

PRESS RELEASE

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2008 UK Exploration and Appraisal Drilling highest since 1997

In a report issued to clients, UK oil and gas industry consultants, Hannon Westwood, said that in 2008, exploration and appraisal (E&A) drilling in the UK offshore sector reached its highest level since 1997.

Of the 77 wells spud, 41 were exploration and 36 were appraisals of previous discoveries. There were 18 exploration and 19 appraisal successes in 2008, together finding or progressing some 841 million barrels of oil equivalent (mmboe) of additional UK reserves against 1.08 billion produced in the year.

As in previous years, the Central North Sea provided the greatest number of exploration wells and the majority of successes. The Northern North Sea, West of Shetland and Southern North Sea all recorded exploration drilling success, while there was no drilling in 2008 in the East Irish Sea, English Channel or SW Approaches. A multi-well, multi-operator drilling programme is, however, scheduled for the East Irish Sea in 2009.

Appraisal activity in 2008 continued apace with the Central and Southern North Sea areas accounting for the majority of the appraisal activity. With less volatility in the gas price, there was a steady and concerted appraisal programme in the Southern North Sea, with seven successes. The standout of these was the continued appraisal of Breagh by Sterling Resources, with the East and West extensions confirmed by two wells in Block 42/13.

The 77 wells were "operated" by 43 companies on behalf of 89 joint venture participants. Oilexco and Ithaca Energy operated the most wells, with five each. 24 companies each operated a single well, many of which were their first wells in the UKCS. The availability of cost effective third party well management services allowed small companies, without drilling personnel, to operate North Sea wells successfully.

Hannon Westwood estimates that the 18 successful exploration wells found approximately 488 mmboe, an average finding rate of 27.1 mmboe per well, while 353 mmboe were progressed by 20 successful appraisal wells, an average rate of 17.7 mmboe per well.

Finding costs reflect the wide variety of well types, with an overall UKCS average of \$2.80/boe for appraisal and \$2.30/boe for exploration.

Hannon Westwood Partner, Chris Bulley, said

"In 2008, drilling activity reached a high not seen since the late 1990's. As many of the 2008 wells were already contracted to rig companies and drilling budgets allocated, the effect of the current downturn is not reflected in 2008 drilling activity. This is now being seen in the early part of 2009 as companies rein in unnecessary expenditure and discretionary drilling plans are put on hold. By the end of Q1 2009 there were 7 new well spuds and 10 sidetracks compared with 20 and 8, respectively, for the same period of 2008. "

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