CONCORDE CAPITAL

Ukraine / Oil & Gas

Independent E&Ps

A First Look

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Bloomberg tickers

JKX Oil & Gas	JKX LN
Regal Petroleum	RPT LN
Cadogan Petroleum	CAD LN

Market price, USD

JKX Oil & Gas	9.55
Regal Petroleum	4.75
Cadogan Petroleum	3.51

Change 12M

JKX Oil & Gas	+39.7%
Regal Petroleum	-5.0%
Cadogan Petroleum(1)	-24.3%

(1) Since IPO on June 18, 08

No of shares, mln

JKX Oil & Gas	156.5
Regal Petroleum	210.0
Cadogan Petroleum	231.1

MCap, USD mln

JKX Oil & Gas	1,504.4
Regal Petroleum	932.2
Cadogan Petroleum	810.4

Free float, %

JKX Oil & Gas	61.2%
Regal Petroleum	63.5%
Cadogan Petroleum	73.1%

Free float, USD mln

JKX Oil & Gas	920.7
Regal Petroleum	592.0
Cadogan Petroleum	592.4

Avg Mon Tr Vol(1), USD mln

JKX Oil & Gas	130.8
Regal Petroleum	155.6
Cadogan Petroleum	n/a

(1) 6M trailing, LSE

- **We take a first look at foreign-traded independent oil and gas exploration and production (E&P) companies with major focus on Ukraine; to be followed by initiating coverage of selected stocks**
- **Our picks: JKX Oil & Gas (largest independent producer in Ukraine), Regal Petroleum (largest booked reserves in our sample) and Cadogan Petroleum (recently IPO'd on LSE, another company with its reserves/resources not yet commercialized)**
- **Exceptional trading opportunities: the selected stocks account for ~1/3 of cumulative turnover in the stocks with primary exposure to Ukraine, including those listed abroad**
- **A commodity-linked hedge against the local market downturn: over 6M08, JKX and Regal gained 32% and 69% respectively vs. the PFTS' 30% decline**
- **Fundamentally, it is a story of rapid gas price convergence with European levels (up to 80% price growth potential in 2009), on a market where sellers' pricing power dominates**

An exposure to 1/3 of turnover in Ukraine-linked stocks

Within the universe of the stocks with exposure to Ukraine, JKX and Regal are among the most liquid. Together these two stocks account for ~1/3 of total trading volume, with daily turnover in excess of USD 9 mln and free float turnover 2-3 times higher than average in the local market. Cadogan has joined these two after its recent IPO. To compare, the daily volume in the most actively traded local stock over the last 6M, Zakhidenergo (ZAEN), amounted to only USD 0.55 mln.

A commodity-linked hedge against the local market downturn

E&P stocks have performed in line with the global trend of using the commodities upsurge to hedge against falling stock markets. Over 6M08, JKX and Regal gained 32% and 69% respectively, vs. the PFTS' 30% decline. Meanwhile, the stocks outpaced FTSE 350 Oil & Gas index (-2% YTD), we believe thanks to the expected doubling in Ukrainian gas prices next year. We bet that Ukraine-focused E&Ps will outperform not only local market, but also their western peers in 2008.

Gas producers in a country that imports 2/3 of its gas consumption

Although Ukraine stands #3 in Europe by proven hydrocarbon reserves, its domestic production covers less than 1/3 of demand. All imported gas is supplied to the country by a single company, which is 50% Gazprom's. We believe that in foreseeable future Ukraine will remain sensitive to stability in supply volumes, and continue to diversify its sources – firstly, through increasing local production. State-owned producer Naftogaz of Ukraine is heavily in debt, with almost no exposure to exploration, so we see independent producers playing an increasingly important role. In fact, since 1996 their share in Ukraine's gas production grew fourfold to ~7% in 2007.

Gas prices set to almost double in 2009

Even after Ukraine's gas price almost tripled over 2005-08, it is still twice lower than the market price (i.e., German wholesale spot price netted back to the Ukrainian-Russian border). We forecast the price at the Ukrainian-Russian border to grow by roughly 80% next year, fueled by convergence to the market price and growth in the market price itself. We expect the convergence to be completed by the end of 2009.

Our picks for coverage

With this report, we add three independent oil and gas exploration and production companies with major interests in on Ukraine to our coverage universe: JKX Oil & Gas, Regal Petroleum and Cadogan Petroleum. There are, in fact, more but only these meet our criteria:

- listing on a major international exchange
- key assets located in Ukraine

Unlike foreign companies, Ukrainian players are largely non-public, except Ukrnafta. However, as it is not independent (50%+1 owned by state-controlled Naftogaz of Ukraine), it falls out of the scope of this research. Besides, Ukrnafta, a quasi-integrated company, substantially differs from our target group, with its significant exposure to oil products retail, and very little news flow on its E&P operations.

JKX Oil & Gas Plc is the largest independent hydrocarbon producer in Ukraine, accounting for ~77% of liquids and 42% of gas produced by *private* companies. Regal has the largest reserves. Cadogan Petroleum's reserves are also not yet commercialized; IPO'd in June 2008 on the LSE.

Foreign E&P companies with exposure to Ukraine[1]: Stock selection

	Country	Primary exchange	Ticker	MCap[2] USD mln	Focus on Ukraine	Short description
JKX Oil & Gas	UK	LSE	JKX	1,622.4	+	Largest non-state hydrocarbon producer in Ukraine. Key producing assets located in Ukraine, reserves are split almost 50/50 between Ukraine and Russia. 100% interest in its key producing assets. Also has license interests in US, Georgia, Bulgaria and Turkey
Regal Petroleum	UK	LSE/AIM	RPT	1,040.8	+	Key assets in Ukraine. 100% interest in two licenses, with 2P reserves of ~160 MMboe and five production wells. Also has interests in Romania and Egypt
Cadogan Petroleum	UK	LSE	CAD	1,040.7	+	Holds at least 90% interest in 11 licenses in Ukraine, five of which represent the company's main assets. Pirkovskoye field accounts for 100% of reserves (76 MMboe 2P and 142 MMboe 3P category). Other fields contribute to 269 MMboe best estimate prospective resources, 314 MMboe best estimate contingent resources
Transeuro Energy	Canada	TSX-V	TSU	85.6	+	Operates in Canada and the CIS. In Ukraine, Transeuro operates in Crimea through its JV with Austrian E&P company RAG, which works under a JAA with Ukrainian state company Crimgeologiya
Capital Oil	Sweden	First North	COIL	50.5	+	Operates in the western region of Ukraine under a JAA between wholly owned subsidiary Capital Oil Ukraine and municipal company Bogorodchanynaftogaz
Sunrise Energy Resources	US	OTC	SEYR	23.3	+	Operates Karaykozovske deposit through 100% owned local subsidiary Esko-Pivnich. Focuses on oil & condensate production. 2007 annual production: ~600 Mboe
Shelton Canada	Canada	TSX-V	STO	17.1	+	Has an interest in the North Kerchenska off-shore field in Azov Sea, operator and holder of a 50% interest in state-run Chornomornaftogaz. Through acquisition of Zhoda 2001 from Canadian Kroes Energy in 2007, acquired a 45% interest in Kashtan Petroleum JV with Ukrnafta
Nostra Terra Oil and Gas	UK	LSE/AIM	NTOG	9.42	+	In 2007, acquired 60% in the Oktyabrskoye license area (JAA with Crimgeologiya), following a reverse merger with LHP Investment
Star Energy Corp.	US	OTC, Frankfurt	SERG, S8Z1	2.4	+	Has interests in the Sakhalinske, Bugrovatske and Staikovske deposits through 100%-owned local subsidiary Anglo-Ukra Energy
Europa Oil & Gas	UK	LSE/AIM	EOG	27.7	-	Ukrainian assets (70% in Horodok license) were written down in 2007, currently on sale
Kuwait Energy Company	Kuwait	not listed	n/a	n/a	n/a	Private company that bought Cardinal Resources' Ukrainian assets in 2007
Vanco Energy Company	US	not listed	n/a	n/a	-	Through its subsidiary, Vanco Prykerchenska, operates under PSA on Ukrainian Black Sea offshore area
Ferrexpo Petroleum	Cyprus	not listed	n/a	n/a	+	Non-core business of Ferrexpo Plc, the LSE-listed iron ore producer, with major assets in Ukraine. Holds a 100% operatorship in 11 onshore licenses in Dnieper-Donetsk basin, through three local subsidiaries
Emfesz	Hungary	not listed	n/a	n/a	+	Gas trading company affiliated with Ukrainian businessmen Dmitry Firtash, who also owns a 45% stake in the major supplier of gas to Ukraine, RosUkrEnergo
PGNiG	Poland	not listed	n/a	n/a	-	Non-controlling shareholder of local company Dewon, operating on the Sakhalinske deposit. Dewon was on sale in 2007, but there is no information on any completed deals. As of Feb.07, PGNiG held 36% of Dewon, 12% was owned by Naftogaz of Ukraine

[1] In addition to the companies listed, a subsidiary of Royal Dutch Shell also operates in Ukraine, focusing on the geological study of the deep horizons of the Dnieper-Donetsk basin
[2] As of July 4, 2008
Source: Bloomberg, Company data, Concorde Capital research

Selected stocks summary

Reserves & production[1]

	P1 reserves			P2 reserves			P1+P2 (2P) reserves		
	Liquids MMbbl	Gas Bcf	Total MMboe	Liquids MMbbl	Gas Bcf	Total MMboe	Liquids MMbbl	Gas Bcf	Total MMboe
JKX Oil & Gas	n/a	n/a	n/a	n/a	n/a	n/a	4.6	430.0	76.3
Regal Petroleum	11.2	400.7	78.0	13.7	407.9	81.7	24.9	808.6	159.7
Cadogan Petroleum	7.8	109.0	25.9	15.0	211.0	50.2	22.8	320.0	76.1

	Daily production			Annual production			2P reserve life		
	Liquids bbl	Gas MMcf	Total boepd	Liquids MMbbl	Gas Bcf	Total MMboe	Liquids years	Gas years	Total years
JKX Oil & Gas	5,539.0	42.2	12,579.0	2.0	15.4	4.6	2.3	27.9	16.6
Regal Petroleum	280.0	4.9	1,093.3	0.1	1.8	0.4	243.6	454.0	400.1
Cadogan Petroleum	5.8	1.8	309.8	0.0	0.7	0.1	10,842.9	480.5	672.9

[1] As of 2007, except Cadogan Petroleum, which reported reserves data as of Jan. 31, 2008
Source: Company data

Key financials and relative metrics

	MCap USD mln Curr	EV USD mln 2007	EV/P1 USD/boe 2007	EV/P2 USD/boe 2007	EV/Prod USD/boe 2007	EV/EBITDA 2007	EV/EBITDA 2008E	P/CF 2007	P/CF 2008E
JKX Oil & Gas	1,622.4	1,554.1	n/a	20.4	338.5	11.7	6.9	13.0	8.2
Regal Petroleum	1,040.8	1,043.9	13.4	6.5	2,615.9	neg	neg	neg	neg
Cadogan Petroleum	1,040.7	1,013.1	39.1	13.3	8,957.9	n/a	n/a	neg	362.5

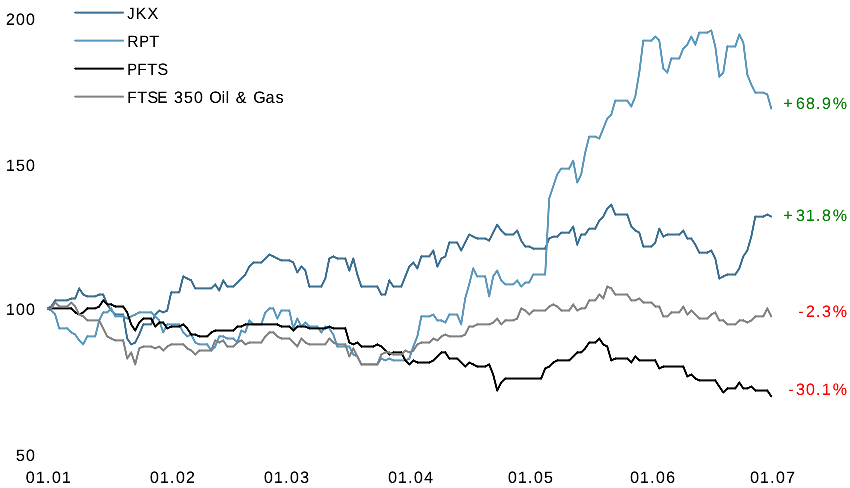
Source: Thomson Financial, Bloomberg, Company data

Stock performance

Commodity-linked hedge against the local equity market

JKX and Regal could not left behind by the global trend of using the commodities upturn to hedge against falling markets. In 1H08, JKX and Regal gained 32% and 69% respectively, vs. the local PFTS Index's 30% decline. The stocks also outstripped the FTSE 350 Oil & Gas index, which lost 2% YTD. With Ukrainian gas prices set to double in the mid-term (see p.7), we believe that E&P companies with major assets in Ukraine will outperform the local market and their western peers this year.

JKX and RPT vs. PFTS and FTSE

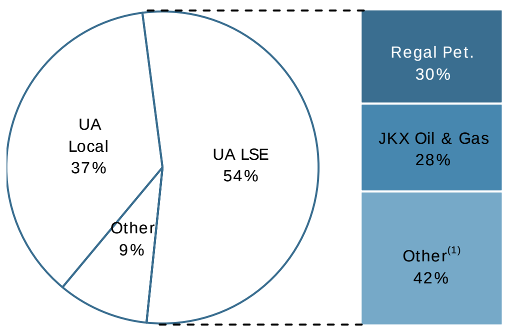


Source: Bloomberg

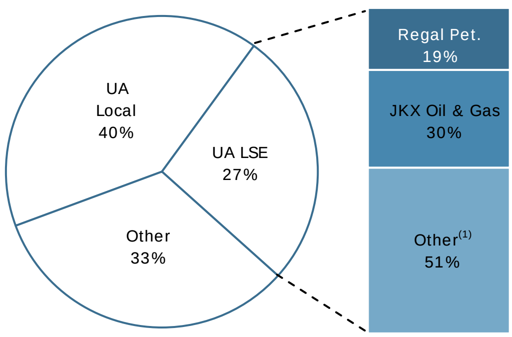
Liquidity monsters: c.31% of total turnover in UA/UA-linked stocks

Within the universe of Ukraine-linked stocks, JKX and Regal are among the most liquid. They account for around 1/3 of the total trading volume, with monthly free float turnover of 2-3 times higher than the PFTS. We did not include recently listed Cadogan Petroleum in our calculations, due to the lack of historical data. Yet, we expect trading activity in this stock to become comparable with JKX and Regal shortly.

Monthly trading volume, 6M avg



Market free float distribution



[1] About 3/4 of this is Ferrexpo Plc (FXPO LN), the LSE-listed iron ore mining company with key assets in Ukraine. Data as of July 1, 2008.
Source: Bloomberg, Concorde Capital research

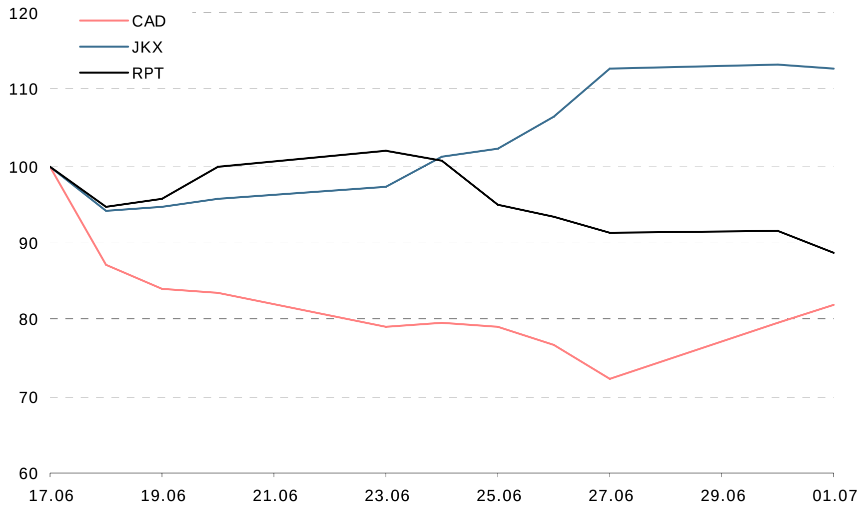
Cadogan Petroleum IPO

Cadogan Petroleum Plc, a London-based oil & gas exploration and production company with onshore gas and condensate assets in Ukraine, announced on June 18, 2008 that it raised net GBP 139 mln (~USD 275 mln) via an IPO on the LSE. The company offered 66,443,479 new ordinary shares (28.8% of the total) at 230 pence, implying a GBP 531 mln (USD 1 bln) MCap at placement.

According to the company, Cadogan raised 11% more than it previously expected (GBP 125 mln). As we said in our news comment on May 15, the offering did not look cheap. In fact, the market paid around USD 10 per barrel oil equivalent (boe) of Cadogan's 2P reserves and USD 30 for its P1 reserves – respectively 46% and 109% higher than it valued Regal's reserves at the time. To compare, the companies with nil or very little production compared to reserves (higher reserve life) are trading at around USD 2-3 per 1 boe of 2P reserves.

The stock closed at 200 pence per share on June 18, the day conditional trading commenced. By the end of June, Cadogan had lost 18% from its offering price in USD terms, while Regal's price decreased by 11% and JKX gained 13%.

Cadogan vs. Regal and JKX (rebased to 100 at the day prior to CAD's IPO)

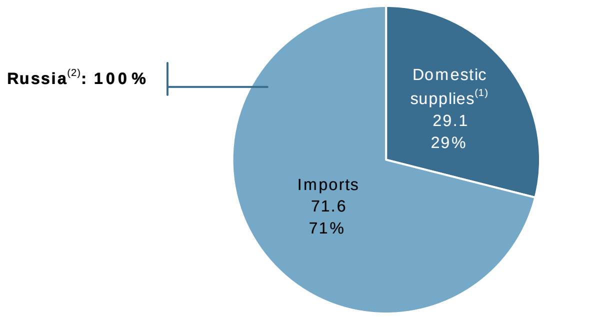


Source: Bloomberg

Hooked on energy imports

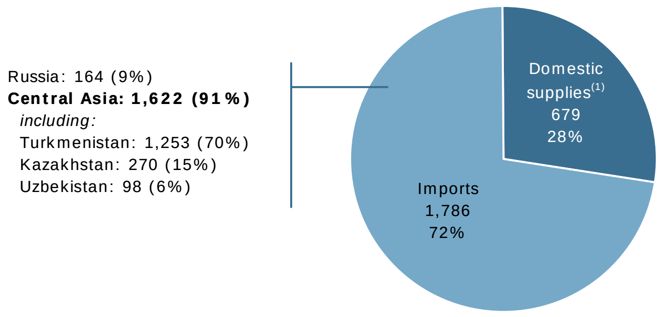
Ukraine's domestic oil and gas production covers less than 1/3 of its demand. Annually, the country imports around 70-75 MMbbl of oil and about 1.8-2 Tcf of natural gas. Oil imports are dominated by Russia and gas, mostly from Central Asia, particularly Turkmenistan, is also pumped through Russia.

Oil supply '2007, MMbblpa



(1) Domestic supplies include changes in oil stocks
(2) In 2008 Ukraine started importing oil from Iraq (1.2 MMbbl over 4M08) and Belarus (1.4 MMbbl), due to halved supplies from Russian Tatneft (12.9 MMbbl) to Ukrtatnafta refinery.
Source: EnergoBiznes

Gas supply '2007, Bcfpa



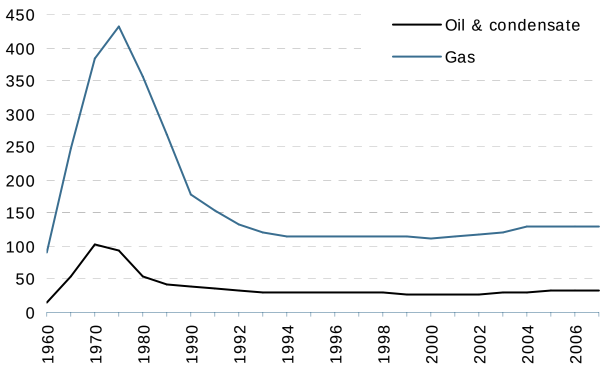
(1) Domestic supply volume accounts for the change in the volume of stored gas and transit balance
Source: EnergoBiznes

Domestic production peaked in the 1970s at ~100 MMbbl annual oil output and over 430 MMboe gas production. After a notable decline during the economic transformation of the 80s and 90s, local production started its gradual recovery since 2000.

In 2006, RosUkrEnergo, a private company 50% owned by Gazprom, nearly doubled its price. Expectations of a further steep adjustment toward European price levels, largely fuelled by Gazprom, have raised concerns about Ukraine's dependence on RUE, its only gas supplier. We estimate that price convergence will be completed in 2009, thereby removing the threat of other hikes. However, the country will remain sensitive to supply *volumes*, and will, in our view, seek ways to diversify.

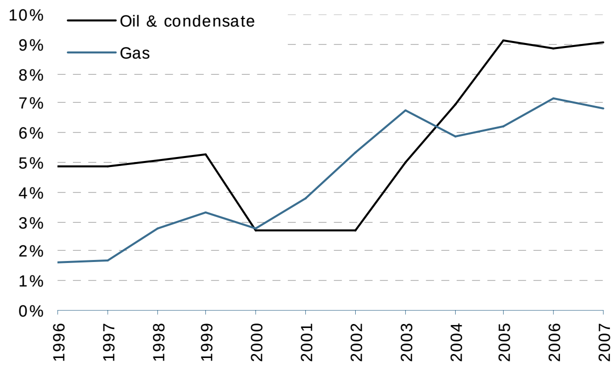
While the construction of gas pipelines from Central Asia through Ukraine, but bypassing Russia, appears to be a matter of the distant future, utilizing local reserves by increasing production would be a logical move. According to Ukraine's Energy Strategy, the country's annual gas production can reach ~819Bcf by 2010 (+12% over 730Bcf in 2007) and 1,006Bcf in 2030. Although state-owned Naftogaz is likely to remain the country's major gas producer, we see independent producers playing an increasingly important role; since 1996, their share in Ukraine's gas production grew fourfold to ~7% in 2007.

Domestic production, MMboepa



Source: State Statistics Committee, Naftogaz of Ukraine, EnergoBiznes

Share of independents, %



Source: Naftogaz of Ukraine

It's a gas play

Ukraine's oil and gas reserves are relatively small; its share in the world's total proven hydrocarbon reserves is only 0.3%. However, within Europe, Ukraine stands #3, after Norway and the Netherlands. In oil equivalent terms, Ukraine's proven (P1) reserves are comparable with the UK. Gas reserves (39 Tcf) account for almost 95% of the country's total P1 reserves (6.9 bln boe). Ukraine's gas reserves are 3x larger than Mexico's, 2x larger than the UK's, and only 2.5x smaller than those of its major gas supplier, Turkmenistan.

However, with twice larger gas reserves than the UK, Ukraine currently produces 4x less gas annually. While oil reserves (P1: 0.4 bln bbl) are largely exhausted and new material discoveries appear unlikely, commercialization of existing gas reserves still offers opportunities for independent producers with access to modern technology and expertise.

World's proven oil & gas reserves[(1)]

	P1 Reserves						Production						Reserves life		
	Oil		Gas		Total		Oil		Gas		Total		Oil	Gas	Avg
	bln bbl	%	Tcf	%	bln boe	%	MMbblpd	%	Tcfpa	%	MMboepd	%			
Middle East	739.2	56.1%	2,566.0	41.5%	1,197.2	49.5%	24.6	29.1%	11.8	11.3%	30.4	22.4%	82.2	217.0	107.8
North America	213.3	16.2%	276.9	4.5%	262.7	10.9%	15.3	18.1%	26.7	25.6%	28.4	20.9%	38.1	10.4	25.3
Africa	114.1	8.7%	484.4	7.8%	200.5	8.3%	10.8	12.8%	6.8	6.5%	14.2	10.4%	28.8	71.5	38.8
C & S America	102.8	7.8%	240.7	3.9%	145.8	6.0%	7.3	8.6%	5.2	5.0%	9.8	7.2%	38.8	46.4	40.7
Asia & Oceania	33.4	2.5%	419.5	6.8%	108.2	4.5%	8.5	10.0%	13.3	12.8%	15.0	11.0%	10.8	31.4	19.8
Europe	**15.8**	**1.2%**	**180.3**	**2.9%**	**48.0**	**2.0%**	**5.4**	**6.4%**	**11.2**	**10.7%**	**10.9**	**8.0%**	**8.0**	**16.1**	**12.1**
Norway	7.8	0.6%	82.3	1.3%	22.5	0.9%	2.6	3.0%	3.2	3.1%	4.1	3.0%	8.4	25.8	15.0
Netherlands	0.1	0.0%	50.0	0.8%	9.0	0.4%	0.1	0.1%	2.7	2.6%	1.4	1.0%	3.1	18.3	17.4
United Kingdom	3.9	0.3%	17.0	0.3%	6.9	0.3%	1.7	2.0%	2.8	2.7%	3.1	2.3%	6.3	6.0	6.2
Germany	0.4	0.0%	9.0	0.1%	2.0	0.1%	0.1	0.2%	0.7	0.7%	0.5	0.4%	6.8	13.0	11.1
Denmark	1.3	0.1%	2.5	0.0%	1.7	0.1%	0.3	0.4%	0.4	0.4%	0.5	0.4%	11.1	6.9	9.6
Italy	0.6	0.0%	5.8	0.1%	1.6	0.1%	0.2	0.2%	0.4	0.4%	0.4	0.3%	9.9	15.0	12.6
Poland	0.1	0.0%	5.8	0.1%	1.1	0.0%	0.0	0.0%	0.2	0.2%	0.1	0.1%	7.0	27.6	22.1
Other	1.6	0.1%	7.8	0.1%	3.0	0.1%	0.4	0.5%	0.8	0.7%	0.8	0.6%	10.8	10.2	10.5
CIS	**98.9**	**7.5%**	**2,014.8**	**32.6%**	**458.5**	**18.9%**	**12.6**	**14.9%**	**29.5**	**28.2%**	**27.0**	**19.9%**	**21.5**	**68.4**	**46.5**
Russia	60.0	4.6%	1,680.0	27.2%	359.8	14.9%	9.9	11.7%	23.2	22.2%	21.2	15.6%	16.6	72.5	46.5
Kazakhstan	30.0	2.3%	100.0	1.6%	47.8	2.0%	1.4	1.7%	0.9	0.9%	1.9	1.4%	56.9	110.4	69.4
Turkmenistan	0.6	0.0%	100.0	1.6%	18.4	0.8%	0.2	0.2%	2.2	2.1%	1.3	0.9%	9.1	44.8	39.7
Azerbaijan	7.0	0.5%	30.0	0.5%	12.4	0.5%	0.9	1.0%	0.2	0.2%	1.0	0.7%	22.6	124.6	35.0
Uzbekistan	0.6	0.0%	65.0	1.1%	12.2	0.5%	0.1	0.1%	2.2	2.1%	1.2	0.9%	16.4	29.3	28.3
Ukraine	**0.4**	**0.0%**	**39.0**	**0.6%**	**7.4**	**0.3%**	**0.1**	**0.1%**	**0.7**	**0.7%**	**0.4**	**0.3%**	**10.6**	**56.8**	**46.0**
Other	0.3	0.0%	0.8	0.0%	0.4	0.0%	0.1	0.1%	0.0	0.0%	0.1	0.0%	14.7	77.0	20.0
World Total	1,317.4		6,182.7		2,420.9		84.6		104.5		135.7		42.7	59.2	48.9

[(1)] As of Jan.1, 2007
Source: U.S. Energy Information Administration (EIA), 2007

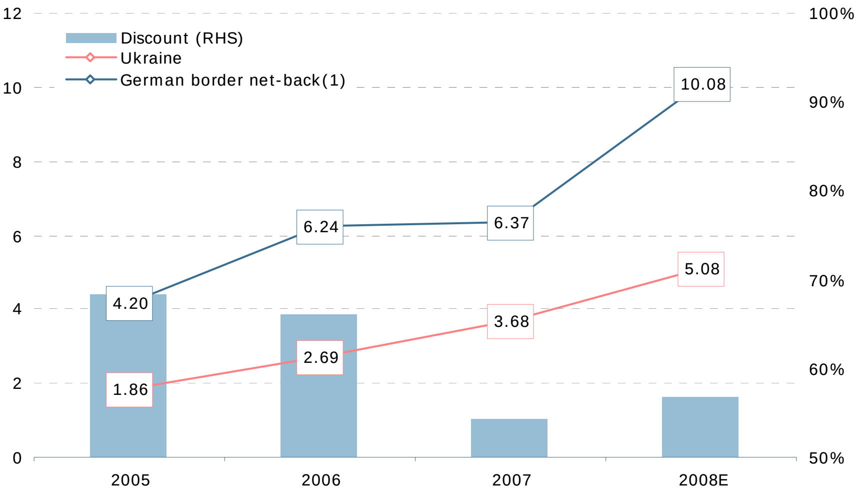
There are three oil & gas basins in Ukraine: Dnieper-Donets, Carpathian and Azov-Kuban basins. The first two are quite mature, with major opportunities lying with workover, infill and step-out drilling. Exploration of deeper horizons is also an option, but success remains conditional on the application of modern technology. On the contrary, Ukraine's part of the Azov-Kuban basin, and Black Sea shelf in particular, is largely underdeveloped, and until recently was neglected due to technological constraints.

Ukraine's major hydrocarbon basins

Prices to double in the mid-term

Even after Ukraine's price for gas almost tripled over 2005-08, the country is still buying gas twice cheaper than the market price, which we define as the German wholesale spot price, netted back to the Ukrainian-Russian border, assuming transportation costs at USD 1.7/Mcf.

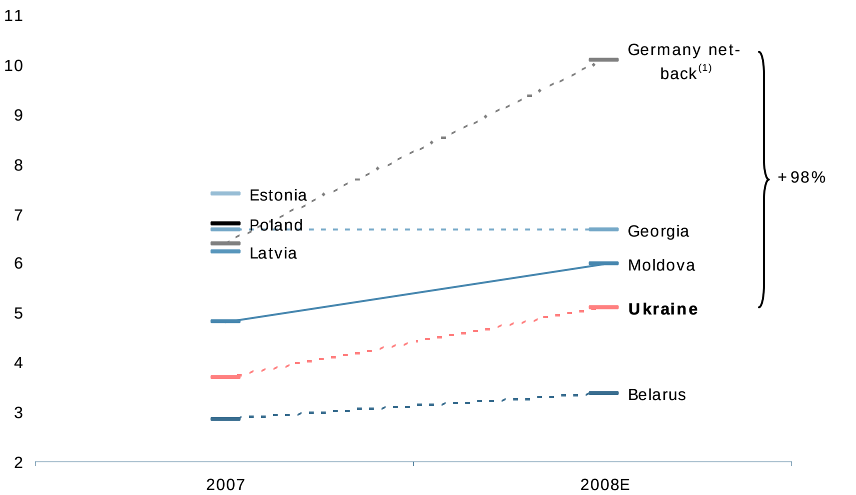
Year-average gas price at the border, USD/Mcf



[1] Annual average border price, netted back to the Ukrainian-Russian border (USD1.7/Mcf delivery cost)
Source: Ministry of Fuel and Energy, Oxford Institute for Energy Studies, Gazprom

Among CEE and CIS countries, currently only Belarus gets gas cheaper than Ukraine; in 2007, Georgia, Moldova, Baltic and other CEE nations paid from a 30% to 100% premium over Ukraine's price.

Comparison of border prices, USD/Mcf

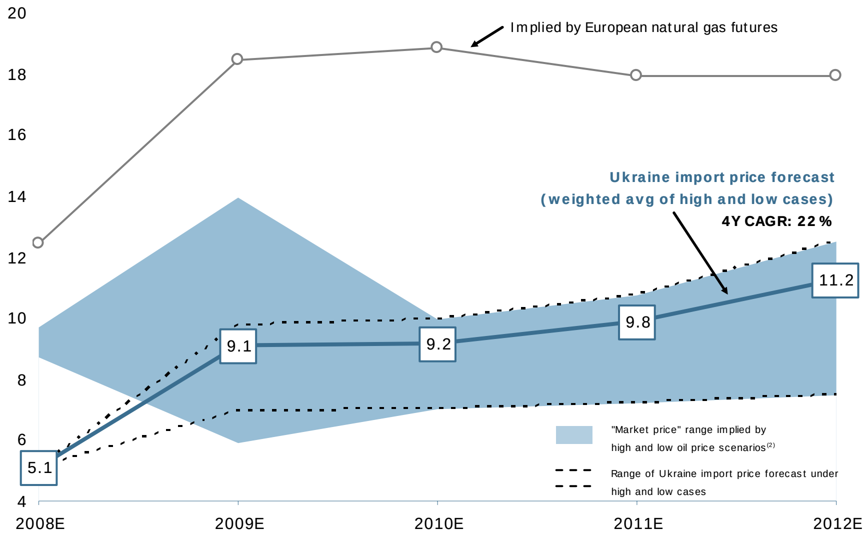


[1] Annual average border price, netted back to the Ukrainian-Russian border (USD1.7/Mcf delivery cost)
Source: Ministry of Fuel and Energy, Oxford Institute for Energy Studies, Gazprom

We forecast the gas price at the Ukrainian-Russian border to grow by roughly 80% next year, fueled by convergence to the market price and growth of the latter itself. We expect the convergence to complete by the end of 2009.

The size of the increase and rate of convergence depend on two key parameters in our model: the level of the future market price (forecast based on oil price projections) and the ability of Central Asian suppliers to effectively bargain for higher prices. To capture these uncertainties, we employ scenario analysis, which yields two cases for Ukraine's border price. We give more weight to the 'high' case to factor in our bullish view on global oil prices and the growing seller's power of Central Asian suppliers.

Projected gas price netbacks to Ukrainian-Russian border, USD/Mcf



(1) "High" oil scenario: USD124/bbl on average in 2008, '09: 171, '10: 127, '11: 136, '12: 155; "low" oil scenario: USD 114, 83, 95, 97, 100 respectively. For details see Appendix 2
Source: Bloomberg, Concorde Capital estimates

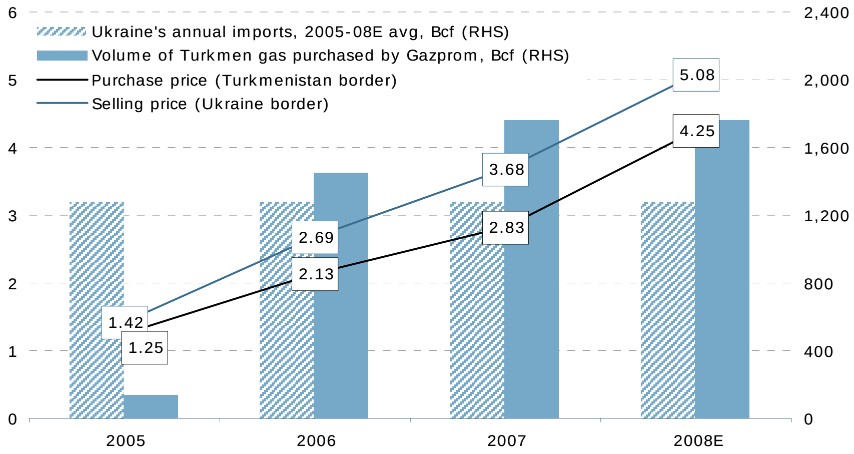
Our price forecasts are still well conservative. We believe our forecast of European gas market prices, based on broad market consensus on future oil prices (see Appendix 2), is still quite conservative. The numbers recently spelled out by, *inter alia*, Alexey Miller (Gazprom CEO), Chakib Khelil (OPEC President), Andris Piebalgs (EU Energy Commissioner) all point to a level of USD 200/bbl in 2-3 years. This is materially higher than the most bullish forecasts by global banks (see Appendix 2). We take a more moderate view to account for the possibility of a global price-driven correction in oil demand, and downward shift in the curve itself, on the back of a US economic slowdown spilling over to emerging markets.

Central Asian supplies: bargaining power is strengthening. In March 2008, the presidents of Turkmenistan, Kazakhstan and Uzbekistan held a joint meeting with Gazprom's management to bargain for higher gas prices. In a statement following the meeting, the parties said they agreed on 'market pricing' from 2009. In our view, the meeting provides a clear signal of Central Asian suppliers shifting to a collusive strategy to raise the price for Gazprom to the level implied by European market (see our report from March 12, 2008).

Currently, Central Asian suppliers (Turkmenistan being the largest with ~75% share) are bearing opportunity cost on their gas sales to Gazprom. For example, we estimate that Turkmenistan loses roughly USD 5.7 on every Mcf sold to Gazprom, the opportunity cost exceeding the selling price itself.

On the other hand, Gazprom is targeting long-term control over Central Asian gas, as Russia has no substitute for those sources. Gas supplies are perhaps the only tool powerful enough to secure Russia's influence in CIS. To keep its dominance on both sides of the pipeline, Gazprom was in fact balancing sellers' interests with what Ukraine could afford. As sellers' pricing power is getting stronger, the convergence should happen sooner rather than later.

Gazprom purchase price vs. selling price for Ukraine, USD/Mcf



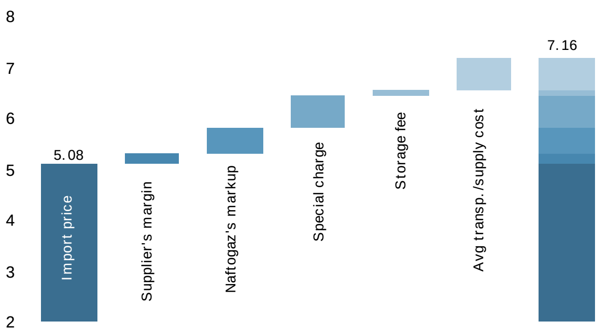
Source: Gazprom, EnergoBiznes

Local price to increase in line with the import price… Independent producers sell their gas mostly to industrial consumers, which form the largest segment of the domestic market (~1/2 of total consumption). Other categories, like population and heating companies, purchase gas substantially below the price at the border. Therefore, these segments provide less interest for independent producers and are covered by Naftogaz of Ukraine.

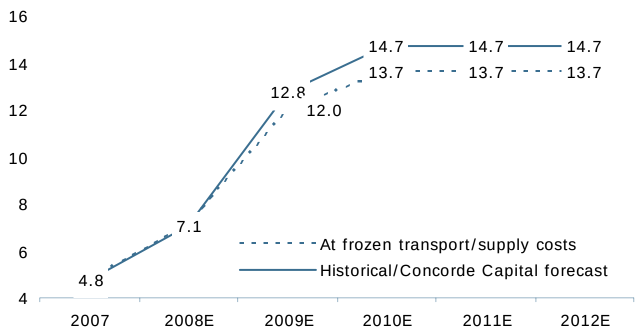
We estimate that under an import price of USD 9.1/Mcf, Ukrainian industrial consumers will pay at least USD 12.0/Mcf, of which around USD 0.8 is the wholesalers' cumulative markup, USD 1.1 is the so-called 'special investment charge', and USD 1.0 is the storage/transportation/supply cost.

Gas prices for industrials, ex-VAT, USD/Mcf

Price decomposition as of today



Annual average forecast



Source: Naftogaz of Ukraine, National Electricity Regulatory Commission, Gazprom, EnergoBiznes

… unless a seller is a partnership with a state-owned entity. Since 2007, companies that are majority owned by or work under a Joint Activity Agreement (JAA) with the state or a state-controlled company *must* sell gas 'for the needs of the population'. They are obliged to sell gas to Naftogaz of Ukraine, which sets the price (well below the market). Although such sellers are subject to a preferential royalty rate, the discount does not compensate for the lower selling price.

Price caps and ex-royalty prices: industrials vs. population[(1)]

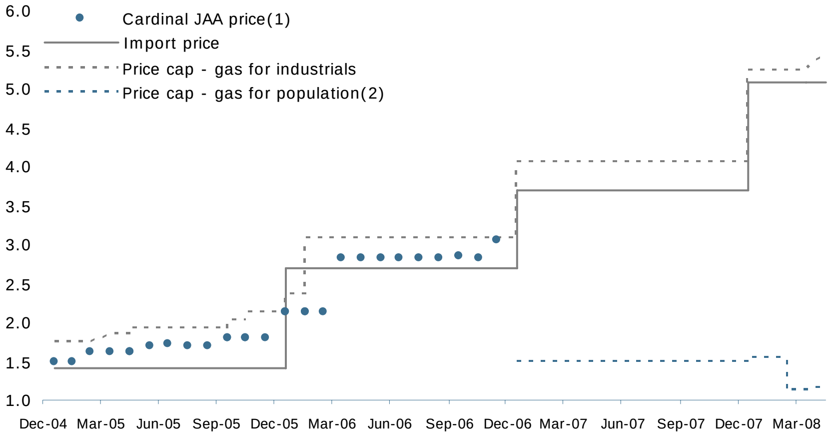
	2006	2007	2008
Import price	**2.69**	**3.68**	**5.08**
Price cap for industrials	2.99	4.04	5.35
Less royalty	0.17	1.96	1.14
% of price	5.7%	48.6%	21.4%
Net	2.81	2.08	4.20
Price cap for population	not app.	1.49	1.21
Less royalty	0.17	0.28	0.29
% of price	n/m	18.8%	23.6%
Net	n/m	1.21	0.92
% of the price for industrials	n/m	58%	22%

[(1)] All prices net of VAT; annual average currency rate used for 2008: 4.95 UAH/USD

Source: State Budget Laws for 2006, 2007, and 2008; Cabinet of Ministers of Ukraine Ruling #1729, National Electricity Regulatory Commission, Ukrnafta

Adoption of the aforementioned scheme in January 2007 (according to Ruling #31 by the Cabinet of Ministers) affected price realizations of companies partnered with state-owned entities despite rising imported gas prices. One such producer, Cardinal Resources, could not afford a 2.0x drop in its selling price starting in 2007, from USD 3.1/Mcf in Dec.06 to USD 1.5/Mcf in Jan.07. The company started to accumulate gas in storage, rather than selling it at a capped price, and later had to quit its business in Ukraine entirely.

Cardinal Resources' price realizations



(1) Monthly average realized price, ex-VAT
(2) The cap that applied to Ukrnafta (Cardinal's partner); 2007 - according to company data, 2008 – NERC Ruling #155 from 31.01.08, and #315 from 28.02.08
Source: Company data, Ministry of Fuel and Energy, EnergoBiznes

Ukraine's gas industry structure

Supplies at the border. As we mentioned above, Ukraine's domestic production covers only ~1/4 of its gas consumption. Gas imports (mainly from Central Asia, Turkmenistan being the largest source) are channeled to the market through RosUkrEnergo (RUE) - a JV 50/50 owned by Gazprom and two Ukrainian businessmen, Dmitry Firtash and Ivan Fursin. However, the scheme can change in 2H08 or next year, provided the preliminary agreement between Naftogaz and Gazprom is implemented (see details below).

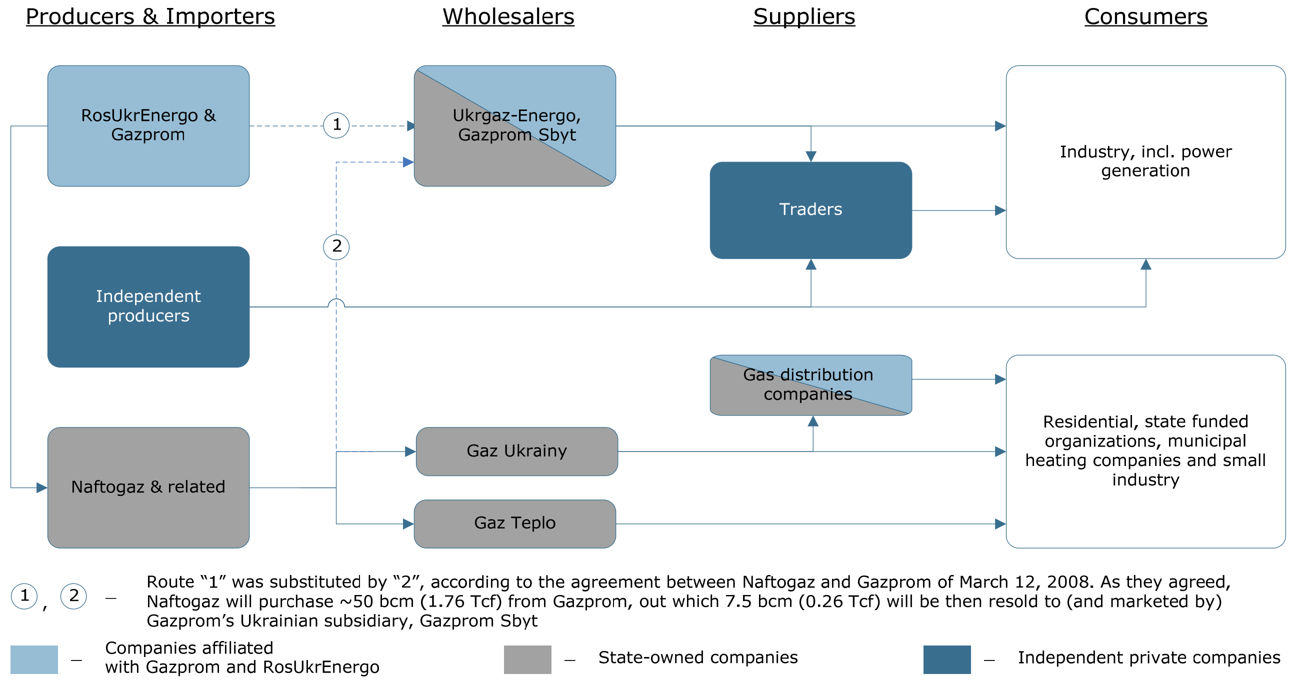
Key players in the domestic market. On the local side of the border, the key players are Gazprom-related companies and local Naftogaz. In 2007, more than half of all imported gas was sold to Ukrgaz-Energo (UGE), a 50/50 JV between Naftogaz and RUE. The remaining volume (~0.80 Tcf) was supplied by RUE directly to Naftogaz. While UGE supplied gas to industrial consumers, the most solvent category, Naftogaz covered all other categories of consumers, including the least solvent, municipal heating enterprises (MHE). Naftogaz' consolidated production accounts only for ~54% of its gas supplies.

Recent changes to the supply scheme. The scheme was supposed to change starting in March of this year, when Naftogaz and Gazprom signed a framework agreement that assumed the substitution of RUE and UGE with two other JVs, one for purchasing gas at the Russian-Turkmen border, the other – for marketing gas in Ukraine.

Indeed, in April 2008 Gazprom registered its subsidiary, Gazprom Sbyt Ukraine. Later the parties agreed that RUE will sell all its gas (~1.4Tcfpa) to Naftogaz, out of which 0.26 Tcf Naftogaz will be resold to Gazprom Sbyt for further marketing to industrial consumers. However, since March, the parties have been silent with regards to the other JV on the Central Asian side of the pipeline.

Consumers. The largest and the most solvent is the group of industrial consumers (~1/2 of 2007 total consumption). The share of residential consumers and state-funded organizations in the total market is around 26% in physical volume terms, while MHEs account for about 15%. The latter can be also treated as indirect residential consumption, as they produce heat mostly for households.

Ukraine's gas industry structure



Source: Concorde Capital research

Pricing. The Ukrainian gas market is a seller's market, with importers effectively dictating local prices by setting the border price. The state sets the price ceiling for all domestic consumers. The cap for industrial enterprises and state-funded organizations fully accounts for the cost of gas imports, trader's markup and distribution cost, while the cap for households and MHEs is set almost at the level of domestic production cost. Companies majority owned by the state (directly or not) are obliged to sell gas only for "residential needs" and only through Naftogaz of Ukraine. The latter, being the only buyer, sets the purchase price.

Key regulatory bodies. Subsoil permits (licenses) are provided by the Ministry of Environmental Protection. The National Electricity Regulatory Commission (NERC) regulates price ceilings for all categories of gas consumers and issues gas supply licenses, which limit the volume of supplies. The Antimonopoly Committee has oversight of licensees' volume limits.

Trade barriers. Oil and gas imports are free of any restrictions; gas exports are subject to a duty of 35%, but not less than USD 2.34/Mcf.

Infrastructure

Historically, Ukraine has been the major transit route for Russian gas, accounting for around 3/4 of Russian gas exports. Its system of high-pressure pipelines has a total length of 22 ths km, with an entry capacity of 10.2 Tcfpa and 6.3 Tcfpa at exit (including 5.0 Tcfpa of exit capacity in the European direction). Last year the system was loaded at almost 80% of its exit capacity, with 64% of gas transported to Slovakia, 21% to Turkey, 9% to Hungary. Poland, Romania and CIS accounted for the remaining transit volume. The total length of gas distribution (low pressure) pipelines is around 14 ths km.

The country's gas transportation system includes 71 gas-pumping stations, with total capacity of 5.4 GW, 1,437 gas-distributing stations, and 12 gas storages with overall capacity of 1.1 Tcf.

Ukrainian gas transportation system

Source: UkrTransGaz

Licensing and fiscal terms

In Ukraine, foreign businesses either operate through local subsidiaries or in the form of joint ventures (JVs) and joint activity agreements (JAAs) with domestic companies. Partnerships can be also established in the form production sharing agreements (PSAs), although this is the least popular form. To the best of our knowledge, the first and the only PSA was signed between the state and Vanco International, on offshore E&D works on the Black Sea shelf. Validity of this PSA is being challenged by the Tymoshenko government, thereby revealing both political and legal risks associated with such a form of cooperation. Partnerships normally involve state-controlled companies like Naftogaz of Ukraine, Ukrnafta (50%+1 owned by Naftogaz) or Nadra Ukrayiny. These are the largest licensees in Ukraine, but oftentimes lack the funds to effectively develop and commercialize their hydrocarbon resources.

Licensing

Under Ukrainian legislation, a licensee must be a local legal entity, but however it can be controlled by a foreign company. Currently, there are four types of oil and gas licenses in Ukraine, according to the procedure approved by the Cabinet for 2008*:

(1) Oil and gas study and exploration licenses (up to 10 years)
(2) Production licenses (up to 20 years for onshore production and 30 years for offshore production)
(3) Exploration and production licenses (up to 20 years for onshore areas and 30 years for offshore)
(4) Construction of underground oil and gas storage licenses (up to 50 years)

** According to the Cabinet's ruling #273 of 27.02.2008. Before, licenses were issued for the following periods: (1) five years, (2) 20 years, (3) 20 years and (4) 50 years.*

Production licenses require subsoil allocation, which is granted separately by a local authority once a field's reserves report is approved. Additionally, the licensee is obliged to sign a so-called *Licensing Agreement* on the terms of subsoil use with the central geological authority.

The licenses are generally distributed through auctions. However, there is a non-auction *Separate Procedure* under which the applicant may be granted a license in the following cases:

- For exploration, in the event of expansion of a previously assigned area by no more than 50% and for production if additional reserves obtained through area expansion constitute no more than 50% of their previous size
- For oil and gas production, if the applicant conducted exploration of the area at their own expense and appraised the reserves, which are confirmed by the State Committee for Mineral Reserves
- For natural gas production, if gas will be consequently sold to public consumers
- If the license is to be granted on terms of a production sharing agreement
- For exploration works that are to be financed from state budget expenditures, in accordance with the law on state purchases
- For exploration and/or production, if an applicant owns a facility built for oil and gas extraction from the area under consideration; for exploration only if the property is under a long-term lease
- For production from the deposits recognized as minor by the State Committee for Mineral Reserves

Risks: discretionary regulations, poor transparency. Legal framework in the Ukrainian oil and gas sector is rather discretionary, so changes are usually unpredictable. Legislative basis for the licensing regime does exist (key parts being the Subsoil Code and Law on Oil and Gas), but the parliament suspended it in 2004 and stipulated an annual *ad hoc* system based not on laws but on government regulations. What was initially a temporary measure has evolved into a regulation-based system. One example is the list of license types provided above, which was approved specifically for 2008 by a Cabinet of Ministers ruling.

In addition, JAAs are essentially civil agreements and the law does not allow for transferring licenses to partners of a license holder, which makes long-term investments highly risky. Recent news on the suspension of JAAs between state-owned Chornomornaftogaz and its partners Shelton Canada (Azov Sea offshore) and CBM Oil (Black Sea offshore) provide up-to-date evidence of regulatory risks turning into reality.

On the other hand, low transparency in the licensing procedure itself restrains competition. Shortcomings include short application deadlines, poor availability of technical data, and loopholes enabling the use of the non-auction procedure.

Taxes

Oil and gas companies are subject to royalty and other production-based taxes, VAT and corporate tax.

Key production taxes and applicable rates[1]

	Oil & Condensate	Gas	
		Residential [2]	Industry
	USD/bbl	USD/mcf	USD/mcf
Royalty			
Horizons <5,000m	42.34α	0.29	1.14
Horizons >5,000m	15.67α	0.23	0.57
Off-shore	not app.	0.06	not app.
Subsoil Usage Tax	1.38	0.02	0.02

α = adjustment coefficient, see details below in the "Royalty" paragraph
[1] Annual average currency rate used: 4.95 UAH/USD
[2] Producers of gas that is used for residential needs are subject to preferential royalty rates
Source: Law #107-17 On the National Budget of Ukraine for 2008, of June 4, 2008

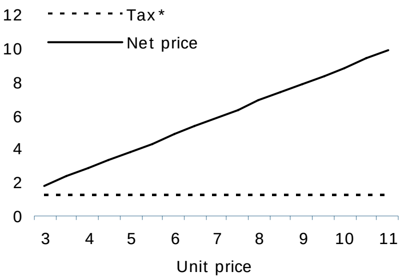
Royalty. While the gas royalty is paid at a fixed rate, oil and condensate royalty is pegged to oil global prices. The amount payable is calculated as a product of the base rate and an adjustment coefficient. In turn, the coefficient is calculated as the ratio of the Urals price to the base price of USD 100/bbl. This formula for calculation of the coefficient was put in force only in June this year; before that, the coefficient was calculated as the ratio of the maximum of the auction price and the price of oil imports from Russia, to the base price of around USD 53/bbl. It is not perfectly clear how the new formula will be implemented, as the law refers to "Urals price on a London Exchange", while in fact Urals trade only OTC in Europe. Most likely, the law will be amended with a clearer definition.

Other production taxes. E&P companies are also subject to a *subsoil usage tax* (SUT); those that operate on fields where exploration works were financed from the state budget are subject to an *exploration work tax* (EWT). The EWT is adjusted with a coefficient from 0.2 to 0.6 depending on the extent of a firm's contribution to the exploration program.

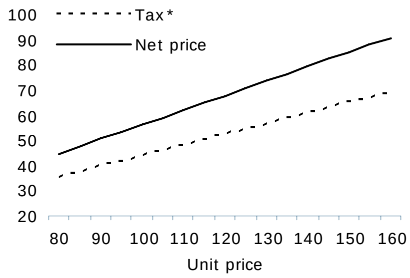
Both of these taxes are paid per physical volume of hydrocarbons extracted less the amount used for own technical needs.

Prices net of royalty and other production taxes

Natural gas, USD/Mcf



Crude oil, USD/bbl



** Assuming current maximum royalty rate*
Source: Concorde Capital calculations

Common taxes
- VAT (20%)
- Corporate income tax (25%)

Capital expenditures are tax deductible at the amount of fixed asset depreciation for each reporting period during the lifetime of an asset. Depreciation of oil and gas wells is calculated according to the following rates:

Year of use	Depreciation rate
1	10%
2	18%
3	14%
4	12%
5	9%
6	7%

Year of use	Depreciation rate
7	7%
8	7%
9	7%
10	6%
11	3%

Source: Law of Ukraine #334/94 On the Corporate Income Tax of Dec. 28, 1994

Peer comparison

All three companies in our target group differ in their place on the lifecycle curve. This, in our view, justifies the application of reserves/production multiples grouped by peers' maturity. We approximate it by Reserve Life ratio, defined as 2P reserves divided by annual production. The approach looks theoretically plausible: the market value of the first barrel produced should be the highest, and should decrease after a company passes a stage of high production growth. On the other hand, producing reserves are less risky than non-producing, so the latter should be valued at a discount.

Although we find confirmation of this in actual data (see below multiples for different ranges of reserve life), we think practical use of reserves/production ratios for valuation is rather limited, due to their high volatility across E&P companies. Look forward to NAV-based valuations in our initiating report, which we believe will provide more accurate estimates of our target companies' fair value.

Peer companies data

		MCap[1]	EV		EBITDA		Prod.	P1 Res.	2P Res.	P1/Prod.	2P/Prod.
		USD mln	USD mln	USD mln	USD mln	USD mln	MMboepa	MMboe	MMboe	years	years
			2007	2008E	2007	2008E	2007	2007	2007	2007	2007
JKX Oil and Gas	JKX LN	1,622.4	1,554.1	1,541.3	133.0	225.0	4.6	n/a	76.3	n/a	16.7
Regal Petroleum	RPT LN	1,040.8	1,043.9	1,027.8	-17.9	-10.9	0.4	78.0	159.7	195.4	400.1
Cadogan Petroleum	CAD LN	1,040.7	765.7	765.7	n/a	n/a	0.0	25.9	76.1	n/m	n/m
Dana Petroleum	DNX LN	3,164.4	3,303.2	2,945.0	416.7	894.6	11.1	n/a	168.0	n/a	15.1
Energy XXI	EXXS LN	493.7	1,505.8	632.5	242.6	423.0	5.9	55.6	48.0	9.4	8.1
Lundin Petroleum	LUPE SS	4,647.4	5,003.4	4,814.2	451.3	742.5	12.7	n/a	176.4	n/a	13.9
Melrose Resources	MRS LN	876.8	1,237.1	1,149.4	55.6	251.2	4.6	52.4	61.0	11.3	13.1
Premier Oil	PMO LN	2,704.2	2,619.6	2,663.3	265.8	523.8	13.0	84.6	165.0	6.5	12.6
Salamander Energy	SMDR LN	761.2	669.3	633.8	35.5	89.0	2.8	n/a	38.8	n/a	13.6
Sterling Energy	SEY LN	369.1	470.9	300.6	58.2	106.3	2.1	21.3	n/a	10.1	n/a
Venture Production	VPC LN	2,446.1	2,951.4	2,772.6	401.4	867.7	15.0	80.8	221.5	5.4	14.7
Arawak Energy	ABG CN	421.4	410.5	435.3	114.1	213.8	3.8	38.4	59.6	10.2	15.8
Dragon Oil	DRS ID	4,509.3	3,965.3	3,720.7	515.4	846.7	11.7	n/a	301.0	n/a	25.8
FX Energy	FXEN US	222.5	203.0	203.0	-9.5	-9.7	0.3	5.7	11.4	18.6	37.2
Gulfsands Petroleum	GPX LN	510.0	475.4	429.5	10.2	21.0	1.0	n/a	22.0	n/a	21.5
Sibir Energy	SBE LN	6,249.9	6,571.4	6,587.6	280.6	605.9	17.5	n/a	513.0	n/a	29.4
Tullow Oil	TLW LN	13,958.1	14,906.5	14,338.7	733.9	1,039.3	26.7	n/a	551.0	n/a	20.7
West Siberian Resources	WSIB SS	1,580.5	1,615.2	2,092.8	120.9	710.2	12.4	n/a	361.0	n/a	29.1
BMB Munai	KAZ US	292.9	280.7	385.9	4.2	108.7	1.0	15.3	133.4	15.0	157.9
Imperial Energy	IEC LN	1,860.9	2,132.6	1,868.0	-36.2	61.6	2.3	159.0	802.0	68.1	343.3
Averages:											
Reserve life <20 years										8.8	13.4
Reserve life 20-40 years										18.6	27.3
Reserve life >100 years										41.5	250.6

		EBITDA/ Prod.	EV/EBITDA		P/CF		P/E		EV/Prod.	EV/P1	EV/2P
		USD/boe	USD	USD	USD	USD	USD	USD	USD/boe	USD/boe	USD/boe
		2007	2007	2008E	2007	2008E	2007	2008E	2007	2007	2007
JKX Oil and Gas	JKX LN	29.1	11.68	6.85	13.04	8.21	21.99	10.72	338.5	n/a	20.4
Regal Petroleum	RPT LN	neg	neg	neg	neg	neg	neg	neg	2,615.9	13.4	6.5
Cadogan Petroleum	CAD LN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	29.5	10.1
Dana Petroleum	DNX LN	37.4	7.93	3.29	12.59	4.91	25.60	9.09	296.7	n/a	19.7
Energy XXI	EXXS LN	41.1	6.21	1.50	n/a	n/a	20.50	n/a	255.2	27.1	31.4
Lundin Petroleum	LUPE SS	35.6	11.09	6.48	10.70	10.04	31.39	17.05	395.0	n/a	28.4
Melrose Resources	MRS LN	12.0	22.24	4.57	12.18	4.28	neg	17.95	266.2	23.6	20.3
Premier Oil	PMO LN	20.4	9.86	5.08	8.27	7.14	69.93	14.75	200.8	31.0	15.9
Salamander Energy	SMDR LN	12.5	18.84	7.12	21.37	10.19	167.18	96.85	235.1	n/a	17.2
Sterling Energy	SEY LN	27.7	8.09	2.83	7.01	4.29	neg	7.52	224.0	22.1	n/a
Venture Production	VPC LN	26.7	7.35	3.20	4.63	3.29	25.51	8.38	196.1	36.5	13.3
Arawak Energy	ABG CN	30.2	3.60	2.04	5.82	3.54	12.53	5.50	108.9	10.7	6.9
Dragon Oil	DRS ID	44.1	7.69	4.39	8.56	6.52	14.00	7.87	339.5	n/a	13.2
FX Energy	FXEN US	neg	neg	neg	neg	neg	neg	neg	662.1	35.6	17.8
Gulfsands Petroleum	GPX LN	9.9	46.77	20.45	35.11	n/a	193.30	67.60	465.1	n/a	21.6
Sibir Energy	SBE LN	16.1	23.42	10.87	16.75	24.84	22.69	11.69	376.6	n/a	12.8
Tullow Oil	TLW LN	27.5	20.31	13.80	15.95	13.63	137.80	36.67	558.7	n/a	27.1
West Siberian Resources	WSIB SS	9.7	13.36	2.95	19.42	9.01	50.87	14.67	130.0	n/a	4.5
BMB Munai	KAZ US	4.2	66.15	3.55	30.37	3.34	281.76	4.53	275.2	18.4	2.1
Imperial Energy	IEC LN	neg	neg	30.33	neg	68.56	neg	85.74	912.9	13.4	2.7
Averages:											
Reserve life <20 years		27.1	10.6	4.0	10.3	6.0	50.4	22.1	242.0	25.2	19.1
Reserve life 20-40 years		21.5	22.3	10.5	19.2	13.5	83.7	27.7	422.0	35.6	16.2
Reserve life >100 years		4.2	66.1	16.9	30.4	35.9	281.8	45.1	594.1	15.9	2.4

[1] As of July 4, 2008
Source: Thomson Financial, Bloomberg, Concorde Capital estimates

JKX Oil & Gas Plc N/R

http://www.jkx.co.uk

Top private producer backed by strong shareholders

Investment summary

- Largest independent oil and gas producer in Ukraine, with 77% share of oil and 42% of gas production by independents
- In 2007, acquired 100% in Koshekhablskoye license in Russia, boosting 2P gas reserves by 85% and unleashing potential for production upside
- Well connected shareholder base that includes state-owned Naftogaz of Ukraine and private companies linked to influential Ukrainians (cumulatively holding 39%), mitigating regulatory and legal risks
- Only company in our target group with positive operating cash flow; its ROE of 29% being second highest in our group of international peers. Only company in our target group paying dividends

Key catalysts:

- First gas from Koshekhablskoye field in 3Q08
- Results of reserves audit on the Ignatovskoye, Molchanovskoye and Novo-Nikolayevskoye fields in 3Q08
- Soyuz high-pressure pipeline tie-in in 4Q08
- USD 68 mln '07 eoy cash account and zero debt point to possible material acquisitions

Business profile

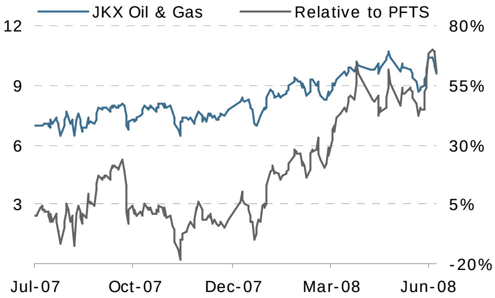
JKX is an independent foreign-owned oil and gas producer with its key producing asset located in Ukraine (Dnieper-Donetsk basin), while reserves are split almost 50/50 between Ukraine and Russia. In Ukraine, JKX is the largest private oil and gas producer. The company owns a 100% interest in its key producing assets, through the local Poltava Petroleum Company. JKX also has license interests in the U.S., Georgia, Bulgaria and Turkey.

Asset map

Source: Company data

Target Price	**N/R**
Upside	**N/A**

Share price performance



Market information

Bloomberg ticker	JKX LN
Ord. shares out, mln	156.5
Market price, USD	9.55
52Wk H/L, USD	10.72/6.42
MCap, USD mln	1,504.4
Free float, %	61.2%
FF MCap, USD mln	920.7
Monthly avg tr volume(1), USD mln	130.8
FF turnover(1)	14.3%

(1) *6M trailing, LSE*

Stock ownership(2)

Glengary Overseas Ltd	12.60%
Ralkon Commercial Ltd	12.60%
Interneft Ltd	7.22%
Naftogaz of Ukraine	6.38%
Other	61.20%

(2) *as of March 2008*

Key financials

	2006	2007
Net revenue, USD mln	131.7	184.5
EBITDA margin	91.2%	69.2%
Net margin	59.0%	40.3%
ROE	42.4%	29.5%
Net Debt/Equity	(0.27)	(0.06)

Market multiples

	2007	2008E
EV/EBITDA	11.7	6.8
P/CF	13.0	8.2
P/E	22.0	10.7
EV/Production	338.5	n/a
EV/P1 Reserves	n/a	n/a
EV/2P Reserves	20.4	n/a

Daily production (2007)

Oil and condensate, bbl	5,539.0
Gas, MMcf	42.2
Total, boe	12,579.0

2P Reserves (2007)

Oil and condensate, MMbbl	4.6
Gas, Bcf	430.0
Total, MMboe	76.3

Regal Petroleum N/R

http://www.regalpetroleum.co.uk

Well-financed development U-turn story

Investment summary

- Raised USD ~200 mln via two equity placements in 2008 to finance 5Y development program focused on Ukrainian assets
- New management is implementing a "transformation plan" of distancing Regal of its troubled past (poor disclosure and unstable management) and monetizing its Ukrainian assets
- Management targets material production upside: a new drilling campaign may result in production buildup from the current 1.1 Mboepd to 50 Mboepd
- Largest 2P reserves in our target group (169 Mboe), 100% interest in both Ukrainian licenses. Successful appraisal of deeper reservoirs at MEX-GOL/SV fields in 2009 could double 2P reserves, according to the company
- Received two bids for 50% stake from MND and Shell in 2007. In April 2008, again announced preliminary approaches regarding potential transaction. Talks continue, though selling out is not the top priority now, according to the CEO
- AIM disciplinary investigation, related to belated announcement of an unsuccessful well in Greece in 2005, still ongoing

Key catalysts:

- MEX-103 development well results, August 2008
- Workover of three wells commencing in July 2008, to be completed by the end of 2008
- Reserves audit report, mid-2009
- Conclusion of AIM investigation, probably 4Q08-1H09
- Results of reportedly continuing talks on acquisition of a strategic stake in the company

Business profile

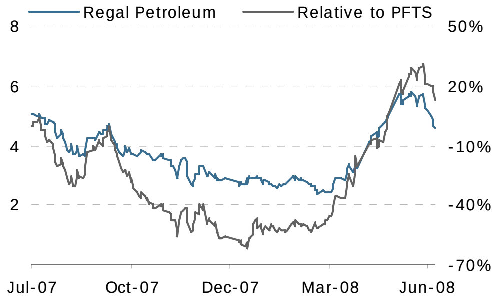
Regal is a London-based independent oil and gas producer, with key assets in Ukraine. It holds 100% interest in its two Ukrainian licenses, with 2P reserves of ~160 MMboe and five production wells. The company also has interests in Romania and Egypt. In 2006, Regal was the subject of a legal dispute over the ownership of its Ukrainian assets, which was resolved in Regal's favor in Dec.06, at around a USD 50 mln cost for the company.

Asset map

Source: Company data

Target Price	**N/R**
Upside	**N/A**

Share price performance



Market information

Bloomberg ticker	RPT LN
Ord. shares out, mln	210.0
Market price, USD	4.75
52Wk H/L, USD	5.79/2.38
MCap, USD mln	932.2
Free float, %	63.5%
FF MCap, USD mln	591.0
Mo avg tr volume(1), USD mln	155.6
FF turnover(1)	26.3%

(1) *6M trailing, LSE*

Stock ownership(2)

C.A. Fiduciary Services Ltd	14.15%
BlackRock Investment Management	10.23%
Henderson Global Investors	6.48%
Capital Research and Management	5.59%
Other	63.55%

(2) *as of March 2008*

Key financials

	2006	2007
Net revenue, USD mln	10.8	14.3
EBITDA margin	neg	neg
Net margin	neg	neg
ROE	neg	neg
Net Debt/Equity	(0.16)	0.36

Market multiples

	2007	2008E
EV/EBITDA	neg	neg
P/CF	neg	neg
P/E	neg	neg
EV/Production	2,615.9	n/a
EV/P1 Reserves	13.4	n/a
EV/2P Reserves	6.5	n/a

Daily production (2007)

Oil and condensate, bbl	280.0
Gas, MMcf	4.9
Total, boe	1,093.3

2P Reserves (2007)(1)

Oil and condensate, MMbbl	24.9
Gas, Bcf	808.6
Total, MMboe	159.7

(1) *Net of cumulative production over 2006-2007; netting may result in differences to the company data. Other source can be different conversion rates used*

Cadogan Petroleum N/R

http://www.cadoganpetroleum.com

A re-emerging resource play

Investment summary

- After an unsuccessful attempt to IPO on AIM in 2006, the company has built up its asset portfolio in Ukraine and consolidated its interests to at least 90% in its main licenses. The funding was provided mainly by PE funds for a total of roughly USD 170 mln, with USD 140 mln invested in 2007 alone. Altima Partners, HBK Investments, EBRD and Deutsche Bank are among the largest institutional investors
- In June 2008, Cadogan raised USD 275 mln via an IPO on LSE to finance its near-term development program, with the major impact reportedly over the next two years
- Company data from 2006 suggests that assets acquired in 2006-07 contribute little to its reserves. However, those are reported to have material contingent and prospective resources – potentially, a source of reserve upside
- Company expects first production in 2H08, with a potential to increase next year to 2 Mboepd. We consider a material increase in production unlikely in the near term, given little progress at Cadogan's main production prospects (Pirkovskoye and Pokrovskoye fields, which it has held since 2005), and uncertainty related to the appraisal of recently acquired assets

Key catalysts:

- First production from Pirkovskoye field, conditional on successful drilling of two wells, 2H08
- Results of testing two other wells at Pokrovskoye and Zagoryanska fields – possible reserves upside, 2H08
- Drilling and testing results at western fields (Bytlyanska and Borynya) - possible reserves upside, 1H09

Business profile

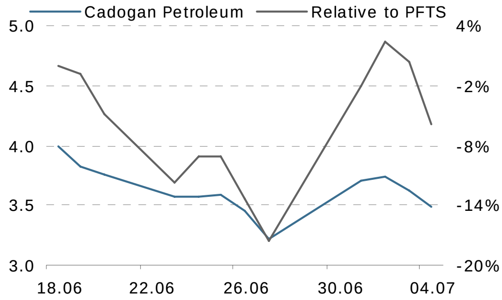
Cadogan is an independent oil and gas E&P company with assets located in the Dnieper-Donets and Carpathian basins within Ukraine. Cadogan has 11 licenses, five of which form the company's main assets (two in the Eastern Ukraine, three in the west). The Pirkovskoye field accounts for 100% of Cadogan's reserves (76 MMboe 2P and 142 MMboe 3P) and ~65% of its 269 MMboe best estimate (P50) prospective resources, while other fields, mainly western ones, contribute 314 MMboe best estimate contingent resources. According to the company, its working interest in main licenses is at least 90%.

Asset map

Source: Company data

Target Price	**N/R**
Upside	**N/A**

Share price performance



Market information

Bloomberg ticker	CAD LN
Ord. shares out, mln	231.0
Market price, USD	3.51
52Wk H/L, USD	n/a
MCap, USD mln	810.4
Free float	73.1%
FF MCap, USD mln	592.4
Mo avg tr volume(1), USD mln	n/a
FF turnover(1)	n/a

(1) *6M trailing, LSE*

Stock ownership(2)

Altima partners	8.49%
HBK Master Fund	7.15%
QVT Financial	6.20%
EBRD	5.03%
Other	73.1%

(2) *as of March 2008*

Key financials

	2006	2007E
Net revenue, USD mln	n/a	n/a
EBITDA mgn	n/a	n/a
Net mgn	n/a	n/a
ROE	n/a	n/a
Net Debt/Equity	n/a	n/a

Market multiples

	2007	2008E
EV/EBITDA	n/a	n/a
P/CF	neg	362.5
P/E	n/a	n/a
EV/Production	8,957.9	n/a
EV/P1 Reserves	39.1	n/a
EV/2P Reserves	13.3	n/a

Daily production (2007)

Oil and condensate, bbl	5.8
Gas, MMcf	1.8
Total, boe	309.8

2P Reserves (2007)

Oil and condensate, MMbbl	22.8
Gas, Bcf	320.0
Total, MMboe	76.1

Financial statements

Income statement summary, USD mln

	JKX Oil & Gas		Regal Petroleum	
	2006	2007	2006	2007
Net Revenue	**131.7**	**184.5**	**10.8**	**14.3**
Gross Profit	**126.8**	**145.1**	**5.5**	**10.1**
Gross margin	*96.3%*	*78.6%*	*50.9%*	*70.5%*
SG&A	6.7	12.4	20.5	21.0
% of Net Revenue	*5.1%*	*6.0%*	*189.4%*	*147.2%*
Other Operating Income/Costs, net	-	(5.0)	0.5	(8.9)
Ukraine settlement costs	-	-	54.8	-
EBITDA	**120.1**	**127.7**	**(14.5)**	**(19.9)**
EBITDA margin	*91.2%*	*69.2%*	*neg*	*neg*
Depreciation	14.3	19.1	3.0	1.2
EBIT	**105.8**	**108.6**	**(17.5)**	**(21.1)**
EBIT margin	*80.3%*	*58.9%*	*neg*	*neg*
Interest Expense	-	0.1	(0.002)	(0.4)
Financial income	3.4	4.8	1.2	0.4
PBT	**109.2**	**113.3**	**(114.8)**	**(19.6)**
Tax	31.4	38.9	(0.5)	(2.4)
Net Income	**77.6**	**74.4**	**(115.3)**	**(22.0)**
Net Margin	*59.0%*	*40.3%*	*neg*	*neg*
Dividends declared	4.5	10.0	n/a	n/a

Balance sheet summary, USD mln

	JKX Oil & Gas		Regal Petroleum	
	2006	2007	2006	2007
Current Assets	**91.7**	**79.9**	**16.4**	**8.0**
Cash & Equivalents	81.1	68.1	13.0	5.6
Trade Receivables	9.5	10.4	3.4	2.2
Inventories	1.0	1.4	0.04	0.3
Other current assets	-	-	-	-
Fixed Assets	**147.8**	**253.4**	**50.3**	**59.5**
PP&E, net	119.4	232.2	29.6	33.6
Other Fixed Assets	23.4	21.1	20.7	26.0
Total Assets	**239.6**	**336.3**	**66.7**	**67.6**
Shareholders' Equity	**218.6**	**286.2**	**63.6**	**45.6**
Share Capital	23.8	24.1	228.6	278.3
Reserves and Other	194.8	262.1	(164.9)	(232.7)
Current Liabilities	**14.1**	**24.9**	**2.2**	**19.4**
ST Interest Bearing Debt	-	-	-	8.6
Trade Payables	12.1	22.9	2.2	10.7
Accrued Taxes	2.0	1.9	-	-
Other Current Liabilities	-	-	-	-
LT Liabilities	**6.8**	**25.1**	**0.9**	**2.6**
LT Interest Bearing Debt	-	-	-	-
Other LT	6.8	25.1	0.9	2.6
Total Liabilities & Equity	**239.6**	**336.3**	**66.7**	**67.6**

Cash flow statement summary, USD mln

	JKX Oil & Gas		Regal Petroleum	
	2006	2007	2006	2007
Cash from operations	98.7	153.5	(18.0)	(7.4)
Interest received	2.7	5.1	1.2	0.4
Interest paid	-	(0.01)	(0.02)	(0.1)
Taxes paid	(25.8)	(38.7)	(0.5)	(1.0)
Operating Cash Flow	**75.6**	**119.9**	**(17.3)**	**(8.0)**
Proceeds from sale of assets	3.2	0.04	4.2	1.5
Capital Expenditures, net	(43.9)	(80.7)	(9.9)	(10.2)
Acquisitions, net of cash acquired	-	(44.4)	-	-
Other	(5.2)	0.1	-	-
Investing Cash Flow	**(45.9)**	**(125.2)**	**(5.6)**	**(8.7)**
Net Borrowings/(repayments)	-	0.03	-	8.3
Funds received in connection with share options	-	-	0.1	0.7
Proceeds from issue of shares, net of issue costs	1.2	2.3	-	-
Treasury shares purchase	(2.8)	-	-	-
Dividends paid	(4.5)	(10.0)	-	-
Financing Cash Flow	**(6.1)**	**(7.7)**	**0.1**	**9.0**
Beginning Cash Balance	56.9	81.1	34.9	13.0
Ending Cash Balance	81.1	68.2	13.0	5.6
Exchange Rate Impact	0.5	0.05	1.1	0.3
Other non-cash movements	-	-	(0.1)	-
Net Cash Inflows/Outflows	**23.7**	**(12.9)**	**(22.9)**	**(7.8)**

Source: Company data

Appendix 1. 2007 production data

	Ownership	Oil & condensate Mbbl	%	Gas MMcf	%	Total Mboe	%
Ukrgazdobycha	State	5,761.9	17.83%	417.15	71.47%	98,532.5	60.77%
Ukrnafta	State/Private	23,064.4	71.36%	91.73	15.72%	43,463.8	26.81%
Chernomorneftegaz	State	562.1	1.74%	35.69	6.12%	8,500.1	5.24%
JV Poltava Oil & Gas Company	Private	1,823.0	5.64%	12.37	2.12%	4,573.5	2.82%
Nadra Ukrayiny	State	561.1	1.74%	9.50	1.63%	2,675.0	1.65%
Neftegazdobycha	Private	97.8	0.30%	10.27	1.76%	2,381.3	1.47%
Kub-Gaz	Private	34.6	0.11%	3.46	0.59%	804.2	0.50%
Plast	Private	13.8	0.04%	0.94	0.16%	223.2	0.14%
JV Kashtan Petroleum	State/Private	196.4	0.61%	0.06	0.01%	210.5	0.13%
JV Borislav Oil Company	State/Private	100.0	0.31%	0.30	0.05%	166.2	0.10%
Mar'inskoye	n/a	1.7	0.01%	0.71	0.12%	159.8	0.10%
JV Delta	Private	2.1	0.01%	0.54	0.09%	120.9	0.07%
Tisagaz	Private	-	0.00%	0.34	0.06%	76.0	0.05%
JV UkrCarpatOil	State/Private	48.9	0.15%	0.11	0.02%	74.4	0.05%
Dneprogazresurs	Private	1.4	0.00%	0.23	0.04%	52.7	0.03%
Esko-Pivnich	Private	9.7	0.03%	0.16	0.03%	46.2	0.03%
Krymtopenergoservis	Private	40.5	0.13%	0.00	0.00%	40.8	0.03%
Oberon-Ugol	Private	0.3	0.00%	0.10	0.02%	22.1	0.01%
Europa Oil and Gas Ukraine	Private	-	0.00%	0.01	0.00%	3.3	0.00%
Rozhnyatyvnafta	State	1.5	0.00%	-	0.00%	1.5	0.00%
Bogorodchanynaftogaz	State	0.9	0.00%	-	0.00%	0.9	0.00%
Total		32,321.9	100.0%	583.69	100.0%	162,129.0	100.0%

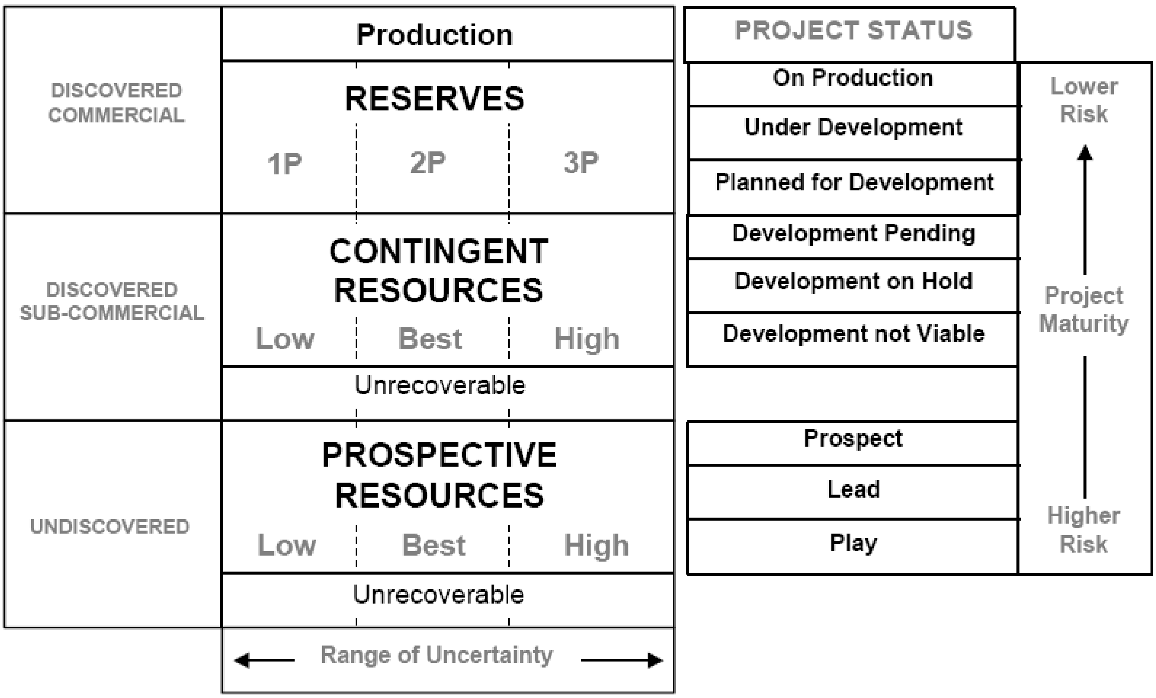
Source: EnergoBiznes, Concorde Capital research

Appendix 2. Oil price forecasts (USD/bbl)

Firm	Analyst	As of[1]	3Q08	4Q08	2009	2010	2011	2012
Barclays	B. Comdty	12.06.08	126.5	122.2	135.5	n/a	n/a	n/a
BNP Paribas	H. Tchilinguirian	05.06.08	139.9	130.0	129.7	n/a	n/a	n/a
Citigroup	J. Neale	10.06.08	125.0	125.0	122.5	100.0	n/a	n/a
Commerzbank	E. Weinberg	02.07.08	130.0	110.0	99.2	n/a	n/a	n/a
Credit Suisse	M. Flannery	20.05.08	128.0	128.0	108.0	113.0	98.0	n/a
Deutsche Bank	A. Sieminski	27.06.08	135.0	125.0	120.0	100.0	105.0	110.0
Fortis Bank	H. Padilla	05.06.08	132.0	142.0	170.6	n/a	n/a	n/a
Goldman Sachs	J. Currie	16.05.08	133.8	144.1	147.0	108.5	n/a	n/a
HSH Nordbank	A. Sommer	24.06.08	130.0	110.0	95.0	n/a	n/a	n/a
ING Wholesale Banking	J. Kenney	15.05.08	121.0	119.6	114.0	110.0	105.0	100.0
Landesbank Baden-Wurt	F. Schallenberg	04.06.08	130.0	135.0	145.0	n/a	n/a	n/a
Lehman Brothers	E. Morse	02.06.08	125.0	110.0	83.0	n/a	n/a	n/a
McKinnon & Clarke	P. Love	28.05.08	122.0	122.0	122.0	127.0	132.0	n/a
Merrill Lynch & Co	F. Blanch	10.06.08	123.0	118.0	106.0	n/a	n/a	n/a
Raiffeisen Zentralbank	H. Loacker	01.07.08	128.0	115.0	101.0	95.0	97.0	n/a
Societe Generale	M. Wittner	01.07.08	146.0	130.0	128.3	109.0	103.5	103.5
Standard Chartered Bank	H. Henton	03.06.08	114.0	124.0	119.0	n/a	n/a	n/a
UBS Securities	J. Stuart	15.05.08	119.0	125.0	120.0	116.0	136.0	155.0
UniCredit Markets & Inv	J. Hitzfeld	15.05.08	122.0	124.0	n/a	n/a	n/a	n/a

[1] The date of the latest update of quarterly or/and annual price forecasts
Source: Bloomberg

Appendix 3. Resources classification system



Source: Society of Petroleum Engineers (SPE)

Appendix 4. Glossary and conversion factors

E&P	exploration and production
JAA	joint activity agreement
PSA	production sharing agreement
P1	proven reserves (at least 90% chance of being recovered)
P2	probable reserves (at least 50% chance of being recovered)
P3	possible reserves (at least 10% chance of being recovered)
2P	proven plus probable reserves
3P	proven plus probable plus possible reserves
bbl	barrel
MMbbl	million barrels of oil
MMbblpa	million barrels of oil per annum
boe	barrel of oil equivalent
boepd	barrel of oil equivalent per day
MMboe	million barrels of oil equivalent
Mboepd	thousand barrels of oil equivalent per day
MMboepa	million barrels of oil equivalent per annum
Mcf	thousand cubic feet
MMcf	million cubic feet
Bcf	billion cubic feet
Bcfpa	billion cubic feet per annum
Tcf	trillion cubic feet
btu	British thermal unit
mt	metric ton
Mcm	thousand cubic meters
workover	operations on a producing well to restore or increase production. A workover may be performed to stimulate the well, remove sand or wax from the wellbore, to mechanically repair the well, etc.
infill drilling	drilling for the development and production of proved undeveloped reserves that lie within an area bounded by producing wells
step-out drilling	drilling at widely spaced intervals outward from known deposits to test for extensions of mineralization

Conversion factors

1 boe = 6.0 Mcf
1 cf = 1,025 btu
1 cm = 35.3 cf
1 mt = 7.3 bbl

Investment ratings

The time horizon for target prices in Concorde Capital's research is 12 months unless otherwise stated. Concorde Capital employs three basic investment ratings: Buy, Hold and Sell. Typically, Buy recommendation is associated with an upside of 15% or more from the current market price; Sell is prompted by downside from the current market price (upside <0%); Hold recommendation is generally for limited upside within 15%. Though investment ratings are generally induced by the magnitude of upside, they are not derived on this basis alone. In certain cases, an analyst may have reasons to establish a recommendation where the associated range given above does not correspond. Temporary discrepancies between an investment rating and its upside at a specific point in time due to price movement and/or volatility will be permitted; Concorde Capital may revise an investment rating at its discretion. A recommendation and/or target price might be placed Under Review when impelled by corporate events, changes in finances or operations. Investors should base decisions to Buy, Hold or Sell a stock on the complete information regarding the analyst's views in the research report and on their individual investment objectives and circumstances.

Concorde Capital ratings distribution		
Buy	58	50%
Hold	22	19%
Sell	16	14%
Under Review	19	17%
Total	115	100%

Investment banking clients*		
Buy	6	100%
Hold	0	0%
Sell	0	0%
Under Review	0	0%
Total	6	100%

* *Within the last twelve month period, Concorde Capital has obtained compensation from these companies for investment banking services.*

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