

23 November 2009

## Daily Oil & Gas Filter

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- HERITAGE OIL
- GULF KEYSTONE
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- VOLGA GAS
- OILEX

### MACRO NEWS

Equity markets and the US dollar continued to influence the oil price on Friday. Another improved performance for the greenback and a mild down day for stocks in the US was enough to move oil lower on the day.

**Comment:** With demand still very weak, fundamental support remains elusive. As such, external factors like the dollar and stock market are providing support. Should the dollar rally, this will likely result in US equity markets correcting lower and also oil.

### OIL & GAS PRICES (Yesterday's Close)

WTI*	\$77.47	-\$0.58
Brent*	\$77.20	-\$0.44
Henry Hub Gas	\$3.11	-\$0.44

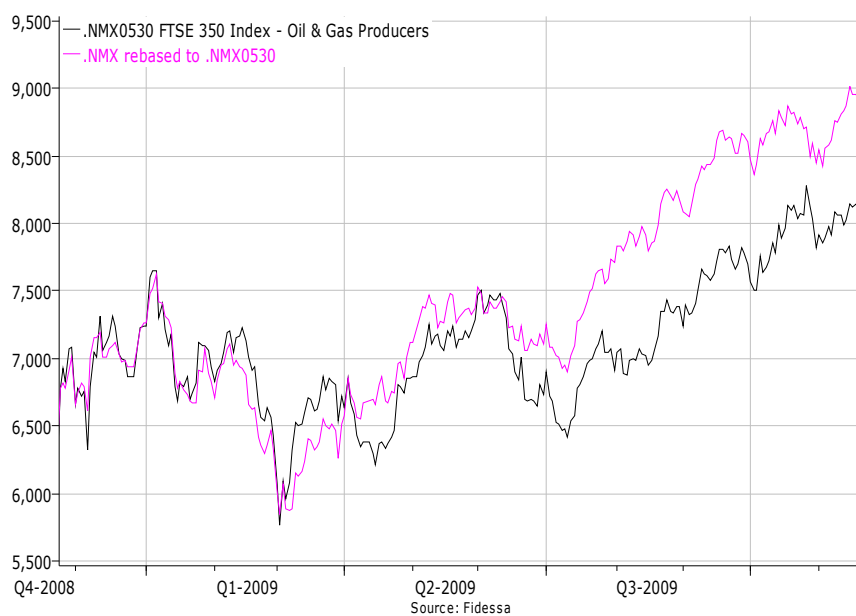
\* January contract

This morning, WTI and Brent are trading higher at \$78.58 and \$78.42, respectively.

WTI (JAN10) CRUDE 3-MONTH PERFORMANCE



## OIL INDICES PERFORMANCE



DAILY SECTOR PERFORMANCE	Yesterday's % Change
FTSE 350 - Oil & Gas	-0.67%
FTSE 350 Index	-0.36%
FTSE AIM Oil & Gas	-0.50%
FTSE AIM All-Share Index	0.04%

## COMPANY NEWS

**HERITAGE OIL** announced this morning that it intends to sell its Ugandan assets (Blocks 1 and 3A) to Eni S.p.A for up to \$1.5 billion. The deal is for \$1.35 billion in cash and a further \$150 million in deferred consideration which can be settled either in cash or an interest in a producing field valued at a similar amount. Heritage has stated it will consider a possible special dividend of 75 to 100p upon completion which is expected to occur in Q1 2010. Significantly, discussions regarding the proposed acquisition of Genel have been terminated. Proceeds from the sale will be used to advance exploration, appraisal and development at other group assets not least of which will be the Miran project in the Kurdistan Region of Iraq (KRI).

**Comment:** We like this deal and believe it is more along the lines of what Heritage should have been pursuing from the start rather than the ill fated Genel acquisition. The deal value is, in our view, fair if slightly ahead of our attributed value for the Ugandan assets. Another benefit is that the group remains exposed to the Lake Albert basin through interests in Blocks 1 and 2 in the DRC although exploration and development activity here remains uncertain due to political risks.

Heritage will now be in a very healthy cash position which can be used to accelerate value creation within the international portfolio of assets that remain. Clearly this includes Miran in the KRI, but also drilling opportunities in Tanzania and potentially development options in Russia to boost production. At the same time, shareholders are likely to be rewarded with a special dividend.

In our downgrade of Heritage to a HOLD last month, we stated as reasons the uncertainty surrounding the Genel acquisition, the impasse over payment for oil exports from the KRI and the implications for development in Uganda. Two of the factors have now been resolved in a satisfactory manner. The remaining issue regarding the revenue payment mechanism in the KRI is still unresolved. However, we believe this is being priced into the shares and as such for the patient investor, Heritage now represents good value. As such, and due to the muted response of the shares to this morning's news, we are restoring our **BUY** recommendation.

**GULF KEYSTONE** has announced a further discovery in the Triassic formation in the Shaikan-1 well in the Kurdistan Region of Iraq (KRI). The recent discovery has flowed at 10,000 boepd. This flow rate and that of company estimates for a shallower Triassic test and a Jurassic flow test of 7,000 bopd combine for an aggregate production capability of 31,000 bopd. The company is quick to point out that these tests only cover 30% of the net pay discovered and that there are additional deeper, high pressure targets that will be explored with the drilling of the Shaikan-2 appraisal well in mid-2010.

**SOCO INTERNATIONAL** announced results of the Viodo Marine 4 vertical appraisal well located in the Marine IX located offshore the Republic of Congo (Brazzaville). The well tested approximately 2,600 barrels of oil per day and 7.0 million cubic feet of gas per day in two drill stem tests. The results of the well and the reprocessed seismic will now be incorporated into a 3D model to assess the commerciality of the accumulation.

**VOLGA GAS** provided an operational update on the Karpenskiy licence area. Key points include:

- The Grafovskaya #1 well has found the presence of hydrocarbons in two dolomite carbonate sequences which are the main exploration targets of the well. The well continues to be drilled to the target depth of 5,400 metres. The company comments it is too early to be able to determine the significance of well data.
- The Uzenskaya #8 well has been brought onto production making a total of six productive wells on the field. However production has been below expectations due to a decline in reservoir pressure. Water injection is set to commence on the field during 1H 2010.
- The Vostochny-Uzenskaya #10 has been plugged and abandoned as a non commercial well.
- Development of the Vostochny Mararovskoe gas field continues.

**OILEX** announced that it had spudded the Loré-1 in the JPDA 06-103 contract area in the Timor Sea. Oilex has a 10% interest and is operator of the well. The well is targeting a prospect with mean prospective oil resources of 195 million barrels gross.

#### **THIS MORNING'S BULLS**

Description	Mid	Chg	%chg
EMPYREAN ORD 0.2P	16.25	1.00	6.56
PETROLATINA ORD USD0.10	66.50	4.00	6.40
TOWER RESOURCES ORD 0.1P	2.38	0.13	5.56

#### **THIS MORNING'S BEARS**

XTRACT ORD 0.1P	2.73	-0.10	-3.54
AGRITERRA LD ORD 0.1P	5.38	-0.22	-3.93
OILEX ORD NPV	18.25	-1.00	-5.19
FORUM ENERGY ORD 10P	43.50	-2.50	-5.43
GOLD OIL ORD 0.025P	4.05	-0.50	-10.99

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- HOLD** We expect that over the next twelve months, the share price will perform between +15% and -15% of the market defined as the FTSE All Share Index.
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