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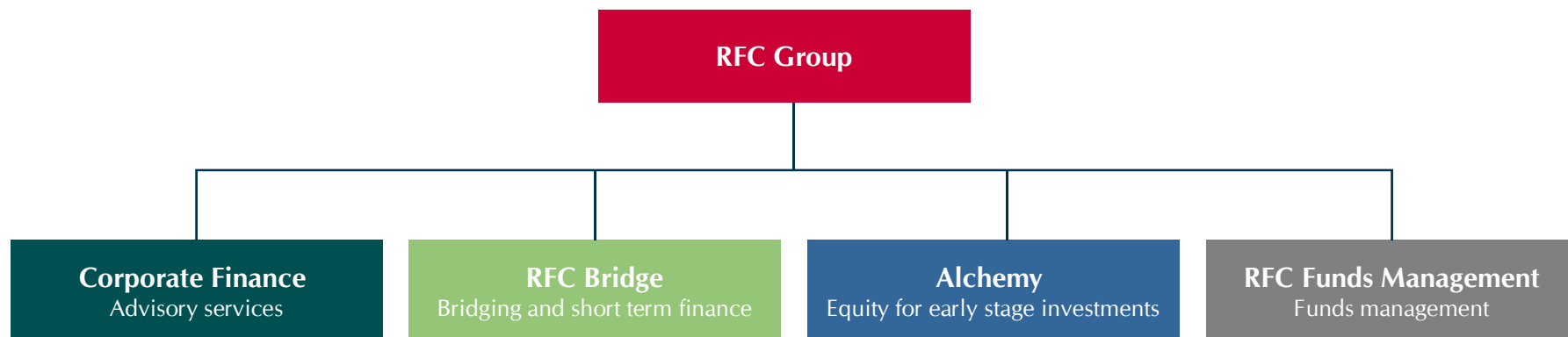
Value in the mid cap oil and gas sector

Will Souter

Overview of RFC Group

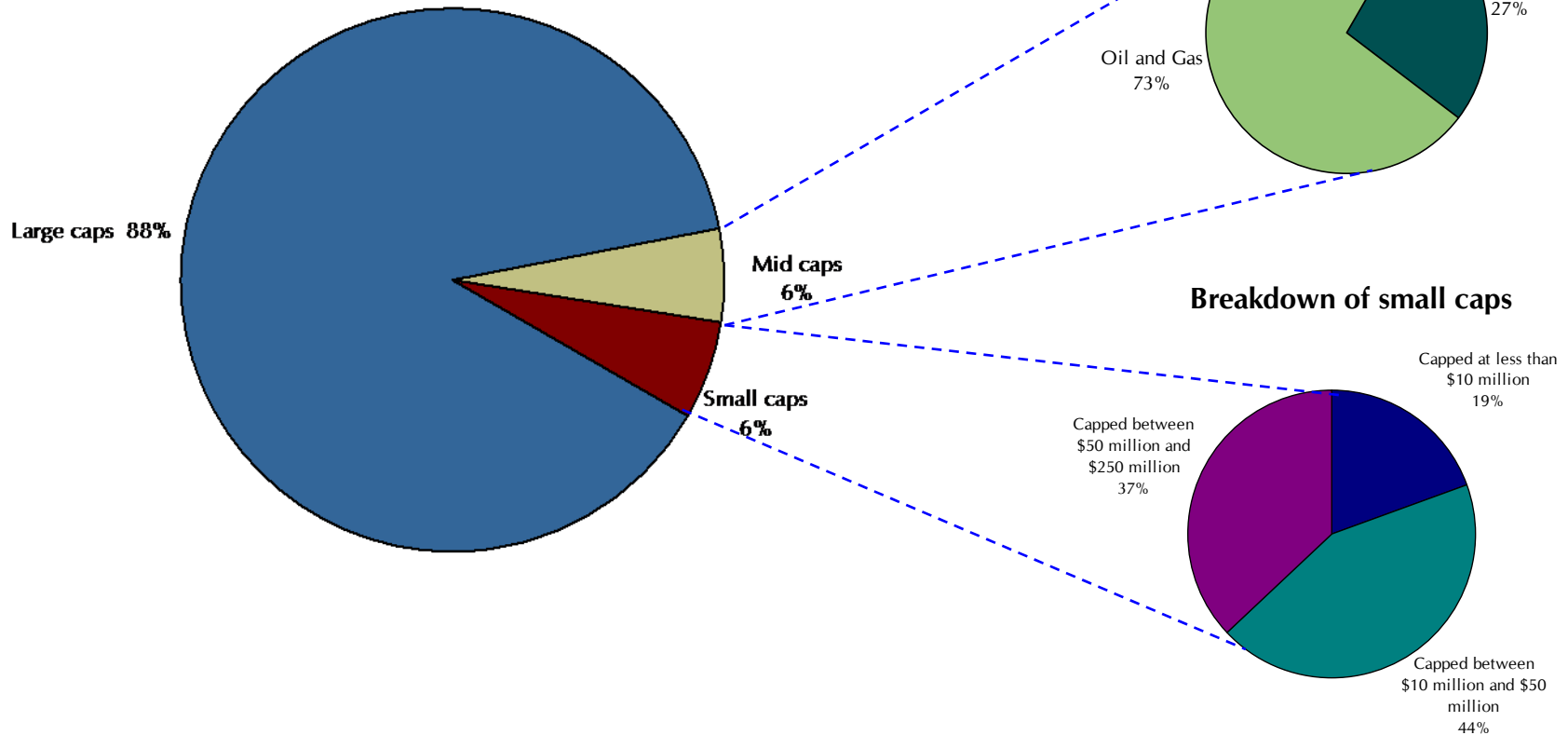


- Privately owned Australian based investment and corporate advisory
- Focused on mining, oil and gas and basic industrial sectors
- In business for 23 years – offices in Sydney & Perth
- Provide full range of corporate finance advisory services
- First Australian based AIM Nominated Adviser
- Growing fund management business
- We invest our capital in the sector



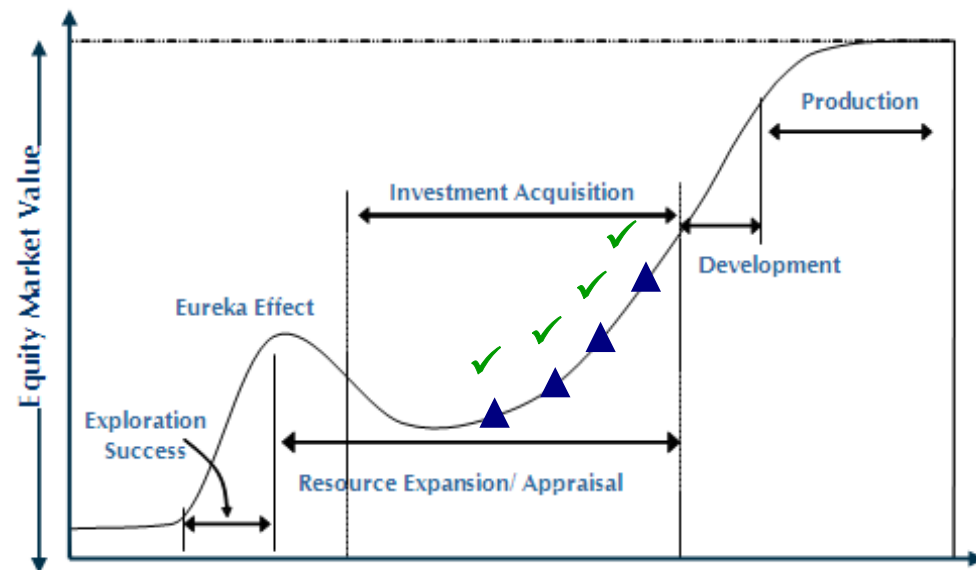
“We aspire to create value now and in the future”

Breakdown of ASX oil and gas market



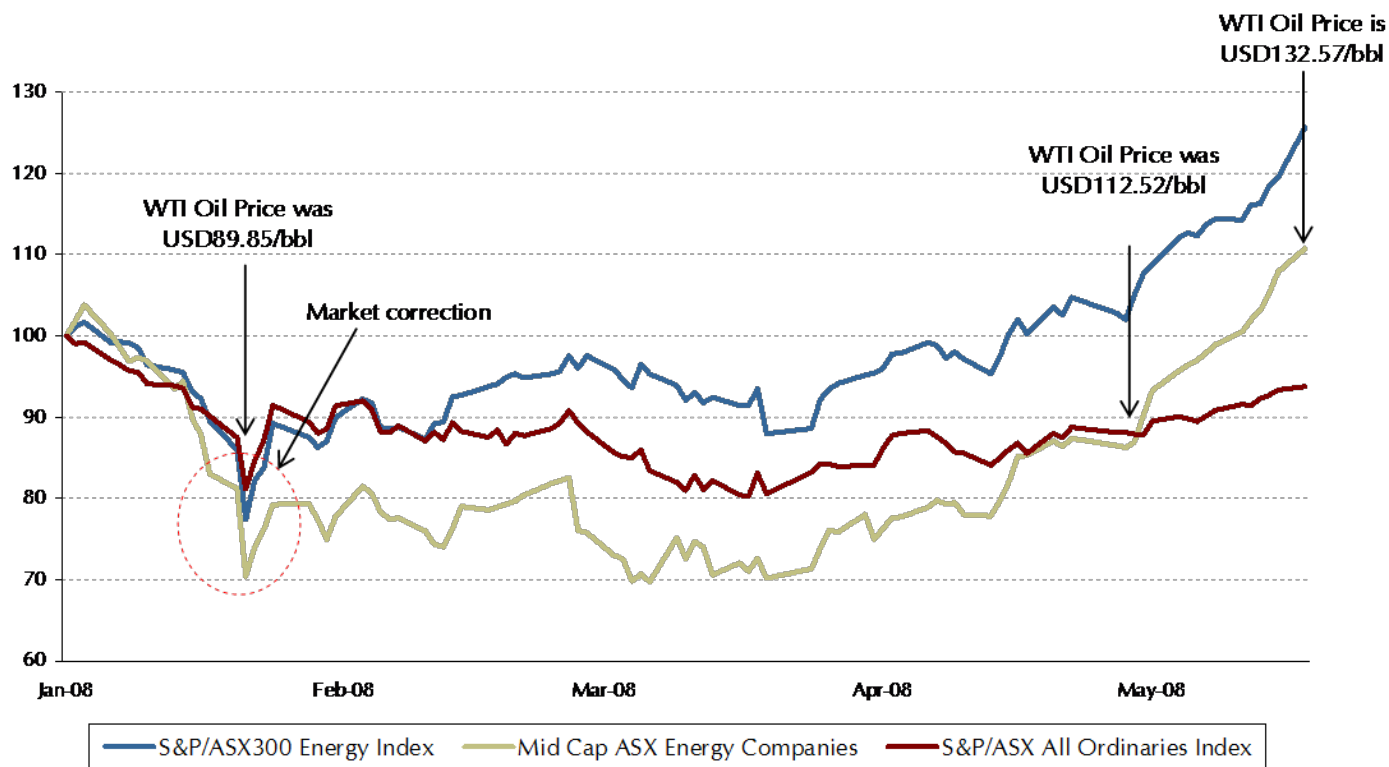
Factors we would look for in an investment case

- Board and management:
 - “been there, done that”
 - clear, realistic and simple business plan
- Near term production
- Balance sheet strength
- Cash flow generation
- DCF value against share price



Do the oil and gas mid caps fit these criteria?

Performance of RFC Mid Cap ASX Energy Index



Source: Bloomberg data

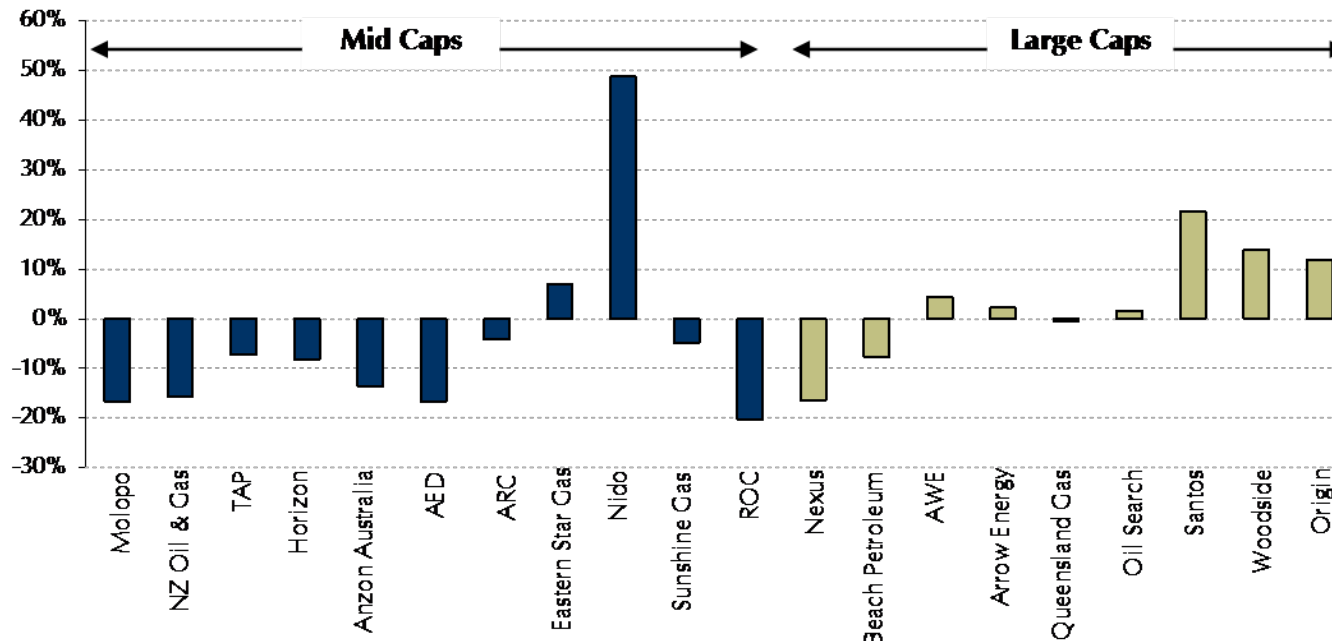
Note: Daily market capitalisation of the RFC Mid Cap ASX Energy Companies, including CSM players, with a market capitalisation ranging between AUD250million to AUD1billion has been rebased to 100. Share Price for S&P/ASX 300 Energy index and S&P/ASX All Ordinaries index are rebased to 100.

So, is it too late to get into the mid caps?

Mid caps still show value

Most of the mid cap stocks are trading at material discounts to the 12 month analysts consensus on their target price

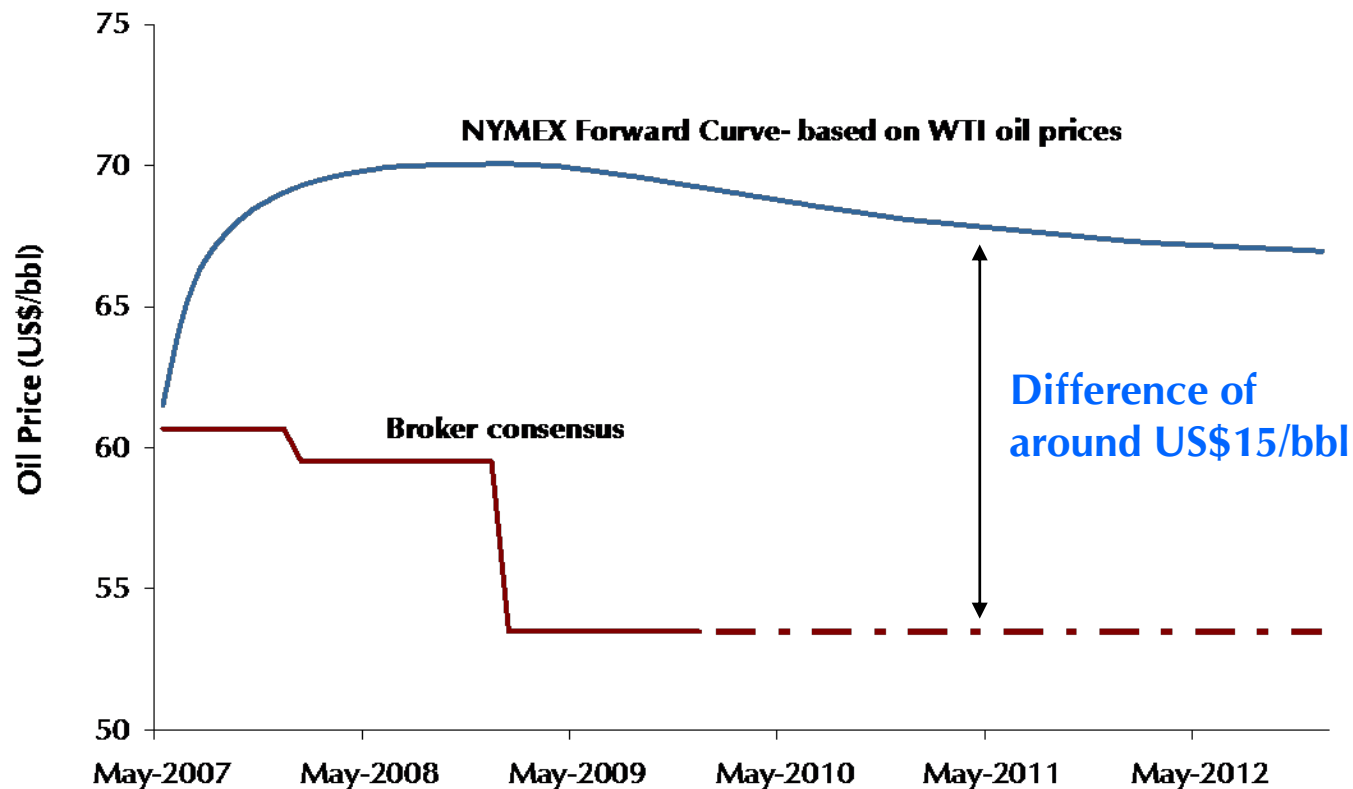
Current Share Price Premium/ Discount to the 12 month Analysts Consensus on Target Price



And...what are the analysts oil price assumptions?

Oil price: forward curve vs forecast

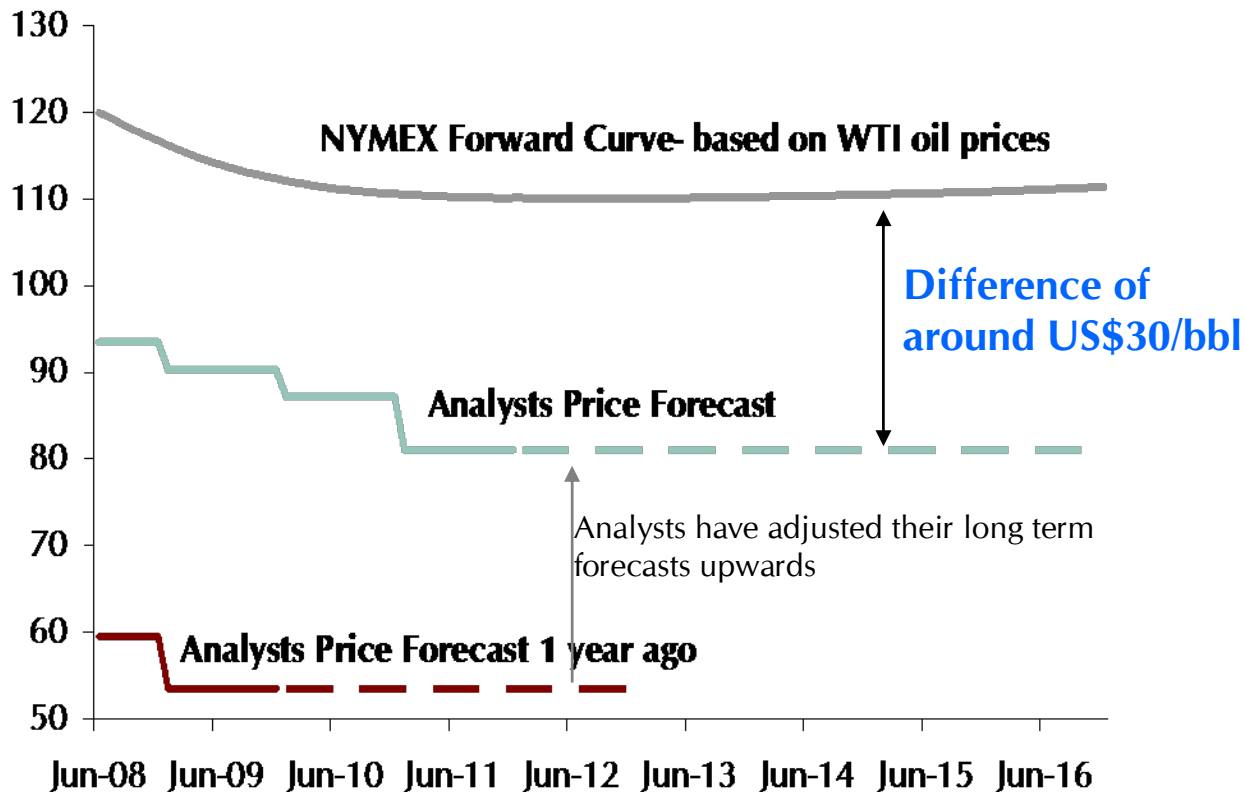
One year ago....



Source: Bloomberg (NYMEX forward curve), broker consensus based on 8 brokers estimates reported between Feb-07 to May-07

Oil price: forward curve vs forecast

Today....



Source: Bloomberg (NYMEX forward curve), and analysts price forecasts. Analysts price forecasts based on average of 32 analysts forecasts between Jan-08 to May-08.

What will be the catalysts for a re-rating?



- Board and management delivering on projects
- Near term production in an environment of record high oil prices
- Building balance sheet strength
- Sheer weight of cash flow from production
- Analysts upgrading their oil price assumptions in line with the forward curve
- Corporate activity

Top ten reasons why running a small/mid cap oil and gas company is like having a baby



- 10 The first 6 – 8 weeks (longer?) after birth are very hard work for very little reward
- 9 They can make you both laugh and cry in equal measure
- 8 Given the commitment required, your wife/husband needs to be fully on board if either project is going to be a success
- 7 Getting good staff is both important, and extremely difficult
- 6 You have to be very careful to manage pollution and emission issues
- 5 Indeed, you're likely to have serious gas handling issues with both....
....but flaring is not an option with babies
- 4 Sometimes you wish they would grow up, move out and start earning their keep...
...but then, maybe you might miss them
- 3 Surprisingly, while permitting issues for oil and gas companies can be a real problem, there are no licence requirements for having a baby...
...but perhaps there should be
- 2 They can both make you look stupid in public
- 1 Just when you think you have finally worked it all out, you turn your back for a second and everything turns to sh....



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