4 billion barrels of oil in place were confirmed by DGA who determined a mean estimate of oil in place of 2.8 billion barrels. This estimate does not include estimates for additional discoveries made below 2,055m, including the light oil and associated gas discovery announced earlier this month in the Upper Triassic. The wells target depth is between 3,200m and 3,500m. No estimates of recoverable volumes were made as DGA were not asked to provide an analysis of recovery factors. This information will be forthcoming once the well is completed and undergoes extended testing.

Comment: This independent evaluation of Shaikan-1 confirms the transformational aspect of the well to Gulf Keystone. Although the analysis is still preliminary, we believe that longer term and more comprehensive testing upon completion has the potential to add substantial additional upside to what is already a very large discovery.

DESIRE PETROLEUM announced yesterday that it will raise £42 million through an equity placing as well as an additional £20 million through an open offer to existing shareholders. The funds will be used to finance drilling plans in the North Falkland basin. The recently completed agreement with Diamond Offshore Drilling (UK) to use the Ocean Guardian to drill a minimum of four wells with an option for up to six more will see Desire take

up two of the firm well commitments (Rockhopper and Arcadia will take the other two) and at least two of the options. Rockhopper has signed heads of agreement for two of the six options.

Comment: Yesterday's fund raising announcement should have surprised no one. From the moment Desire announced its plans to embark on a drilling programme in the Falklands, the issue of financing has not been a question of if but when. With funds in place and the rig due to mobilise next month, the outlook for Desire's drilling programme remains outstanding. As such, we retain our **BUY** recommendation on the group.

NORTHERN PETROLEUM has been awarded the Engelen exploration licence located in the West Netherlands basin. The licence contains the Kerkwijk South gas prospect which has been mapped by from existing seismic and is on trend to the Kerkwijk gas discovery.

PETRO MATAD announced it has entered into a drilling agreement with Ansai Yuehua Oil Tech Company Ltd which will enable drilling to commence on a multi-well drilling programme in the Davsan Tolgoi Prospect on Block XX in Eastern Mongolia. The drilling agreement provides for the drilling of the first well on Block XX with the option to continue the drilling agreement on the same terms until the completion of work on up to five additional wells. A rig has been mobilised and site construction works are underway. The initial well in the drilling programme will be designated Davsan Tolgoi-1.

In addition, the group has strengthened its management team with the appointment of geologist Rodney Graham as Head of Operations. In addition to an extensive understanding of Mongolian geology gained over the past nine years, Mr Graham also has several years of experience managing field operations, ranging from conceptual reconnaissance exploration through to drilling programmes.

Comment: This is a positive development for Petro Matad and marks the start of an exciting period of activity for the group's operations in Mongolia. We retain our **BUY** recommendation.

Note: HansonWesthouse is Nomad and Broker to Petro Matad and is paid fees for these services.

THIS MORNING'S BULLS

Description	Mid	Chg	%chg
ENEGI OIL ORD 1P	24.75	4.00	19.28
TXO ORD 5P	4.00	0.50	14.29
AMERISUR ORD 0.1P	7.63	0.88	12.96

THIS MORNING'S BEARS

GLOBAL PET. ORD NPV	8.13	-0.50	-5.80
FAROE PETROL. ORD 10P	134.50	-8.50	-5.94
ROCKHOPPER ORD 1P	70.00	-4.50	-6.04
GULF KEYSTONE COM SHS	105.00	-9.00	-7.89
NOSTRA TERRA ORD 0.1P	1.65	-0.23	-12.00

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