

# UPDATE

## VALUE RANGE

GBp 9.7 – 9.9

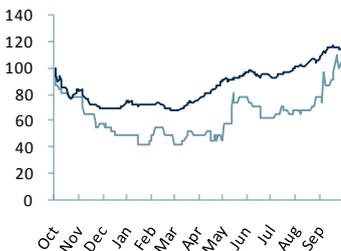


Chart: BPC.LN vs. AIM (darker line)

Monday, 07 September 2009

Close Price 3.0p  
 Valuation Range per share 9.7 – 9.9  
 Bloomberg BPC.LN  
 Financial YE 31 DEC

### Business Activity

BPC is a London AIM listed oil and gas explorer with assets in the Bahamas. The company is run by an experienced oil and gas exploration management team that has a record of delivering value to shareholders.

### Key Metrics

MCAP GBP(m) 23.69  
 Net Debt (Cash) GBP (m) (1.83)  
 EV GBP (m) 21.86  
 52 Wk Hi/Lo 5.1/1.6  
 ADV (m shares) 0.1  
 Free Float (%) 63.6%

### Key Ratios

ROCE % N/A  
 Net Debt (Cash) / Equity % (35.99)  
 FX Rate GBP/USD 1.6390

### Oil & Gas Sector Research

### Analyst Team

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## BPC LIMITED (BPC.LN)

### Nothing ventured...BPC visits the Bahamas

**BPC represents an opportunity to acquire a stock with highly significant potential. Under the experienced leadership of Alan Burns, BPC is engaged in the exploration of oil properties in the Bahamas. The company is well positioned to take advantage of the favourable regulatory environment to maximise profit.**

**BPC recently listed on the AIM market, 2<sup>nd</sup> September 2008.**

Implied Field Valuation	Spot	52 week High	52 week low
WTI USD US \$	68.0	108.9	32.4
Extraction Cost BOE	5.0	5.0	5.0
Transportation Cost BOE	1.0	1.0	1.0
Asset Size (mmstb) Est.	150	150	150
Implied Gross Revenue US\$ m	10,194	16,338	4,853
Implied Gross Profit US\$m	9,294	15,438	3,953
Implied Gross Profit (%)	91.2%	94.5%	81.5%

Source: Company reports/ ACF Equity Research

- Alan Burns, CEO and Founder, has a 35 year track record of creating value in oil and mining
- Oil major StatoilHydro of Norway has entered a JV with BPC
- Attractive fiscal regime with sliding royalties and zero corporation tax
- Politically stable state, foreign investor friendly, with English Common Law jurisdiction
- 22 possible leads with significant upside potential according to the CPR
- Management depth - including a leading specialist in structural and carbonate exploration

## Company Background

BPC Limited ("BPC") engages in the exploration of oil and gas properties in the Bahamas. It holds 100% interest in 5 exploration licenses covering approximately 15,676km<sup>2</sup> in the Bahamian territorial waters and maritime Exclusive Economic Zone. The company has a joint venture (JV) agreement with Norway's StatoilHydro to explore opportunities in the shallow Bahamian waters.

BPC Limited was founded in 2005 (4 years ago) and is based in London, United Kingdom. It listed on the AIM market September 2008 via a £3m reverse takeover of Falkland Gold and Minerals Limited (FGML), lead by BPC Chairman/CEO Alan Burns.

## Management Team

### **Alan Burns, Chairman/ CEO**

Alan Burns has a record of making positive returns for investors. He has 35 years experience as a senior manager in the extractives sectors. Alan has been Chairman of Carnegie Corporation Ltd since 28 April 1993 and was the founder of Hardman Resources Ltd of Australia, retiring as Chairman in 2006.

Hardman Resources Ltd was acquired by Tullow Oil Plc, an international oil company, for approximately £650m. Hardman was responsible for the first commercial oil discoveries in Mauritania and Uganda.

Alan Burns is an innovator. As such Alan has won a number of international awards for commercial engineering invention. He is the inventor of the Pursuit Jet Drive, the CETO Wave Energy, the Cleaner Coal Power, the Solar Thermal and the Aerofoil Wing technologies.

### **Dr Paul Crevello, COO**

Dr Crevello was founder of Petrex Asia, and developed it into Asia's leading geologic exploration consulting firm. Paul has thirty years experience in US domestic and international exploration in over 40 countries.

### **Michael Proffitt, Non-executive Finance Director**

Michael Proffitt is a Fellow Chartered Accountant of England and Wales and the former Chairman of Barclays Private Clients International. Michael has substantial energy related experience and has spent a considerable time residing in the Bahamas.

## Management Strategy

BPC plans to deliver super-normal returns by exploring under a tax efficient regime in shallow to moderate water depths implying low extraction costs and sharing exploration costs with oil majors. BPC claims it has assembled a unique competitive advantage by assembling the only comprehensive geological library of the Bahamian region.

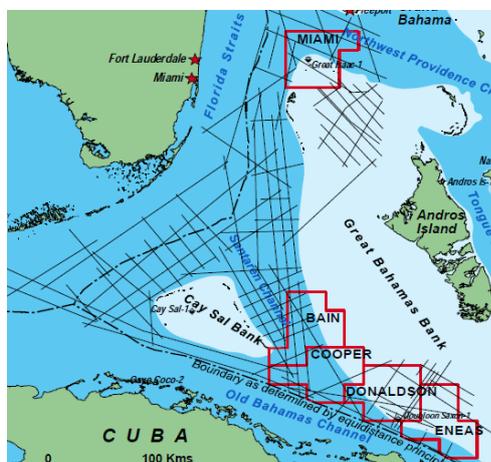
Based on the BPC's own interpretation of the pre-existing seismic data, and an extensive US\$2.9m research and analysis campaign to catalogue the island's geological data, 22 leads (structures which may contain hydrocarbons) have been identified as potentially capable of trapping hydrocarbons. BPC believes these 22 leads, based on volume, could all be commercially exploitable. A Competent Person Report (CPR) found source rocks with similar characteristics to adjacent productive areas in the southern Gulf of Mexico (10-32 billion barrels recoverable offshore oil), leading to the suggestion that traps capable of holding giant accumulations greater than 500 million stock tank barrels (MMSTB) could be present, subject to there being adequate charge available - the likelihood that petroleum can form, migrate and accumulate in a body of sedimentary rocks. The report concluded a total of 22 possible leads. Investors should note that the CPR determined that a site visit was not required.

BPC intends to investigate, delineate and rank its leads and seek industry partner funding for all or part of its exploration and evaluation work. Funds will be used to develop exploration evaluation studies, seismic surveys and drilling. Drilling will commence subject to appropriate financing and/or JV agreements, satisfactory exploration and evaluation results and rig availability.

BPC applied for 3 additional offshore Bahamas exploration licences. The current zero-rate of corporate tax and the system of sliding royalties in the Bahamas is favourable to oil and gas exploration and production.

## Licences

**Exhibit 1: Map of Licences (Seismic Data Base)**



Source: Company reports

BPC has secured five petroleum exploration licences covering approximately 15,676 km<sup>2</sup>. Four adjacent acreages (Bain, 3138 km<sup>2</sup>; Coope, 3148 km<sup>2</sup>; Donaldson, 3152 km<sup>2</sup>; Eneas, 3158 km<sup>2</sup>) are located in the southwest region, the fifth, Miami 3080 km<sup>2</sup>, is positioned in the north. The licences hold an exploration status and an expiration date 2012.

Rollover of the 5-year exploration licence is conditional, BPC (and partners) adherence to mandatory work obligations and delineation of drillable prospects. Under the renewal program, BPC must commit to drill one 18,000ft well in the first year of the renewal period (year 6) and one well every two years thereafter.

## StatoilHydro JV with BPC

As part of BPC's farm-out programme, the company signed an exploration deal with Norwegian major StatoilHydro. This is the first exploration programme in the Bahamian waters for more than two decades. Under the agreement, StatoilHydro will operate three offshore exploration licences in the Cay Sal region in the southwest of The Bahamas, close to Cuba's oil producing region in the Caribbean Sea. These licences are still under application pending Government approval, which BPC hopes will be forthcoming before calendar year end.

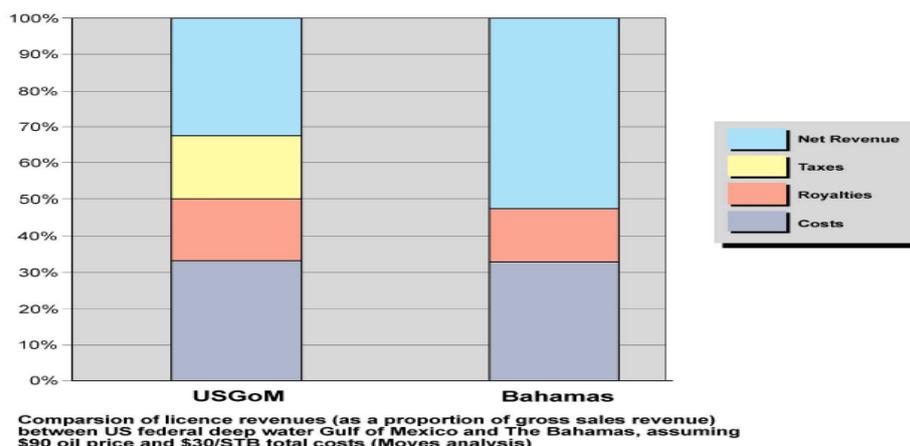
Limited historic 2D seismic and satellite data has indicated the presence of several large structures in the area but further seismic work will be required in order to gain a complete understanding. BPC's geological library was a clear attraction for StatoilHydro and is likely to be considered attractive by other future farm-in partners.

The BPC agreement gives the Norwegian major, which searches for hydrocarbons offshore Cuba, the opportunity to extend its reach into the northern Caribbean. For BPC, it strengthens the company's capital position and instils confidence in the region's hydrocarbon potential.

### **Tax Environment**

The Bahamas possesses a favourable fiscal structure based on a sliding royalty scale. The deductible rentals and zero corporate tax rate, lowers project IRR hurdle rates thereby increasing the number of viable projects relative to regions such as the southern Gulf of Mexico (GoM). In the Bahamas we estimate more than 50% of license revenue translates to net revenue, compared to our estimated 30% in the GoM.

**Exhibit 2: Comparison of Licence Revenues – GoM vs. Bahamas**



Source: Moyes & Co., Inc.

**Exhibit 3: Fig. 3 Commercial and Fiscal Terms**

Production Level	Royalty Rate
Oil Production, up to 75,000 bopd	12.50%
Oil Production, up to 75,000 to 150,000 bopd	15.00%
Oil Production, up to 150,000 to 250,000 bopd	17.50%
Oil Production, up to 250,000 to 350,000 bopd	20.00%
Oil Production, in excess of 350,000 bopd	25.00%
Gas Production	12.50%

Source: Company Reports/ ACF Equity Research

There are no corporate taxes in the Bahamas. Rentals, at the rate of \$0.92 per acre per annum are charged for the area of lease, but these are deductible from Royalty payments

**Political Environment**

The Bahamas represents an area with low political risk and has had an uninterrupted democracy for 275 years. The country gained independence from the United Kingdom in 1973, but still retains an English Common Law (ECL) legal system.

Recent events surrounding billionaire tycoon Alan Stanford have not had any measurable impact on the Bahamian political system or its reputation as a financial centre that we were able to ascertain when compared with Antigua where Mr Stanford’s bank was registered.

## Outlook

- Based upon our conversations with Management we expect there to be further news flow on the horizon.
- In recent years, there has been a flurry of activity and interest in the southern region of the GoM – the portion under Cuba’s economic control suggesting possible increased interest in the Bahamas.
- Cuba believes that it has major oil reserves in its waters (20 billion barrels), although nothing has yet been produced according to Reuters 16 July 2009, lending credence to claims that the Bahamas should also be oil-rich based on shared geology.
- An oil consortium led by the Spanish oil firm Repsol, in conjunction with India's state-run Oil & Natural Gas Co. and Norway's StatoilHydro, will commence drilling 20 miles from Havana, with further explanatory drilling expected in 2010/11 lending support to the proposition that oil majors will turn their attention to Bahamian JVs, sooner rather than later.

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