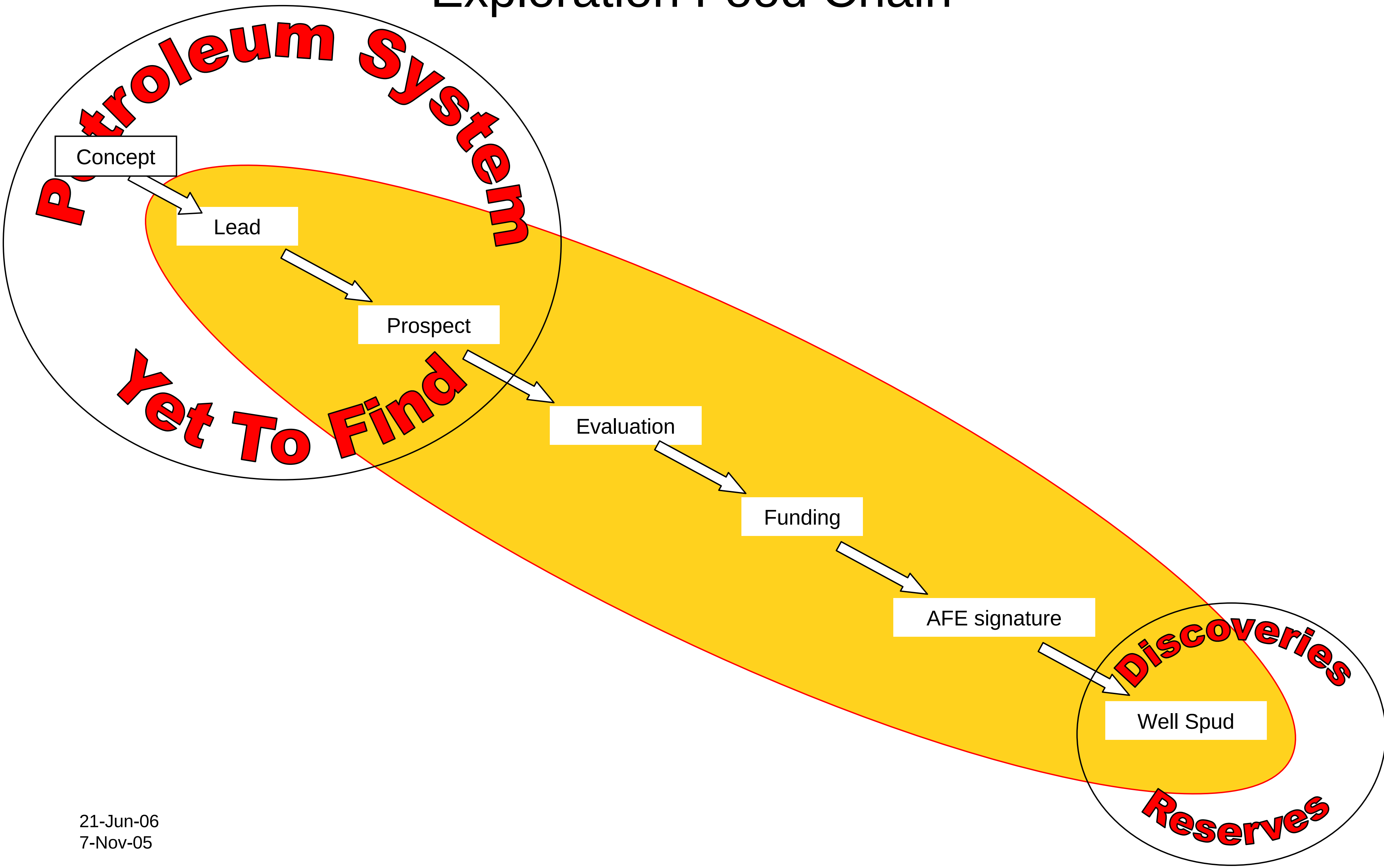
Exploration Update

EAG – 2nd Dec 2005

Exploration Food Chain



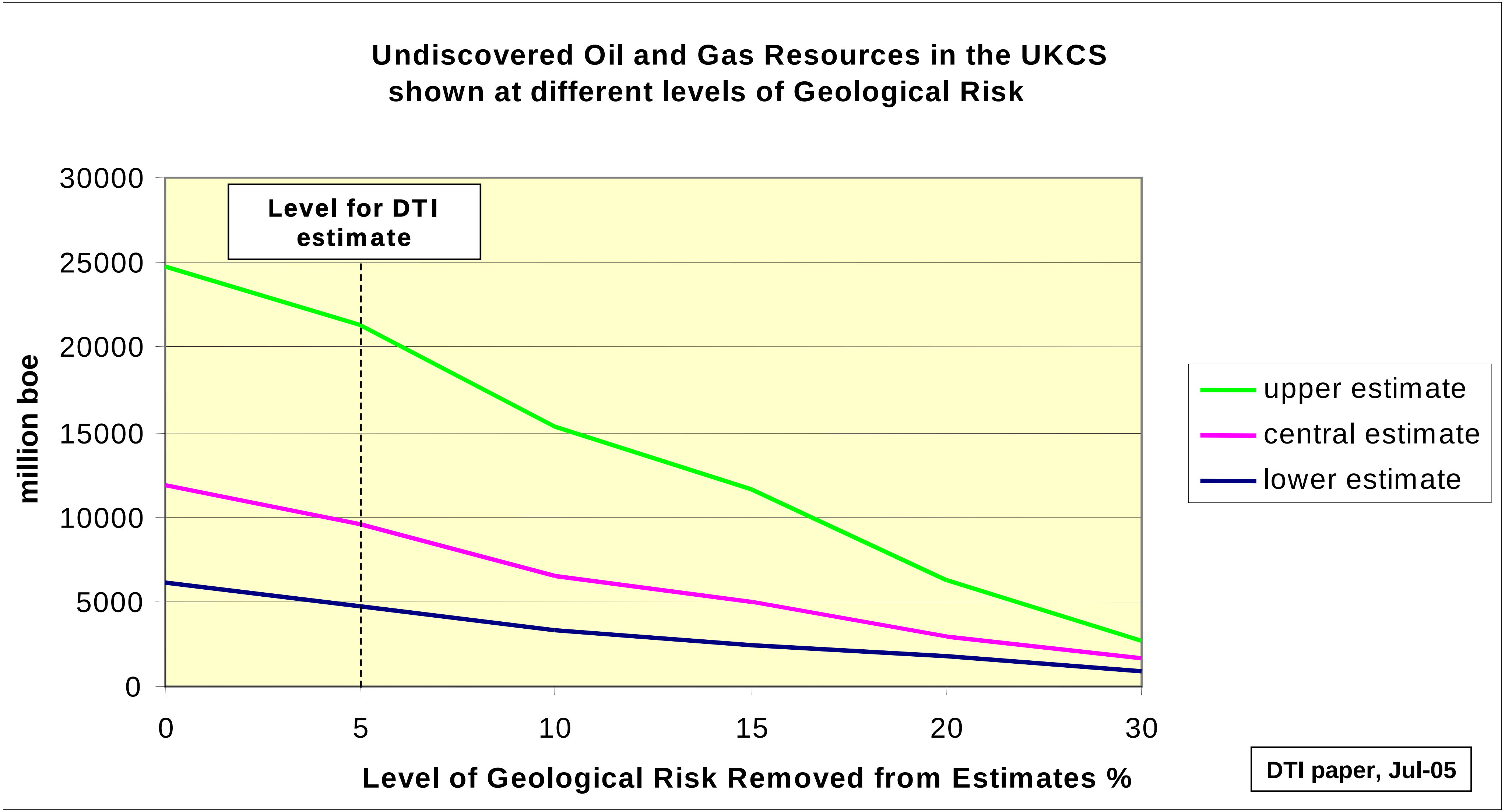
21-Jun-06
7-Nov-05

Exploration Update

- **How big is the yet-to-find potential?**
  - Conceptually (Top-down)
    - Petroleum system methodology
    - Analogues
    - Basin maturity
  - Discretely (Bottom-up)
    - Leads and prospects
      - From licensees
      - In licensing rounds
      - BGS regional studies
  - Large range of uncertainty
    - Volumetric parameter ranges
    - CF/PoS is a statistical tool, not a discount rate
  - Several different ways of characterising the range, but it will always be a range

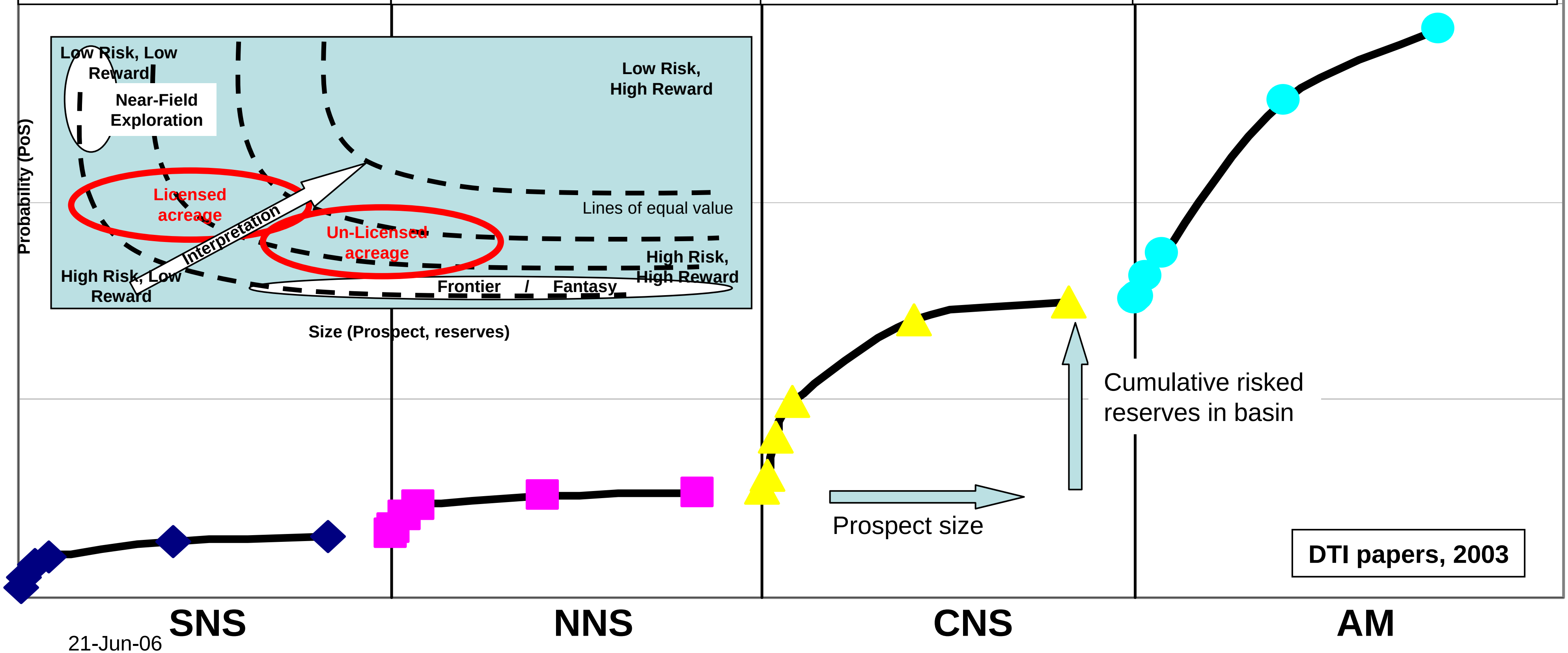
Q. Is there sufficient potential to be exciting?

How big is the yet-to-find potential?



Characterisation of Prospect Portfolio

450 prospects	190 prospects	470 prospects	380 prospects
Ave. size 20mmboe	Ave. size 30mmboe	Ave. size 50mmboe	Ave. size 110mmboe
60% < 10mmboe	50% < 10mmboe	30% < 10mmboe	25% < 10mmboe
32% in licensed acreage	36% in licensed acreage	36% in licensed acreage	10% in licensed acreage
Risked YTF 700mmboe	Risked YTF 570mmboe	Risked YTF 2000mmboe	Risked YTF 2500mmboe



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Characterisation of Prospect Portfolio

- Size distribution
  - Both the SNS and NNS are perceived as being "mature"
    - Many prospects and leads, but generally at the lower limits of commercial size
    - Modest remaining potential
  - The CNS and WoS/AM are perceived as being "immature"
    - Prospects and leads distributed across the spectrum of size
    - High remaining potential
- Risk spectrum
  - SNS/NNS/CNS
    - Smaller prospects are near-field analogues to existing discoveries/producers
    - Limited new play types, but generally higher risk, with significantly higher potential
  - WoS/AM
    - Limited testing of proven play types, with significant success
    - Range of untested play types, with inherent risk profiles
- Access
    - Much of the prospectivity lies in unlicensed acreage (2003 status)
    - The prospectivity is perceived as larger in unlicensed acreage
      - Less knowledge/data = less constraints (but higher risk)

YTF Portfolio – Something for everyone

- Near-field
  - Low risk/low reward
  - High value to infrastructure/field owners
  - Majors may sell to smaller companies, but attractive as part of field/infrastructure portfolio
- Mature basin
  - Moderate risk/moderate reward
  - Low thresholds based on efficient access to infrastructure
  - Market for new entrants, small companies looking to grow
- New plays within existing basins
  - High risk, moderate to high reward
  - Thresholds reduced by access to existing infrastructure
  - New entrants, explorers, sufficient potential to attract/retain (some) majors
- Proven plays in frontier basins
  - Moderate risk, moderate to high reward
  - Thresholds high because of limited infrastructure, need to cover dry hole costs
  - Exploration companies, probably already in the basin, and with access to infrastructure
- New plays in frontier basins
  - Moderate to high risk, exposure to upside
  - Costly failure leg and high thresholds
  - Market to exploration companies, and those with significant financial resources and staying power

DTI YTF Estimates

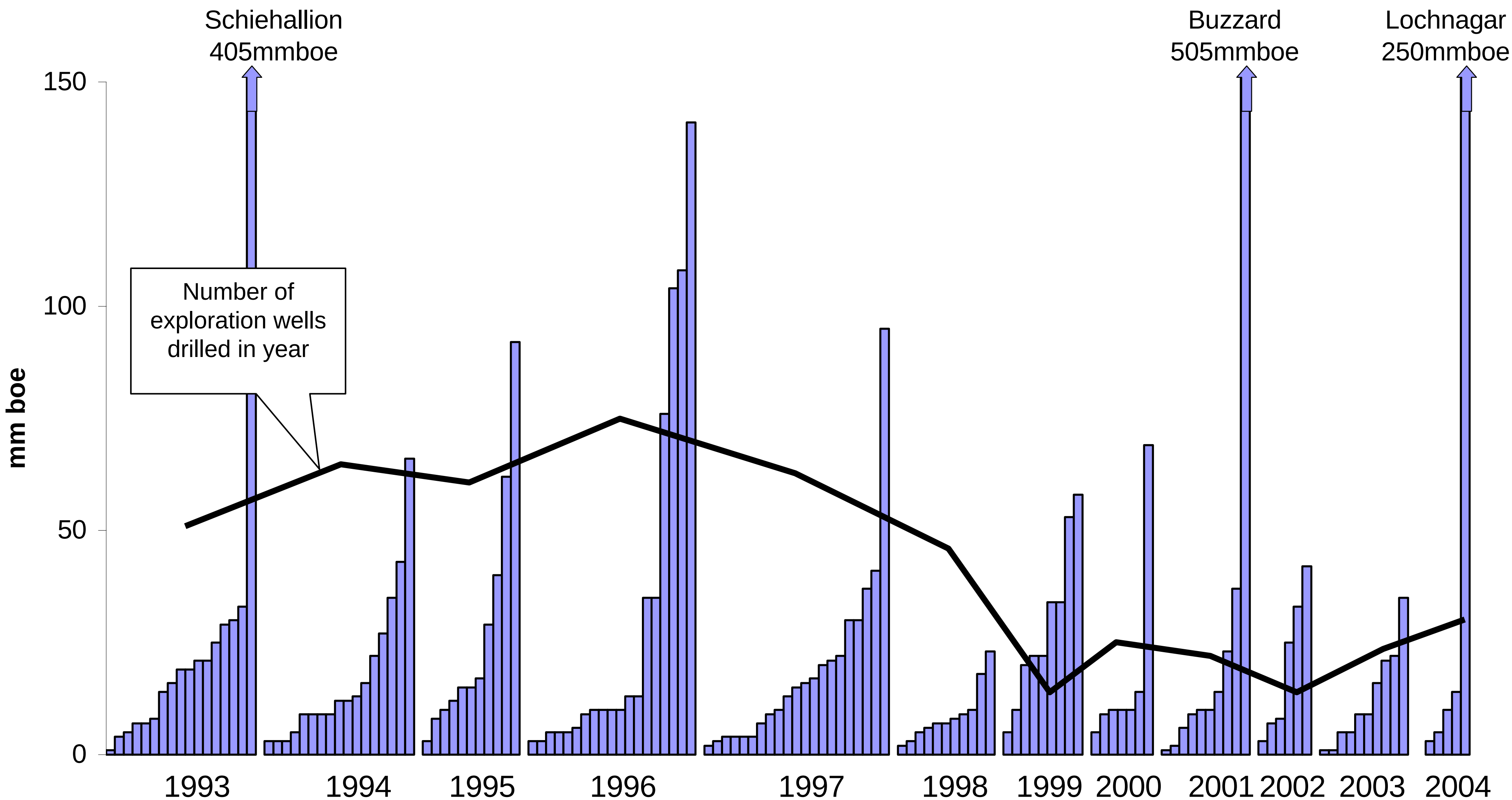
- DTI's estimates for ***technically*** **recoverable undiscovered resources as at the end of 2004** were presented in July 2005 as:
  - A **Low – Mid – High range** for the UKCS as a whole of **4.8 – 9.5 – 21.3 billion boe**, of which
    - 0.6 – 1.9 – 5.8 billion boe were West of Shetland and
    - 0.1 – 1.2 – 4.2 billion boe were West of Scotland, leaving
    - **4.1 – 6.5 – 11.3 billion boe in the North Sea**, Irish Sea and onshore

A. There is sufficient potential YTF to pursue, and, if successful, make a significant change to the future of the UKCS industry

Are we on track to find/produce it?

- Number of wells drilled
- Success rate
- Volumes discovered
  - Number – technical and potentially commercial
  - Range/average
  - Total

UKCS Discoveries 1993–2004



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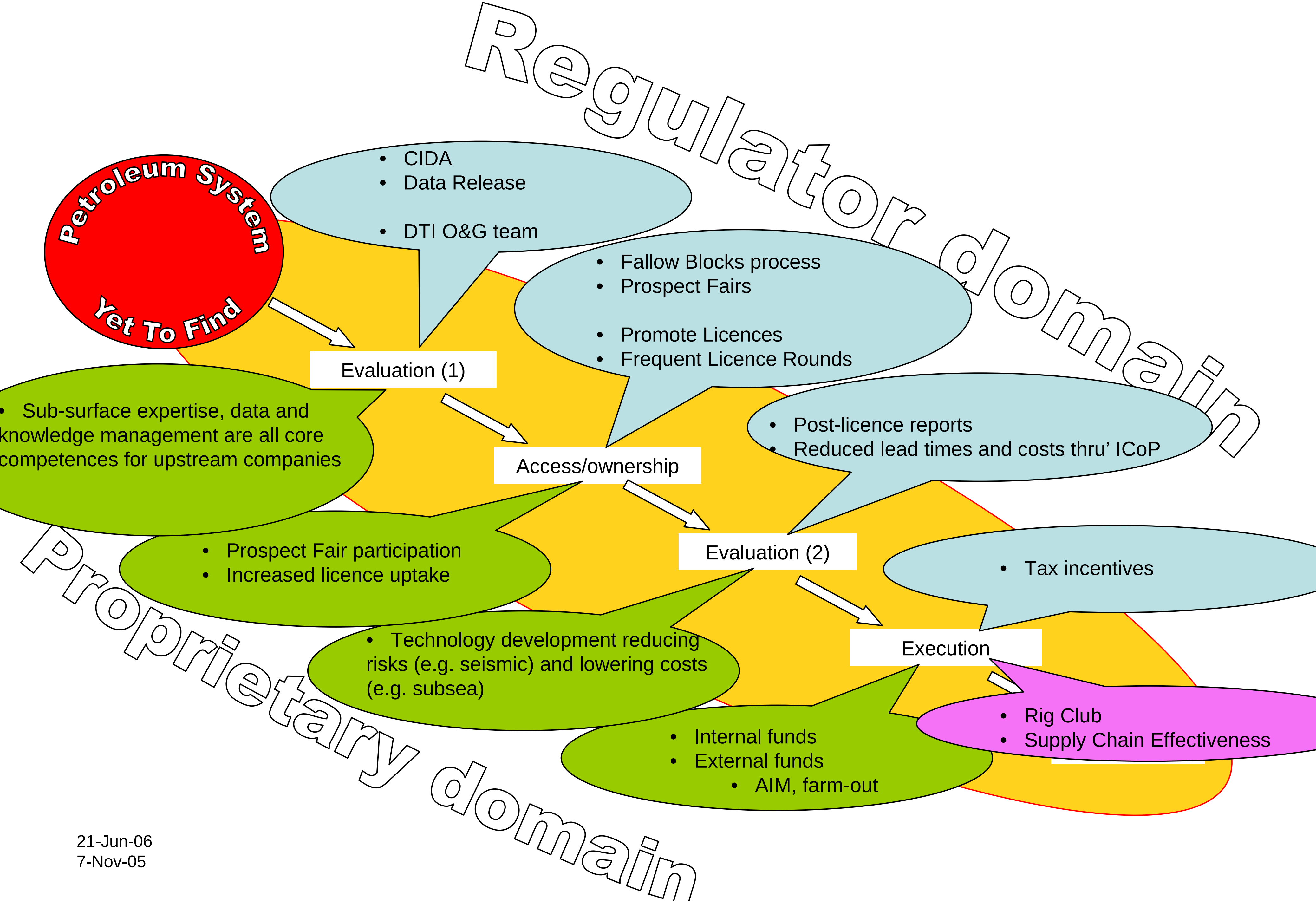
Source: UKOOA analysis of Wood Mackenzie data, discoveries ranked by size within year; includes both commercial and technical reserves; there is no public estimate of Lochnagar (Rosebank) reserves by the operator (Chevron)

What are we already doing?

- Stepwise approach to realising the potential of the UKCS
  - Technical evaluation
  - Capturing the first stage of value
  - Economic evaluation
  - Implementation

- Industry has control over some of the elements, regulator (HMG) has control over some of the pieces
  - Examine where regulator or industry could do more
  - Determine where regulator and industry are working in a truly collaborative way



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Exploration Process - what are we already doing?

1. Evaluation (1)
   - Data
     - CIDA
     - Data release
   - Expertise
     - Proprietary
   - Knowledge
     - Proprietary
     - DTI O&G

2. Focus/possession
   - Access to prospectivity
     - Fallow Blocks process
     - Prospect Fairs
   - "Ownership" of prospectivity
     - Promote Licences
     - Annualised Licence Rounds

3. Evaluation (2)
   - Risk Mitigation
     - Knowledge cycle / post-licence reports
     - Technology for direct indications (mainly seismic)
     - Portfolio development and management
   - Reducing Economic Thresholds
     - Technology development reducing costs
     - ICoP reducing tariffs, accelerating access

4. Execution
   - Funding
     - Internal funds
     - External funds (e.g. farm-out or AIM)
     - Tax incentives
   - Rig availability
     - Rig Club
     - Supply Chain Effectiveness

Exploration Process - could we be doing more?

1. Evaluation (1)
   - Data
     - Access to existing data
       - CIDA, data release – shorten retention time (especially spec. seismic)
     - New acquisition
       - Further tax breaks on acquisition of seismic, with release into public domain
   - Knowledge
     - Post-licence reports
       - Full public access (via DTI website)

2. Focus/possession
   - Access to prospectivity
     - Fallow Blocks process
     - Prospect Fairs
   - "Ownership" of prospectivity
     - Promote Licences
     - Extension of Promote licences
     - Annualised Licence Rounds

3. Evaluation (2)
   - Reducing Economic Thresholds
     - Closer scrutiny and implementation of ICoP principles

4. Execution
   - Funding
     - Tax incentives
   - Rig availability
     - Rig Club
     - Supply Chain Effectiveness