



29 March 2010

52-wk Range: £0.27-1.34  
12-month target: £1.00

Market Cap (M): £174.4  
EV (M): £174.4

## Oil & Gas

## Is this the end of Liz?

### Summary

Desire Petroleum plc is a UK company listed on the Alternative Investment Market (AIM), dedicated to exploring for oil and gas in the North Falkland Basin.



### Key Metrics

Shares Outstanding (M): 325.p  
Current Price (GBP): £0.54

### Event

Desire Petroleum plc announced that the Liz 14/19-1 well, in the North Falkland Basin, has reached a depth of 3570m and logging is underway. The primary Liz target was encountered at around 2550m with indications of hydrocarbons while drilling. Subsequent logging operations have shown that oil may be present in thin intervals but that reservoir quality is poor. Wireline sampling is still to be carried out. Deeper gas shows have also been encountered while drilling, particularly below 3400m and these have still to be evaluated by wireline logging and sampling. Until the logging is complete and the results analysed it will not be possible to determine the significance of the hydrocarbons encountered and whether the well will need to be drilled deeper, suspended for testing or plugged and abandoned. Operations are expected to be completed later this week when a full announcement will be made.

### Comment

The lack of good reservoir is a disappointment but not unexpected in this type of environment; however, the well was testing a fan/channel system well defined on 3D seismic data and the lack of sands is somewhat surprising. A possible explanation is that the well is located too much updip from the sand channel and might have to be sidetracked downdip, although the chance of that being the case is extremely low. Hence it is too early to draw definite conclusions before logging results are available. Nevertheless the Company had to put a press release out given press speculations.

Liz had gross unrisksed prospective resources of some 360MMbbl or some 70MMbbl net and risksed which contributed about 50p to our 150p NAV for the Company. Hence in the event of a dry well the adjusted NAV would be about 100p.

### Recommendation

We maintain our Hold rating on the stock with a provisional 100p price target.

The well results in the North Falkland region have no impact whatsoever on the prospectivity of Borders & Southern or Falkland Oil & Gas. Those two companies operate in the South Falkland basin, a region with a very different geological and structural setting as noted in our previous research report (FDC Feb 2010). Hence no change of view on those two stocks.

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### Lionel Therond

Lionel has worked at Fox-Davies since April 2009. Prior to this, he had 13 years experience as an investor at JPMorgan Asset Management and had previously spent 10 years in the Oil&Gas industry at Shell. Lionel graduated in Geology and Geophysics (MSc) before gaining an MBA at Insead; he is also a CFA charterholder.

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Research disclosure as of 29 March 2010

| Company Name     | Disclosure |
|------------------|------------|
| Desire Petroleum | 7          |

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|                     |  |
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Fox-Davies corporate client & coverage universe as of 29 March 2010

| Company                      | Ticker         | Recommendation | Date     | Target Price | Last Price |
|------------------------------|----------------|----------------|----------|--------------|------------|
| Oil & Gas                    |                |                |          |              |            |
| Ascent Resources             | AST LN Equity  | BUY            | 23.03.10 | £0.20        | £0.05      |
| Borders & Southern Petroleum | BOR LN Equity  | BUY            | 01.02.10 | £1.50        | £0.52      |
| Circle Oil                   | COP LN Equity  | BUY            | 25.03.10 | £0.80        | £0.37      |
| Desire Petroleum             | DES LN Equity  | HOLD           | 29.03.10 | £1.00        | £0.54      |
| Enegi Oil                    | ENEG LN Equity | HOLD           | 17.12.09 | £0.10        | £0.10      |
| Falklands Oil & Gas          | FOGL LN Equity | BUY            | 01.02.10 | £4.00        | £1.21      |
| Gulf Keystone                | GKP LN Equity  | BUY            | 15.03.10 | £2.00        | £0.81      |
| Gulfsands Petroleum          | GPX LN Equity  | HOLD           | 23.03.10 | £3.00        | £3.29      |
| Matra Petroleum              | MTA LN Equity  | BUY            | 26.01.10 | £0.11        | £0.05      |
| Max Petroleum                | MXP LN Equity  | BUY            | 24.03.10 | £0.50        | £0.19      |
| Petrokamchatka               | PKP CN Equity  | HOLD           | 14.01.10 | C\$0.15      | C\$0.095   |
| Po Valley                    | PVE AU Equity  | BUY            | 16.10.09 | A\$3.00      | A\$1.25    |
| Range Resources              | RRL LN Equity  | BUY            | 17.12.09 | £0.08        | £0.03      |
| Rockhopper Exploration       | RKH LN Equity  | HOLD           | 01.02.10 | £1.10        | £0.40      |
| San Leon Energy              | SLE LN Equity  | NA             | NA       | NA           | £0.19      |
| Sterling Energy              | SEY LN Equity  | HOLD           | 01.02.10 | £1.50        | £1.56      |
| Tower Resources              | TRP LN Equity  | HOLD           | 23.03.10 | £0.02        | £0.01      |
| Victoria Oil & Gas           | VOG LN Equity  | BUY            | 09.03.10 | £0.09        | £0.04      |

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