

'VIEWS FROM THE CITY' OF THE CURRENT NATURAL RESOURCES MARKETS

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Realising Potential 

FRONTIER
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Finding
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WOMEN IN MINING


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“We have compiled these papers with the help of a number of our industry partners to help share insight and perspective across the wider natural resources markets. We hope you enjoy reading our ‘Views from The City’. If you wish to contribute an article for our next paper we would be happy to hear from you.”

Brian Martin, Managing Partner, Opus Executive Partners

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European Energy Security – facing a future of increasing dependency

By Lord Truscott, Former UK Energy Minister, 2006 - 2007

Energy Diplomacy

There is an urgent need for the Member States of the European Union to engage in coherent 'energy diplomacy.' It is vital that the political and diplomatic status of energy security, which is closely related to climate, food and water security, is elevated to the top of the foreign policy and security agenda. Whether European Union policy-makers like it or not, for the foreseeable future Europe will become increasingly dependent on fossil fuels produced beyond its frontiers, often in politically unstable parts of the world. Investment in future energy production, both in hydrocarbons and non-hydrocarbons, will be vital to avoid an energy supply crunch as the world recovers from the current global recession.

European Security in the Geopolitical Landscape

The urgency behind the ascent of energy to the top of the European policy agenda is a response to Europe waking-up late to the new Great Game over energy. Resource nationalism will alter traditional global power structures, making it vital that the European Union strengthens its relations with both non-OPEC countries and OPEC producers. In order to stem the global decline in oil and gas production, it is essential that the EU fosters durable diplomatic relationships with future energy producers. If energy production continues to decline, energy security will increasingly be aligned with national security and geopolitical interests. The EU must look to develop a coherent and co-coordinated external voice over its energy supply strategy. Europe must negotiate financial crises and production decline and look to new sources of oil and gas in Africa, the Caspian, the Middle East, the Americas and probably the Arctic to ensure long-term energy supply. Failure to do so will inevitably lead Europe into an oil and gas supply crunch.

Russia and European Energy Security

Europe and Russia's mutual energy relations are in a legal vacuum. The best hope for the EU is to try to enshrine the principles of the Energy Charter Treaty and Transit Protocol in a new Partnership and Cooperation Agreement, which has already begun its tortuous negotiations. A cohesive EU energy policy must enshrine reciprocity between Russia and Europe, for example through asset swaps and investment opportunities. This will assist the integration of Russia into international bodies and facilitate discussion over the open market principles behind ECT and Moscow's accession to the World Trade Organisation (WTO) and future membership of the Organisation for Economic Co-operation and Development. It is imperative that the EU's energy relationship with Russia is depoliticised and centred on a more commercial and pragmatic basis, based on mutual interests, in order to create a more favourable investment climate and to boost trade. Europe's response to 'Russia First' should be to continue to press for liberalism at home, but within a rubric structured on areas of mutual interest, in other words energy, trade and investment. It is in these areas that the EU will get Russia's attention and have the most scope for shaping a pro-Western outlook. Enshrining reciprocity in energy relations with Russia will encourage a more stable, strategic partnership. Production shortfalls and lack of investment in the Russian energy sector present a greater danger to medium- and long-term European energy security than any desire to use energy as a political weapon. Russia and Europe, as supplier and customer, are locked in a mutually dependent embrace.

The Fourth Energy Corridor: the Nabucco Pipeline

If the Nabucco project is to succeed it is imperative to secure firmer political and financial guarantees from EU governments to underwrite the high capital costs and a potentially volatile end-product. If this is not provided, Nabucco will be unsuccessful. This will mean that Russia's South and Nord Stream pipelines will become the predominant supply routes for the Caspian's vital energy resources. The EU should prioritise building stronger strategic links with Azerbaijan, encompassing more than just energy issues. The construction of the Trans-Caspian pipeline looks unlikely. As with Iran, Iraq's potential to become a major supplier of oil and gas remains contingent on the political and investment climate improving, although the growing willingness of energy companies to invest in the country is a positive development.

Algeria, Nigeria and the Trans-Saharan pipeline

As European demand for gas rises, Algeria will become an ever more significant energy partner for the EU. With a well-established energy infrastructure and a number of new pipelines linking Algerian gas fields to European markets coming on-stream in the near future, EU/Algerian relations need to take on a more strategic character. The EU must move quickly to overcome the blockages currently impeding Algerian accession to the WTO. The best method for getting Nigerian gas to the European market remains Liquefied Natural Gas (LNG) transportation by sea. Angola's LNG potential should be encouraged as an important future energy source for Europe. Attacks on critical energy infrastructure have serious consequences for production and price volatility. Given the vulnerability of the pipeline from its sheer size, the Trans-Saharan compares unfavorably to other alternatives, owing to the instability of the transit route and the multitudinous problems affecting the Nigerian Delta region. Given escalating Chinese and Indian energy demand, the EU cannot afford to be complacent if it wishes to gain access to these important African resources.

Delivering Energy Security at Home: the Creation of an Internal European Energy Market

Open access pan-European networks must be the backbone of EU security of supply. A cohesive internal market will require a single super-grid and a strong regulator. A new Baltic interconnector covering gas, electricity and storage is also a priority. The EU must proceed with ownership unbundling and establish itself as the key forum for overcoming bottlenecks. If the EU Emissions Trading Scheme remains ineffective, it could be replaced by a progressive carbon tax administered by Member States, which would create an immediate revenue stream to fund renewable and clean sources of indigenous energy.

Bridging the UK Renewables gap

The primary aim for the UK should be to develop a joined-up and consistent approach to energy policy. This will require a focused approach to achieving foreign investment in the renewable sector, particularly wind power. OPEC producing states are some of the most likely future investors. The UK must set an example of the viability of low-carbon nuclear energy, combined with already agreed legally-binding carbon budgets. The UK should seek to set the carbon budget standard for the rest of the EU to follow. This structural shift of the economy will generate a stable environment for the renewables industry to develop. UK energy policy is not one-dimensional and all measures to develop new nuclear power must be supported with funding for low-carbon energy. The shift towards a low-carbon economy will require huge public and private investment. The massive funding required will also necessitate targeted public campaigns to underpin public acceptability for wind farms and campaigns to increase energy efficiency. It is essential to generate a stable and appealing environment for investors through long-term government stimulus. Failure to do so will make the UK government's renewable energy targets (which are already massively challenging) wholly unrealistic and unachievable. Given present commitments, it is very doubtful that the Government has either the political will or the necessary finance to make these targets a reality.



What's the Next Big Deal of the New Decade?

By David Greer, Chief Executive, Regal Petroleum

As the economic and financial storms of the last year slowly recede, Drillers and Dealers alike are unlikely to miss or forget 2009. Many Drillers and Dealers entered 2009 in a state of extreme uncertainty and apprehension and only a relative few had much to celebrate by year-end. The global financial crisis of 2008-2009 turned the world's economic landscape upside down, with huge implications and consequences for the oil and gas sector and for all the Drillers and Dealers both large and small that work within it.

The outlook for both E&P companies and service contractors (the "Drillers") may be improving slightly however, the same may not be said of the reputation of global bankers (the "Dealers") who have not fared well over the last year. Amongst Drillers and Dealers, there are two prevailing, wrestling, schools of thought about the long-term impact of 2009. In the Dealer corner, there are those who say that while the economic recession witnessed at the end of the last decade was grim, it was nothing more than yet another seismic tremor in our ever cyclical industry.

The recent Dubai financial scare did however lend some weight to the argument that we are in a W-shaped recession and showed how quickly such scares can emerge with hardly any warning. In the Driller corner however, many believe that this was the year when our business models and realities changed forever. Regardless of which argument is correct, and only time will tell, Drillers and Dealers must now all collectively face up to the new industry and commercial cards that have been dealt if we are to overcome the challenges and opportunities that lie ahead in 2010 and beyond.

Two years of global oil demand contraction in 2008-2009 reflect the worst economic recession in over fifty years and this contraction has forced Drillers and Dealers to review and adjust their business, contracting and resourcing models in ways and to levels that they have hitherto never experienced. Meanwhile, for the first time in fifty years, the world will witness a drop in gas demand in many areas. As a consequence, oil and gas companies are driving painful and potentially damaging cost reduction pressures upon their staff and supply chain providers and they, in turn, on their contractors and service providers on whom they depend so greatly. E&P engineering contractors have so often taken the full brunt of oil price downturns in the past but it is debatable whether there are enough fully resourced and well-financed companies remaining to be able to cope and recover from the current recession swiftly.

This crucial resource has been stretched so many times in the past due to cyclical downturns that it remains to be seen whether the number of cycles it has experienced has finally resulted in fatigue. If this is the case, it is fair to say that the E&P industry, as a whole, did it to themselves. E&P companies set tough contract models in the past and the contractors that were eager for work were bold enough to accept tough terms, often driven by potential incentive bonuses and often blind to the pitfalls and penalties of failure.

Thousands of man-years of experienced staff are being cast off from an already greying but valuable pool of globally mobile industry practitioners who were once prepared to venture off to new, and often hostile, frontiers where future hydrocarbon resources will be extracted.

Meanwhile, the national oil companies (NOCs) continue to hold onto the bulk of the world's remaining hydrocarbon reserves and now actively compete against and with international oil companies in bidding competitions outside their traditional regions. China's CNPC, Malaysia's Petronas, Angola's Sonangol and Russia's Gazprom have all won shares of contracts in Iraq recently. If these NOC's are successful in assisting with the development of such large fields as those found in Iraq, the production and revenue from these giant fields could be transformational for each of the companies involved. So, when the upturn in demand and activity does eventually arrive, on which NOC's, companies, contractors and staff shall we rely upon to do the needful in terms of meeting any oil and gas shortfalls?

These factors suggest that elements of care, caution and urgent attention are required if the global industry expects to be able to respond effectively to the challenges ahead and to meet society's energy expectations across the world. For the challenges ahead will be many as the world's growing band of NOCs, international oil giants and small to mid-size independents all compete and collaborate to try and match global oil and gas supplies with demand.

For the oil sector, analysts deal with these uncertainties by portraying divergent scenarios that show the risk of a rapidly tightening oil market from 2012 onwards on the one hand, offset by other scenarios that show OPEC spare capacity remaining around a comfortable 6 million barrels a day over the short to medium term.

There is little doubt that a return to wafer-thin crude oil spare capacity and the resultant price fluctuations are not in the interests of either consumers or producers. Whether the world ends up facing a supply crunch again by 2015, or, with a more comfortable buffer of supply flexibility, market price stability, most analysts agree that this will depend largely on the pace of economic recovery and midterm GDP trends.

Oil demand is currently expected by the International Energy Agency (IEA) to grow at between 0.4% and 1.4% annually from 2010 onwards. The difference between these projections is very significant in relation to projected global oil balances. The IEA forecasts that demand will increase from the current 85 million barrels per day to 89 million barrels per day in 2030. It remains too early to detect any definitive reduction in global oil use and dependency. However, some growth trends are evident, with Asia and the Middle East generating the bulk of demand growth and non-OECD demand potentially overtaking OECD demand by 2014. The IEA believes that half of the required increase will come from already discovered fields, with the remainder yet to be discovered.

However, oil industry investments are reportedly down by almost 20% compared to 2008 and a significant increase in expenditure and human resources will be required in the oil and gas sector to cope with the decline in production from existing fields and to develop the new fields required to meet the IEA's projected growth in demand. However, according to the 2009 Uppsala University Report on giant oil field decline rates and their influence on world oil production, the struggle to maintain production and compensate for the decline in existing production is going to become harder and harder. The report forecasts that the world will face an increasing oil supply challenge over the next two decades, as the decline trends in existing production are not only high but are also increasing.

Even though oil prices have begun to strengthen again, due in part to a perception that economic recovery may be just around the corner, they are still only around half the level seen in July 2008 when they peaked at almost \$US 150/barrel. The recent recovery in London and US markets and in oil and gas stocks has also been driven upwards by positive economic news and speculators and the continuing weakness of the US dollar have helped to promote the value of oil.

Whilst demand in the physical crude market is also rising, the natural gas sector remains depressed in many areas, notably in the USA as the supply and demand balance has moved from a very tight position with extremely high gas prices to an easing one with falling prices, in general. There are notable exceptions of course, such as Ukraine, where gas prices continue to rise to European border prices.

2008 was also neatly divided into two halves: a tight supply and demand balance with rising energy prices was followed by a weakening of demand and spot prices plummeted. We all witnessed the legacy of this last period in 2009 as the world went through the unprecedented combination of a global recession and financial crisis. Whereas, recessions in the past have been consumer/demand led, this one has been caused by a loss of liquidity in the credit markets because of toxic, bad, credit deals that were recycled and repackaged by the banks. The oil industry normally contracts and expands in line with the oil price, which is not always in line with the wider economy as a whole (remember the collapse in oil price in 1986 for example). The big difference this time around is that the oil industry was also hit by this credit tightening.

Let's face it, at the start of the recession in Q3 2008, most people thought the oil price of \$US 150/bbl would leave the industry largely unscathed by the economic recession, as most pundits, even then, were still forecasting high oil prices (remember Goldman Sachs' oil price forecast?). The stark reality couldn't have been further from the truth and small players in "riskier emerging markets" found themselves in just as much difficulty as any other business or economic sector – possibly even harder, since their fields do not tend to reside in politically stable regions and lenders tightened up on their willingness to expose themselves to anything at all to do with "risk".

The IEA is already warning of a natural gas glut over the next few years due to the rise of unconventional production projects e.g. shale gas, gas in tight sands and coal bed methane. It is likely that if this forecast gas glut does indeed emerge, it will have far-reaching consequences for the structure of gas markets and for the way gas will be priced in Europe and in Asia Pacific. LNG producers are continuing to step up production e.g. in Qatar, Sakhalin and Tangguh and such producers may be forced to offer liquefied gas into spot markets at whatever price is needed to attract buyers.

This in turn could limit the volumes of gas that would otherwise be sold via pipeline. The one market that LNG suppliers have always been able to rely on to soak up excess gas volumes has been the USA. However, unconventional gas production, especially shale gas, is now ramping up at unprecedented levels and last month's acquisition by Exxon of XTO Energy highlights not only the shrewdness of the largest integrated major energy company but the priority that Exxon is placing on unconventional gas.

The concern though is that increasing shale gas and other unconventional gas sales could potentially drive down gas trading prices. This is of particular concern in the USA and it is here that LNG producers may be forced to take the biggest cut in liquefied sales prices. Ultimately however, the extent to which shale gas will substitute LNG sales will be directly dependent upon the eventual cost of shale gas production; this continues to be a hotly debated topic.

The dollar's steady fall in 2009 helped push crude prices up from a low of just over \$US 30 per barrel in late December 2008. Less than six months earlier, crude had hit a peak of nearly \$US 150 per barrel. However many Drillers and Dealers remain wary and aware that the recent increases in oil and gas equities over the last twelve months is still not enough to put them back where they were eighteen months ago. Analysts report that there has been a dramatic reduction in the number of wells being drilled in the North Sea year on year, largely due to the difficulties that exploration and production companies have in raising cash and not helped by the UK government's tax regime. Meanwhile, the UK and other Governments have recently been exhibiting their low carbon credentials at Copenhagen and many people clearly want to see the transition to a low carbon economy as soon as possible. Such a transition however will not occur in the UK unless the UK government grasps the severity of the current situation or without the prudent management of what is left of North Sea reserves. Neither will it help maintain the country's faltering security of supply or its corporation tax receipts, where the industry still makes a very significant contribution.

Whilst there has been a recent bounce back in most oil and gas players' share prices and oil prices in general, the outlook for Drillers and Dealers remains very uncertain. The economic stresses and strains of the last decade have changed our business models and realities forever. Markets face enormous uncertainty surrounding the timing, pace and extent of any economic rebound, which affects all prognoses for oil and gas market fundamentals and activity levels over the next five years. This makes it very difficult for E&P companies and contractors alike to forecast and meet resourcing needs and to commit to new expenditure.

Despite the recent Copenhagen summit and Kyoto before it, we all remain members of the genus Homo Hydrocarbon and as the world shows no immediate signs of shedding its dependency on hydrocarbons, the need for well resourced companies and industry Drillers and Dealers who are competent and willing to develop these resources in far flung places has arguably never been greater but yet more concerning. However, recent published research suggests that the UK alone needs over half a million new "engineers" (in the narrowest sense of this often poorly defined profession in the English language) within the next seven years if it is to maintain its present strength in engineering and manufacturing and build new sectors. Meanwhile the number of new entrants entering the engineering profession at graduate and apprentice level is reported to be equal to about half of the projected demand. The engineering world believes that the economy and the world could be stronger and more stable with a robust and innovative engineering sector, but such a scenario will not be realised if the engineering world at large, including the E&P sector, cannot retain existing experienced talent or attract fresh talent to the sector to replenish an ageing skills base throughout the engineering and E&P world. Whilst kids' mechanical skills from my generation were weaned on Meccano, metal-work, woodwork and working under car bonnets, many kids technical exposure today is sadly limited to changing a SIM card in a cell phone.

Society, government, professional institutions, junior and senior academia, Drillers and Dealers must all provide more support to their children and students to encourage them to join our exciting and challenging industry. There was little evidence at the end of recessionary 2009, that the Driller and Dealer industry was doing anything at all to encourage anybody to join our industry; on the contrary, some former industry giants are reported to be shedding thousands of jobs and man-years of international oil and gas E&P experience. Our industry has managed uncertainty in the past and no doubt will continue to do so but as we enter this new decade, the new cards that have been dealt following last

year's financial crisis and parallel recession have created stresses and tensions within the Driller and Dealer community that will arguably test our industry's resourcefulness and responsiveness like never before.

Unlike a game of playing cards where we can choose what hand we play and choose how we interpret the hands we receive to win, the big deal of the decade may result in a higher degree of shuffling by Drillers and Dealers than we have been accustomed to in the past if they are to avoid being stuck with a bad hand over the longer term.

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FRONTIER COMMUNICATIONS

Promoting Natural Resource Companies to a New Investor Profile

By Gayle Meikle, Managing Director, Frontier Communications

Retail investors are changing shareholder profile within the natural resources sector and it appears that many companies are failing to target this increasingly influential group. I suggest three basic communication principles that, in my view, are important when communicating with this new investor audience and in this complex sector, are often overlooked. Investment interest for natural resource plays rose sharply in 2009 driven by the increase in commodity prices and further emphasised by mounting concern for global energy security. In addition, there has been an increase in part-time investors in the sector. In a piece titled "Part-timers lured" 1 for the Financial Times, Miles Johnson and Matthew Kennard comment on the increase in part-time investors in the mining sector. Simon Bridges, the head of corporate finance at City firm Canaccord Adams, highlights the importance of funds run by firms like Brewin Dolphin, who manage £20bn on behalf of underlying clients, who were predominately middle Britain doctors, dentists, lawyers and self-made people who have money to invest. 2 Part-time investors that are unfamiliar with the industry's dynamics and technical jargon have joined together with the old guard in building resource portfolios. These changes are pertinent to your communication strategies that need to attract not only institutional but retail investor interest too.

Principle 1: Communicate a clearly defined vision

Perhaps because the sector has traditionally been the interest of the institutional investor, many natural resources companies fail to communicate a clearly defined vision to their investor communities. They do an excellent job at detailing the geology of their assets and their technical capability but often they often do not mention where they are going and why investors should follow them. '*This is a great company, with enormous potential that you should invest in for x,y,z reason*'. It is the single thing that you would like your audience to go away with and remember about your company and becomes even more critical a message to communicate when your audience is made up of new entrants.

Principle 2: Build trust

When companies are operating in high risk and an unfamiliar area there is a need to communicate positively about this environment especially if the audience is new to the sector. Investors rely on the information you provide them to make an overall judgement that will ultimately affect your bottom line. Perenco, a leading exploration and production company with global operations, does a superb job at reassuring the investor through their web site. They provide plentiful information online on where they operate and emphasise their social outreach programs in their remoter locations; such as the Democratic Republic of Congo. This has the effect of building trust and gives the investor community confidence in the company as a whole.

Principle 3: Create a public persona

Publicity (face-to-face contact) is a key factor in influencing investor decision-making. Publicity can be achieved in a number of ways but often best through sponsoring, attending or speaking at leading and targeted industry events. In the case of the oil and gas industry, the promotion and management of an Exploration & Production (E&P) licensing round will be defined by the accessibility of staff and data. Peru's state hydrocarbons promotion agency Perupetro, has recently announced plans to start promoting a new round in February this year has seen them strategically hand pick two major industry events namely NAPE Expo in Houston in February and Latin Oil Week in Rio de Janeiro in March to launch the round for 20 onshore blocks at the end of April 2010. These events have been specifically targeted for their high-level and targeted audience and the publicity will place them firmly public eye and make their team available to potential investors for deal-offers and relationship building.

In conclusion, although these three communication principles are simple and straightforward, going back to basics in a complex and ever-changing industry is often the hardest thing to achieve.

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Finding Petroleum

A Capability Crunch – For Some!

By David Bamford, Managing Director, Finding Petroleum

Many companies, and their CEOs, have been heard to declare that “people are our most valuable resource” and many an investor, especially in small-to-medium sized entities, has been heard to say “I put my money behind good management teams”.

With this in mind, I've been trying to get my head round a stream of facts and anecdotes about people in the oil & gas industry:

1. The petro technical population in western Europe and North America is:
 - a. ageing and as a large number approach early retirement or even normal retirement, we are edging towards what some have referred to as “The Big Crew Change”, and
 - b. shrunken, as many folk permanently left the industry during the many lay-offs and mergers of the last 20 years, and
 - c. a diminishing number of good quality graduates are joining the industry.
2. Increasing numbers of high quality graduates are joining the industry from Russia, China, SE Asia etc.; ‘global’ companies, whether Majors or the bigger oil field service companies, are best positioned to access this new source of talent.
3. In the ‘global’ companies “attrition” rates are quite low, reward levels are high. Good petrotechs are in demand and feel more able to say “No thanks!” to postings to the back-of-beyond.
4. There is a lot of interesting work in the world – a lot of oil still to be found, a lot of reserves still to be converted to production, lots of exciting projects! Demand for staff is exceeding supply.

There is a copy of a 2008 speech by Andy Inglis, Upstream CEO of BP, entitled “The Changing of The Guard”, available on the BP website, which gives a good account of the data describing what he refers to as the ‘capability challenge’. He points to an interesting study by CERA that estimated the overall effect of these pressures as a potential 10-15% “people deficit” by 2010, compared to the estimated number of staff need to deliver projects. Now OK, this was an estimate made in 2008 and no numbers are ‘in’ yet for 2010 but my sense is that CERA’s estimates are broadly right.

With these notions as context, I have been digging around in the websites of the ‘globals’ – Shell, BP, Chevron, Schlumberger, Halliburton etc – to see if I can glean what they make of all this and how they are responding. What seems fairly clear to me is that they have figured out how to attract, reward and retain the best multi-national staff, and therefore may well be relatively unaffected by the “Big Crew Change”; indeed, as I will mention shortly, they seem confident enough of their ‘capability strategies’ that they are ‘letting staff go’.

In addition, the Majors are investing heavily in “Enterprise 2.0” technology – the Digital Oil Field, Collaborative Environments and so on: this technology has many obvious performance benefits – production optimisation, cost reduction – but also others that are less obvious, for example, preserving the knowledge of the generations that are about to retire, training the next generation, allowing one expert to service several remote operations from e.g. Houston, Aberdeen or Stavanger.

Then my question is, if it's not the ‘globals’ who are feeling the ‘capability crunch’ then who is? Which companies will find it difficult to attract and retain good people; and therefore be the ones whose projects suffer, who do not get developments completed on time, who drill dry holes through lack of “*Know How*”?

My answer is mainly companies that are small – AIM-sized for example, or that have a significant element of ‘risk’ in their business proposition, or those that are offering jobs in ‘difficult’ locations (and by the way, the latter is very much in the eye of the beholder – I had an ex-colleague describe Calgary as ‘exotic’ – meaning undesirable - to me a couple of months ago!). It does seem very important that companies have a ‘capability strategy’, as opposed to simply relying on the good old advertisements in the national press or on the back pages of ‘Geoscientist’, or on the fact that the guys selling the Houston Chronicle on the off-ramps of 610 or the Katy Freeway are geophysicists!

With the right ‘capability strategy’, 2010 may in fact offer a singular opportunity. BP is in the middle of, and it seems like Shell have just begun, a manpower reduction program. Likewise, Schlumberger and Halliburton are reducing their global workforces. Many of the people who will leave ‘this time’ are the survivors of a handful of previous ‘culls’; good people who have come to some sort of fork in the road (perhaps they said “No thanks!” one too many times – see 3!). Nearly all of them will have no trouble finding a new job if they want one.

City investors have become pretty accomplished at figuring out where an ambitious company’s funds are going to come from; a pertinent question for this year might be “What is your capability strategy?”

WOMEN IN MINING

The Power of People and Woman in Mining?

By Mary Hood, Woman in Mining

What makes a business successful? Each and every one of you will have your own idea of success – and you're all right. One of the prime ingredients of success is the human capital invested in the business – for example, you - and your thoughts, ideas and relationships. Innovative leaders who take considered risks and have their eyes open to opportunities are the ones who provide the returns. These people may be individually brilliant, but more importantly, have the ability to mobilise networks of relevant expertise & resource, influence others and combine existing ideas and technologies. These people are the ones who spell the difference between innovation and stagnation, success and failure.

These attributes are all learned and can be improved, offering another area in which performance - and competitiveness - can be upgraded. Improving knowledge and skills, and interpersonal dynamics makes individuals, groups and organisations smarter. Informal networking provides access to ideas and information across and beyond corporate cultures adding value to organisations, with even the largest companies and the most experienced of individuals benefiting from a fresh perspective. Establishing relationships allows for the sharing experiences, generation of excitement and inspiration, increased influence and power, as well as gaining support and learning from the experiences of other professionals. Most innovative proposals are not developed in isolation, but begun through conversations with others bringing ideas together, and then implemented by the coordination of resources.

The UK Women in Mining group was created with the purpose of offering support to women throughout the mining industry in their professional development and providing access to opportunities for sharing information as described above, with a view to career enhancement and creating business synergies. Through its activities the group offers opportunities for women in the mining industry to grow the skills necessary to become star performers as well as build an effective network of relationships. The group now offers over 400 women regular updates and information about events, news and activities in the mining sector by way of a monthly newsletter and events calendar. In addition, informal drinks evenings and seminars are held on a regular basis, offering a forum for sharing ideas and opinions and enhancing professionals understanding of the broader industry and their ability to think strategically.

The group was created in 2006 by Barbara Dischinger, a senior executive search consultant, and has grown exponentially over the last four years. Members are active in a wide variety of professions, in virtually every mining-related business. Many are also active throughout the wider natural resource sector. The group is currently a non-contributory organisation, supported by a number of contributions in kind and envisages seeking sponsorship and corporate partnerships in the future to enable it to extend activities and opportunities. Women in Mining is in contact with many other similar groups world-wide, communicating via a global website, the Women in Mining Portal at www.womeninmining.net. The group also continues to build on relationships established with several universities in the UK in order to reach out to students and academics in all relevant fields and excite the future professionals of the industry.

Developing new relationships through groups such as Women in Mining, as well as sharing experiences and expertise with others creates opportunities. And at the highest level of leadership, where technical competence is a given, the greater the impact of relationship building. Consider how you could enhance and develop your people and your organisation by encouraging star performers (and the leaders of tomorrow), to try new events and activities, meet new people and think outside the box. Women in Mining would love to hear from the women in your organisation – contact Barbara Dischinger (barbara@greenmining.co.uk)- and if you'd be interested in sharing your knowledge, skills and values with us, perhaps you'd be willing to recount your experiences at one of our seminars?

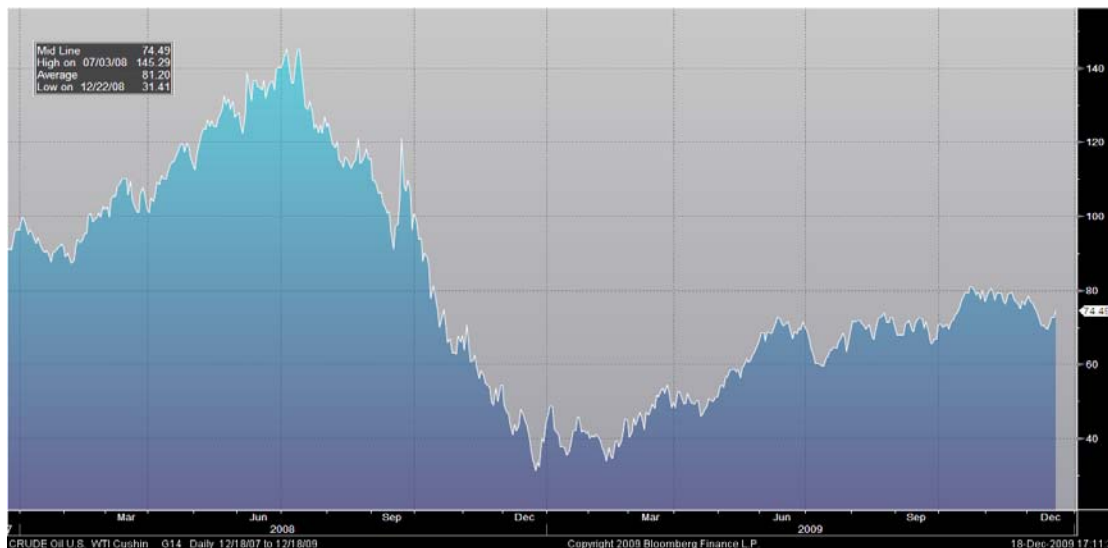


2010 Oil Forecast ***By Westhouse Securities***

Less change in 2010

Last year when we were preparing our 2009 oil price forecast, the market was nearing the end of a dramatic sell off from the all time highs reached earlier in the summer of 2008 (see chart below). When we went to publication, WTI was trading at \$43.60 and within a week would achieve its annual low, a level not since surpassed, below \$32 per barrel. In this context, our statement that, "...we believe that oil will trade as high as \$85 per barrel in 2009, whilst averaging \$65 for the full year" was a relatively bold prediction.

WTI two year chart, US\$



Source: Bloomberg

This year, we anticipate less change. Oil prices are entering the year on a much stronger footing given improved economic sentiment, colder winter weather and weaker US dollar. Based on our quarterly forecast in the table below, our 2010 average full year forecast for WTI is \$76.25 per barrel.

Quarterly and Full Year WTI forecast

Q1	Q2	Q3	Q4	FY2010
\$80.00	\$70.00	\$75.00	\$80.00	\$76.25

Source: Westhouse Securities

The forecast

Whenever attempting to make a forecast, as the number of “moving parts” increases so typically does the complexity and margin of error inherent in the exercise. Oil is a classic case. The number of variables impacting its price is extensive to say the least.

However, in arriving at our forecast, we have chosen to focus on three primary drivers:

- global economic growth,
- the US dollar and
- OPEC compliance

Each of these is equally as difficult to forecast as oil itself, as such, we have not attempted to make specific forecasts but rather focus on direction. For example, global economic growth in 2010 could be 2.9% or 3.1%. The importance here, however, isn't which of those figures is correct rather the change vis à vis the negative growth of 1.1% last year along with those regions where growth is expected to be strongest.

Global economic growth

Despite the rise in influence of external factors, oil as a commodity retains cyclical characteristics. As a generalisation, strong economic growth will underpin demand for commodities such as oil. The table below demonstrates this point.

Global oil demand and GDP growth

Year	Global Oil Demand Growth	Global GDP Growth	Advanced Economies	Emerging and Developing Economies
2006	1.2%	5.1%	3.0%	7.9%
2007	1.3%	5.2%	2.7%	8.3%
2008	-0.3%	3.0%	0.6%	6.0%
2009	-1.6%	-1.1%	-3.4%	1.7%
2010	1.0%	3.1%	1.3%	5.1%

Source: OPEC and the IMF

In 2008 there was an exception where demand for oil began to fall before global growth began to contract. This may be explained by the sharp decline in advanced economies and the relatively fast changes in behaviour brought about by the rapid rise in gasoline prices, part of the demand destruction story which we heard plenty about that year.

Next year, economic growth is expected to return although it will remain subdued in advanced economies. As is now widely accepted, future demand growth will rely more and more on emerging markets and in particular China and India where in addition to industrial growth, new vehicle registrations are driving strong growth.

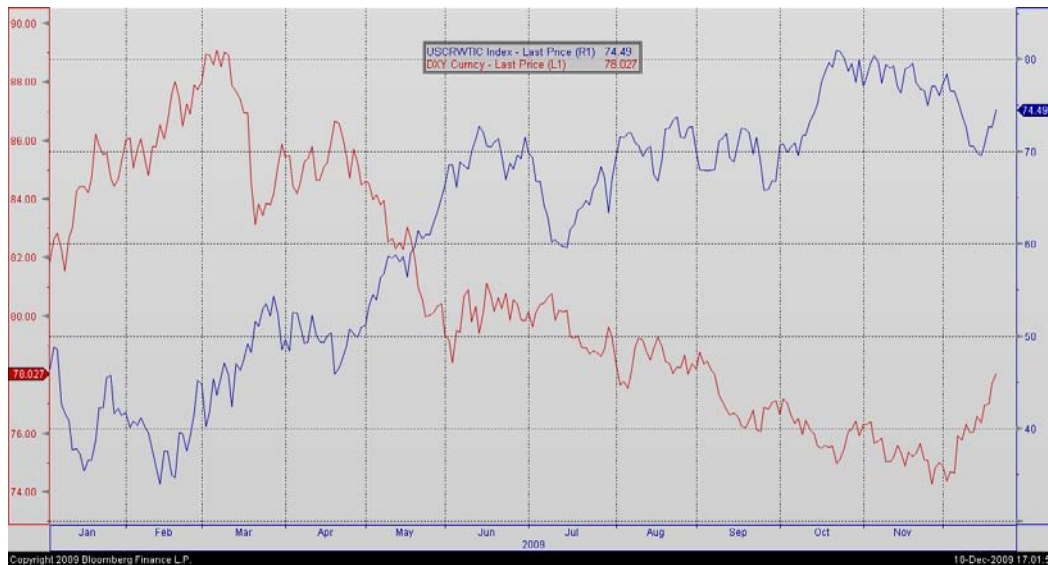
The important take away from this is that beginning next year, economic conditions are expected to be sufficiently robust to staunch the decline in oil demand we have experienced in 2008 and 2009 and instead contribute to growth once again.

The principle risk to the growth scenario in 2010 is how the economy and markets will react to the start of the withdrawal of fiscal and monetary stimulus packages put in place by governments and central banks around the world in response to the recession and potential collapse of the financial system.

The US dollar

As the chart below shows, as the dollar began to weaken this year in March, oil prices moved in the opposite direction. While this relationship is not as well established as that with gold, it is a relationship we are not surprised to find. The question then becomes what is the direction of the dollar telling us and how does this impact oil prices.

2009 US dollar index and WTI chart



Given the turmoil of the financial markets, the dollar is effectively acting as a gauge for investors' risk appetite. As the appetite for risk increased earlier in the year, investors became more comfortable with riskier assets like equities and commodities. The previous rush to safety and US Treasuries that had supported the dollar eased and the greenback weakened.

Another factor to bear in mind is the Federal Reserve's ultra loose monetary policy which is hardly dollar supportive. The flood of cheap dollars has revived the carry trade, this time with the greenback acting as the funding currency for investing in higher yielding assets (i.e. higher risk) including commodities.

An important question that looks likely to be resolved in 2010 is how will the dollar react to the Fed tightening monetary policy and investors' perception of risk. Our view is that the Fed will not act hastily by tightening too soon, which makes a change in policy most likely a 2H 2010 event when sustainable economic growth has been established. This should help avoid a stampede to safety as investors take the view that the Fed would not tighten before it felt confident that the worst outcomes had been avoided.

The carry trade, the size of which is the subject of wide speculation, would also begin unwinding in earnest. This would lead to the sale of dollar financed higher yielding assets with the effect of strengthening the dollar as USD is purchased to pay back loans.

Overall, and in the absence of further financial turmoil, we believe that 2010 is a year when the dollar can strengthen. This is based on the improved economic outlook, the eventual withdrawal of ultra loose monetary stimulus and the unwinding of carry trade offset somewhat by the reduction of risk in the market.

OPEC compliance

A weaker dollar has propped up oil prices beyond levels supported by fundamentals for much of last year. However, we believe OPEC has the opportunity to once again impose itself on the market in 2010. After success early in 2009, with an estimated 80% compliance level with announced production quotas, discipline has slackened significantly as we enter 2010. Compliance is now estimated to have fallen below 60%.

Improving compliance was a topic at the most recent OPEC meeting in Angola. This is sensible because given the modest growth in demand next year and the removal of the USD as a primary support, OPEC through improved adherence to quotas are in a position to support prices around its preferred level of \$75 per barrel.

Next year, OPEC is forecasting oil consumption to be 85.1m bopd based on global economic growth of less than 2.9%. This figure represents growth of nearly 1.0m bopd over 2009 estimates and in our view may be conservative.

Meanwhile, non-OPEC production is expected by the cartel to grow by 0.3m bopd to 51.3m bopd and OPEC natural gas liquids by nearly 0.5m to 5.3m bpd. This leaves a shortfall to be made up by OPEC of around 28.5m bopd, well in excess of current OPEC-11 quotas of 24.8m bopd and Iraqi production of nearly 2.4m bopd.

Yet we believe the combination of a conservative 2010 consumption forecast and impact of investment decisions taken earlier in 2009 when oil prices plunged restraining non-OPEC production growth makes the picture even brighter. And certainly easier for OPEC to assert more control over the market should compliance be reined in.

Summary

So where does this all leave our forecast for oil's price next year? In the table below, we have once again broken down the forecast into quarters. Seasonality as we already know has got the year off to a strong start as well as continuing optimism regarding economic growth. This is followed by the traditionally low demand Q2 which sees prices reeled back possibly aided by continued slack compliance by OPEC. However, assuming no further financial meltdowns, economic growth in H2 should pickup along with higher demand and improved OPEC compliance which will be adequate to offset a stronger US dollar.

Quarterly and Full Year WTI forecast

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\$80	\$70	\$75	\$80	\$76.25

Report Commissioner



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Lord Truscott of St James's was UK Energy Minister, 2006 – 2007

You will find his full RUSI report (of which the above is an extract), can be located at www.rusi.org.

David Greer, Chief Executive, Regal Petroleum

Mr Greer is an accomplished professional chartered engineer with over 30 years of experience in a very wide range of engineering, commercial and management positions, in a variety of environments around the world. He assumed the position of Chief Executive of Regal Petroleum in November 2007. In his short time at Regal Petroleum, he has been responsible for implementing a major turnaround and transformation plan within the Company which, having successfully raised new share capital from international investors, is now very well positioned and resourced to embark on a major expansion of its exploration and production activities in Ukraine, Romania and Egypt. Prior to this assignment, he worked for Shell International Exploration and Production for 28 years latterly as the Project Director of the landmark Sakhalin Phase 2 Project based in Yuzhno-Sakhalinsk, Sakhalin Island, Eastern Russia.

About Regal Petroleum: Regal is an independent UK based Group with significant operated gas field development interests in Ukraine where the Company has audited 2P reserves of 169 mmmboe and an estimated 860 mmmboe resource potential from deeper reservoirs, and current production of 1600 boepd. Regal also has oil and gas assets in Romania and Egypt under appraisal. For more information visit: www.regalpetroleum.co.uk.

Gayle Meikle, Managing Director, Frontier Communications

Gayle is the Founder and Managing Director of Frontier Communications Limited. She started the organization after eight years of professional marketing and communications experience with the last two years in the oil and gas sector with Global Pacific & Partners where she worked with governments, national oil companies and senior oil/gas executives based in Africa, Asia, Middle East, Europe and Latin America.

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Mary Hood, Woman in Mining

Mary Hood is a member of Women in Mining, a UK-based networking organisation. She heads the organisation's Finance Committee and frequently contributes to the group's monthly newsletter on subjects relating to networking.

Women in Mining has over 400 members in the UK and Europe, who represent every profession and participate in every business of the mining industry. The group offers them information by way of a monthly newsletter and events calendar as well as support and networking opportunities which include monthly informal drinks and regular speaker seminars. In order to contribute to the promotion of women in the mining industry, the group coordinates with similar groups world-wide and participates in industry events, such as Mines and Money. Women in Mining is operated by a number of volunteers, organised into a board of directors and several committees each focusing on one of its core activities. www.womeninmining.net.

David Bamford, Non-Executive Director, Tullow Oil & Co-Founder, Finding Petroleum

David is a non executive Director of Tullow Oil. With a PhD in Geological Sciences from the University of Birmingham, he has had over 23 years exploration experience with BP where he was Chief Geophysicist from 1990 to 1995, General Manager for West Africa from 1995 to 1998, and acted as Vice President, Exploration, directing BP's global exploration programme, from 2001 to 2003. He is a geophysicist by background and an explorer by recent history, and is well known as both around the oil & gas industry. In addition to acting as a director or advisor to several small companies, including his own consultancy, he writes regularly for journals such as OilVoice, ROGTEC etc, and has recently co-founded Finding Petroleum as a vehicle for on-line communication in the oil & gas industry.

Finding Petroleum organises Forums and Conferences, publishes Digital Energy Journal and runs a Social Network. Our focus will be on the how, why and wherefore of finding oil & gas in frontier basins, in mature areas, close to existing fields or in existing fields and on any technology, any hardware and any software that enables or underpins the business of finding petroleum. Our emphasis is on new technologies and methods which are already providing results in the oilfield - looking for stories about what people have done, how they did it and what they will do next, and the oil operators, service companies and suppliers behind it. www.findingpetroleum.com/open

Westhouse Securities

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