



UNITED KINGDOM



COV LN	Outperform
Price 11 May 11	£0.89
12-month target	£ 1.50
12-month TSR	% +69.5
Valuation	£ 1.61
- DCF (WACC 10.0%)	
GICS sector	Energy
Market cap	£m 435
30-day avg turnover	£m 1.4
Market cap	US\$m 710
Number shares on issue	m 491.0

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Revenue	m	0.0	0.5	0.8	1.0
EBIT	m	-1.9	-5.2	-3.7	-3.5
Reported profit	m	-1.6	-4.2	0.3	-0.4
Adjusted profit	m	-1.6	-4.2	0.3	-0.4
Gross cashflow	m	-1.6	-4.2	0.3	-0.4
CFPS	US\$	-0.02	-0.01	0.00	0.00
CFPS growth	%	nmf	33.6	nmf	nmf
PGCFPS	x	nmf	nmf 2,689.0	nmf	nmf
EPS adj	US\$	-0.02	-0.01	0.00	0.00
EPS adj growth	%	nmf	33.4	nmf	nmf
PER adj	x	nmf	nmf 2,904.9	nmf	nmf
Total DPS	US\$	0.00	0.00	0.00	0.00
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-2.6	-2.9	-1.3	-1.2
ROE	%	-2.4	-2.4	0.1	-0.2
EV/EBITDA	x	-172.9	-123.6	-173.3	-183.9
Net debt/equity	%	-74.0	-76.8	-66.0	-39.3
P/BV	x	5.7	2.6	2.6	2.6

Source: FactSet, Macquarie Research, May 2011
(all figures in USD unless noted)

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12 May 2011
Macquarie Capital (Europe) Limited

Cove Energy

Gassing up in East Africa

Emerging gas frontier offshore Mozambique

We initiate coverage of Cove Energy with an Outperform recommendation and a 150p price target, implying a total return of 65%. Four discoveries over the last 15 months in the deepwater Rovuma basin offshore Mozambique have opened up the region as an emerging gas frontier. While the operator has not yet formally defined the resource base, it has referenced greater than 6tcf of discovered resources, and we believe this resource could be de-risked to 12tcf by the 2011 appraisal drilling programme.

Discount to discovered undeveloped

We derive a risk-adjusted Core NAV of 131p/sh (US\$1.1bn) assuming Cove's participation in a 12tcf LNG development on-stream from 2019. Our analysis implies Cove is currently trading at a 30% discount to Core NAV set against a peer group which on average trades at parity to Core NAV.

Fully funded exploration and appraisal

Expected end-2010 net cash balances of +US\$200m means Cove is fully funded for a multi-year drilling campaign comprising +20 exploration and appraisal wells across its growing East African portfolio. Acknowledging limited disclosures to date on the prospectivity of this campaign, we estimate fully de-risking the near-term drilling activity has the potential to add 25% to our 150p price target.

Strategically well positioned

We believe the global reaction to recent events at the nuclear power generation facilities at Fukushima, Japan will ultimately lead to a tightening global LNG market. This would make Cove's gas resources offshore Mozambique well positioned to capture any uptick in demand for LNG into Asia. East Africa is an emerging hydrocarbon frontier with a number of IOC, NOC and Independent operators planning high-impact, multi-year exploration campaigns across the region. Given our positive macro view on LNG prices into Asia and an expected near-term uptick in drilling activity around their portfolio, we believe the Cove portfolio is extremely attractive and we would not be surprised if management were to crystallise the value of their Area-1 asset ahead of a capital intensive LNG development.

Valuation

Our analysis of what we believe to be the most likely LNG development scenario at this stage derives a risk-adjusted Core NAV of 131p/sh (US\$1.1b) and RENAV of 161p/sh (US\$1.3b). Accounting for near-term exploration and appraisal we set a price target of 150p/sh.

Risks

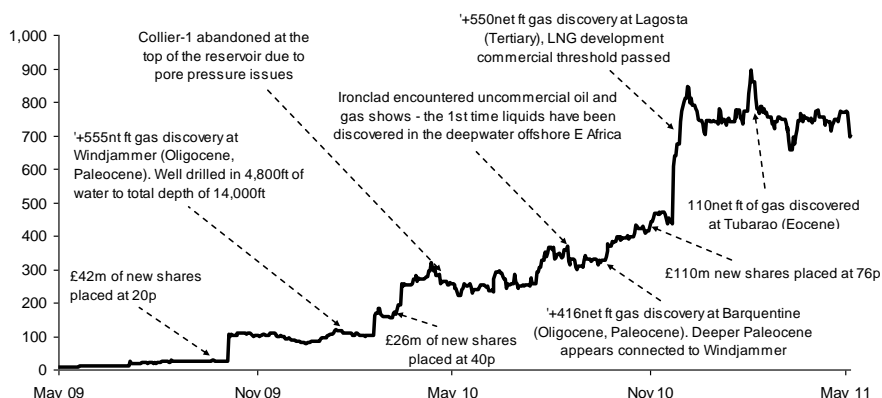
Despite one of the most material discovered undeveloped asset bases in our coverage universe 80% of our Cove RENAV is supported by discovered undeveloped assets. Other key risks to our valuation include our assumptions on LNG pricing, project delivery and exploration risk.

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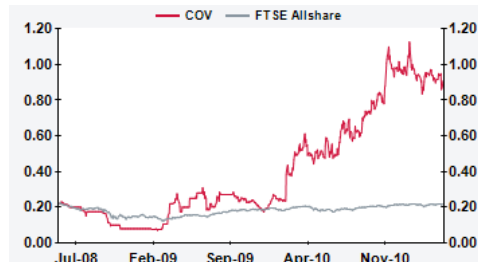
Fig 1 Cove market cap evolution and key events (US\$m)



Source: Company data, Facset, Macquarie Research, May 2011

- Cove Energy is an East Africa focused independent exploration and production company with 10 licenses across Mozambique, Tanzania and Kenya. Cove's principal asset is its 8.5% equity in Area-1 in the deepwater offshore Mozambique where a series of successful exploration wells over the last 15 months have resulted in preliminary assessments of recoverable gas +12tcf.

Fig 2 COV LN vs FTSE Allshare



Source: FactSet, Macquarie Research, May 2011 (all figures in USD unless noted)

Fig 3 Cove Energy RENAV and Target Price

Cove Energy plc					
	MMBOE	Unit value (\$/BOE)	Fiat Pricing PV AT \$mm	p/Sh	RENAV composition
Assets (NPV10)					
Producing Assets	0.3	8.34	3	0.3	0%
Cash/(Net Debt) (US\$ mm)		na	216	26.7	17%
Undeveloped Assets	142.2	5.97	849	104.9	65%
Other assets less G&A			(9)	(1.1)	
Core NAV	142.5	7	1,059	131p	81%
Current Price/NAV					70%
Option Proceeds (US\$ mm)			5	0.6	
Risked Upside	68.6	4	242	29.9	19%
RENAV			1,306	161p	100%
			Target Price	150p	
			Current Stock Price	91p	
			Upside	65%	
			Near-term exploration risked upside	20.2p	
			Near-term exploration unrisked upside	57.6p	
			Near-term risked / unrisked delta	37.4p	

Source: Macquarie Research, May 2011; current stock price as of the close on May 10, 2011

Gassing up in East Africa

We initiate coverage of Cove Energy with an Outperform rating and a 150p price target, implying an expected total return of 65%. Cove is an East Africa focused independent E&P company and its main asset is an 8.5% interest in Area-1 offshore Mozambique where we believe at least 12tcf of natural gas has been discovered over the last 15 months.

30% discount to Core NAV

The crux of our Outperform recommendation is a firm belief that Cove has now discovered sufficient gas resources to justify a liquefied natural gas (LNG) development. However, we do not expect a final investment decision on the project until end-2013 with a multi-rig exploration and appraisal campaign planned from 2H 2011 to 2013. Our analysis of a potential development scenario implies a Cove RENAV of 161p/sh (\$1.3b). Accounting for near-term exploration and appraisal we set a price target of 150p/sh.

development crystallisation opportunity with fully-funded multi-year drilling

Cove stands out as a deep value development play trading at a 30% discount to our Core NAV – a 30% discount to its peer group. Acknowledging that Cove and its partners are yet to sanction a full development offshore Mozambique and the resulting development risks associated with a project of this magnitude (~US\$10b gross investment), we believe this stock is still an attractive development crystallisation opportunity with a fully-funded multi-year drilling programme set to start from 2H 2011.

de-risking the near-term drilling campaign could add 37p/sh to our valuation

We believe Cove's net share of discovered undeveloped resources to date could be over 140mboe providing the stock with robust valuation support. With expected net cash balances of +US\$200m at end-2010, the company is well funded into a busy three year exploration and appraisal drilling schedule which we would argue at the very least will add confidence on resource volumes at discoveries to date (incremental 20p/sh). With a second drilling rig expected offshore Mozambique before year-end as Cove embarks on a series of exploration wells across Area-1 we believe our estimates on volumetrics remain skewed to the upside and de-risking the near-term drilling campaign could add 37p/sh to our valuation (25%). We also believe Cove's expanding portfolio elsewhere in East Africa has the potential to materially add value in the medium-term while our positive view on global gas markets and LNG prices into Asia leads us to believe Cove is well positioned strategically.

Fig 4 Cove Energy RENAV

Cove Energy Asset Breakdown After anticipated farm-downs

Country	Asset	Gross Res. Potential (TCF)	Gross Res. Potential (mboe)	Working Interest (%)	Costs Paid (%)	Gross Well Costs (US\$ mm)	C.O.S. (%) ¹	Discounted Value/Boe (US\$/Boe) ²	Net Risked (mboe)	EMV (US\$ mm) ³	US\$/sh (FD)	p/sh (FD)	Unrisked Value (p/sh) ⁴
Producing Assets													
Tanzania	Mnazi Bay onshore - current 2mmscfd	0.0	2.1	16.4%	0.0%	0.0	100%	\$ 8.3	0.3	2.8	0.01	0.3	0.3
									0.3	2.8		0.3	0.3
Undeveloped assets													
Mozambique	Rovuma Offshore Area 1 - LNG	12.0	2040.0	8.5%	8.5%	0.0	70%	\$ 6.3	121.4	759.6	1.50	93.9	134.1
Mozambique	Rovuma Offshore Area 1 - Tubarão - LNG	2.0	340.0	8.5%	8.5%	0.0	70%	\$ 4.2	20.2	85.2	0.17	10.5	15.0
Tanzania	Mnazi Bay onshore - expansion 6mmscfd	0.0	5.8	16.4%	16.4%	0.0	60%	\$ 7.7	0.6	4.4	0.01	0.5	0.9
									142.2	849.2		104.9	150.0
Risked Upside													
Mozambique	Rovuma Offshore Area 1 - LNG upside	4.0	680.0	8.5%	8.5%	0.0	33%	\$ 4.2	19.1	80.4	0.16	9.9	30.1
Mozambique	Rovuma offshore Area 1 - Atum-1	1.0	170.0	8.5%	8.5%	0.0	25%	\$ 4.2	3.6	15.2	0.03	1.9	7.5
Mozambique	Rovuma offshore Area 1 - Atum-2	1.0	170.0	8.5%	8.5%	0.0	10%	\$ 4.2	1.4	6.1	0.01	0.8	7.5
Mozambique	Rovuma Offshore Area 1 - Golfinho-1	1.0	170.0	8.5%	8.5%	0.0	25%	\$ 4.2	3.6	15.2	0.03	1.9	7.5
Mozambique	Rovuma Offshore Area 1 - Linguado-1	1.0	170.0	8.5%	8.5%	0.0	25%	\$ 4.2	3.6	15.2	0.03	1.9	7.5
Mozambique	Rovuma Offshore Area 1 - Badejo-1	1.0	170.0	8.5%	8.5%	0.0	25%	\$ 4.2	3.6	15.2	0.03	1.9	7.5
Mozambique	Rovuma Offshore Area 1 - Camarao	1.0	170.0	8.5%	8.5%	0.0	25%	\$ 4.2	3.6	15.2	0.03	1.9	7.5
Mozambique	Rovuma Onshore - Well-1	0.5	85.0	10.0%	10.0%	0.0	5%	\$ 2.4	0.4	1.0	0.00	0.1	2.6
Mozambique	Rovuma Offshore Area 1 - Golfinho-2	1.0	170.0	8.5%	8.5%	0.0	5%	\$ 4.2	0.7	3.0	0.01	0.4	7.5
Mozambique	Rovuma Offshore Area 1 - Linguado-2	1.0	170.0	8.5%	8.5%	0.0	5%	\$ 4.2	0.7	3.0	0.01	0.4	7.5
Mozambique	Rovuma Offshore Area 1 - Badejo-2	1.0	170.0	8.5%	8.5%	0.0	5%	\$ 4.2	0.7	3.0	0.01	0.4	7.5
Mozambique	Rovuma Offshore Area 1 - Black Pearl	1.0	170.0	8.5%	8.5%	0.0	5%	\$ 4.2	0.7	3.0	0.01	0.4	7.5
Mozambique	Rovuma Offshore Area 1 - Enchova-1	1.0	170.0	8.5%	8.5%	0.0	5%	\$ 4.2	0.7	3.0	0.01	0.4	7.5
Mozambique	Rovuma Offshore Area 1 - Barracuda-1	1.0	170.0	8.5%	8.5%	0.0	5%	\$ 4.2	0.7	3.0	0.01	0.4	7.5
Kenya	Offshore well-1	2.0	340.0	10.0%	15.0%	0.0	5%	\$ 2.2	1.7	3.8	0.01	0.5	9.3
Kenya	Offshore well-2	2.0	340.0	10.0%	15.0%	0.0	5%	\$ 2.2	1.7	3.8	0.01	0.5	9.3
Mozambique	Rovuma Offshore Area 1 - Enchova West	1.0	170.0	8.5%	8.5%	0.0	5%	\$ 4.2	0.7	3.0	0.01	0.4	7.5
Mozambique	Rovuma Offshore Area 1 - Cavala-1	1.0	170.0	8.5%	8.5%	0.0	5%	\$ 4.2	0.7	3.0	0.01	0.4	7.5
Mozambique	Rovuma Offshore Area 1 - Caravelo-1	1.0	170.0	8.5%	8.5%	0.0	5%	\$ 4.2	0.7	3.0	0.01	0.4	7.5
Mozambique	Rovuma Offshore Area 1 - Orca	1.0	170.0	8.5%	8.5%	0.0	5%	\$ 4.2	0.7	3.0	0.01	0.4	7.5
Mozambique	Rovuma Offshore Area 1 - Frigate	1.0	170.0	8.5%	8.5%	0.0	5%	\$ 4.2	0.7	3.0	0.01	0.4	7.5
Mozambique	Rovuma Onshore - Well-2	0.5	85.0	10.0%	10.0%	0.0	5%	\$ 2.0	0.4	0.9	0.00	0.1	2.1
Tanzania	Mnazi Bay onshore - expansion 500mmscfd	3.7	620.5	16.4%	16.4%	0.0	15%	\$ 2.0	15.2	30.8	0.06	3.8	25.4
Tanzania	Mnazi Bay Well-1	0.5	85.0	20.5%	20.5%	0.0	10%	\$ 2.0	1.7	3.5	0.01	0.4	4.3
Tanzania	Mnazi Bay Well-2	0.5	85.0	20.5%	20.5%	0.0	5%	\$ 2.0	0.9	1.8	0.00	0.2	4.3
									68.6	241.6		29.9	215.5
Total Risked Exploration Value			7598						211	1094	2.16	135	366

Notes
 1. C.O.S. - Probability of Success - Includes all risk factors such as geological, commercial, development, political etc.
 2. Value/Boe - Includes proximity to established infrastructure, development capex required & oil quality
 3. EMV - Expected Monetary Value - a risk weighted value. EMV = (Reward*C.O.S.)
 4. Unrisked Value - Refers to the value that could potentially be realized if success was achieved on prospect.

Fully Diluted Shares O/S (mm) 505.8
 GBP/USD 1.60

Source: Macquarie Research, May 2011

Our Outperform recommendation revolves around three key points:

fully funded for a multi-year drilling campaign

- **Discount to discovered undeveloped** – We derive a risk-adjusted Core NAV of 131p/sh (US\$1.1bn) based on Cove's participation in both the upstream (8.5%) and liquefaction (13%) of a potential 12tcf LNG development on-stream from 2019. This implies the stock is currently trading at a 30% discount to Core NAV versus its peers trading at parity to Core.
- **Fully-funded exploration and appraisal** – With expected end-2010 net cash balances of +US\$200m we believe Cove is fully funded for a multi-year drilling campaign comprising more than 20 exploration and appraisal wells throughout East Africa. Acknowledging limited disclosures to date on prospectivity, we suggest fully de-risking the near-term campaign has the potential to add 25% to our price target of 150p/sh.
- **Strategically well positioned** – We believe that the global reaction to recent events at the nuclear power generation facilities at Fukushima, Japan will ultimately lead to a tightening global LNG market making Cove's gas resources well positioned to capture any uptick in demand for LNG into Asia. East Africa is an emerging hydrocarbon frontier with a number of operators planning high-impact, multi-year exploration campaigns across the region. Given our positive macro view on LNG prices into Asia and an expected near-term uptick in drilling activity around their portfolio, we believe Cove's portfolio is extremely attractive and we would not be surprised if management were to crystallise the value of their Area-1 asset ahead of what will be a capital intensive LNG development.

Fig 5 Cove near-term catalysts

Catalysts	Comment	Potential valuation uplift
Results of 3D seismic over "Quirimbas"	3D seismic over the oily southern region of Area-1 to identify liquid prospects, results expected in 3Q 2011	5-10p/sh
Arrival of Deepwater Millenium	2nd drillship due in Mozambique in 4Q 2011 to conduct appraisal drilling programme	15-20p/sh
Results of 3D seismic over "Cabo Delgado"	3D seismic over northern region of Area-1 to provide new info on gas discoveries and new prospects, results expected towards end-2011	5-10p/sh

Source: Company data, Macquarie Research, May 2011

Investment risks

Despite one of the most material discovered undeveloped asset bases in our coverage universe less than 1% of our Cove 161p/sh RENAV is supported by assets in production. As a result Cove could be viewed as one of the highest risk investment opportunities in our coverage universe and we do not forecast material earnings until 2019. Conversely, given the discount to our estimate of the potential monetisation of discovered undeveloped resources and a planned uptick in exploration and appraisal activity, the stock could also be viewed as one of the lowest risk stocks under coverage. The following factors could cause the Cove share price to materially deviate from our target price;

LNG price – We use our US\$90/b long term WTI price assumption to derive a long term LNG sales price of US\$13.1/mscf. While spot LNG prices are currently ~US\$12/mscf in North Asia, any material long term weakening in LNG prices could result in the Cove share price deviating versus our expectations.

Development risk – 80% of our Risked Core NAV is attributed to discovered undeveloped assets. Realisation of this value will depend on successful project execution / commercialisation.

Exploration risk – A substantial portion of our Cove RENAV (19%) is dependent on risked exploration and appraisal value. Drilling results that fail to meet pre-drill guidance could result in the stock failing to reach our valuation target.

Physical risk – Unforeseen physical threats to infrastructure associated with Cove's production/development/exploration assets and infrastructure could materially impact Cove's share price.

Political risk – Potential changes to the political/fiscal environment in the countries Cove operates in could impact the company's valuation compared to our expectations.

80% of our Risked Core NAV is attributable to discovered undeveloped assets

Cove Energy Strategy

The Cove management aim to identify and acquire oil and gas assets in the early phase of the upstream life cycle and mature them into marketable opportunities for medium and larger sized oil and utility companies. Specifically, Cove's strategy is to focus on geologically driven opportunities targeting:

- Young basins – showing signs of a working petroleum system
- Seismic de-risked prospects – which “light up” on 3D seismic
- Emerging basins – as they offer better terms and bigger prospects
- Joint ventures – with good operators
- Size matters – large prospects
- Running room

Fig 6 Cove Energy summary portfolio

Country	License	Cove Energy equity (%)	Description	2011-13 planned activity	Macquarie EMV (\$m)	Macquarie EMV (p/sh)
Mozambique	Rovuma Offshore Area-1	8.5	+12tcf discovered undeveloped gas resources	multiple exploration and appraisal wells, 3D seismic in 1H 2011, FEED	1,041	128
	Rovuma Onshore Block	10	Exploration asset	2D seismic in 3Q 2011, two exploration wells	2	0
Tanzania	Mnazi Bay	16, 21	Partially developed gas discovery awaiting further development and appraisal	3D seismic in 4Q 2011	43	5
Kenya	L5, L7, L11a, L11b, L12 (L10a and L10b tbc)	15, 25, 15	Deepwater frontier exploration licenses	3D seismic in 2011, potentially drilling in 2012	8	1
					1,094	134

Source: Company data, Macquarie Research, May 2011

Discount to discovered undeveloped

We derive a Cove Energy RENAV of 161p/sh (US\$1,253) and set a price target of 150p/sh. This implies a total return of 65%.

Fig 7 Cove Energy RENAV and Target Price

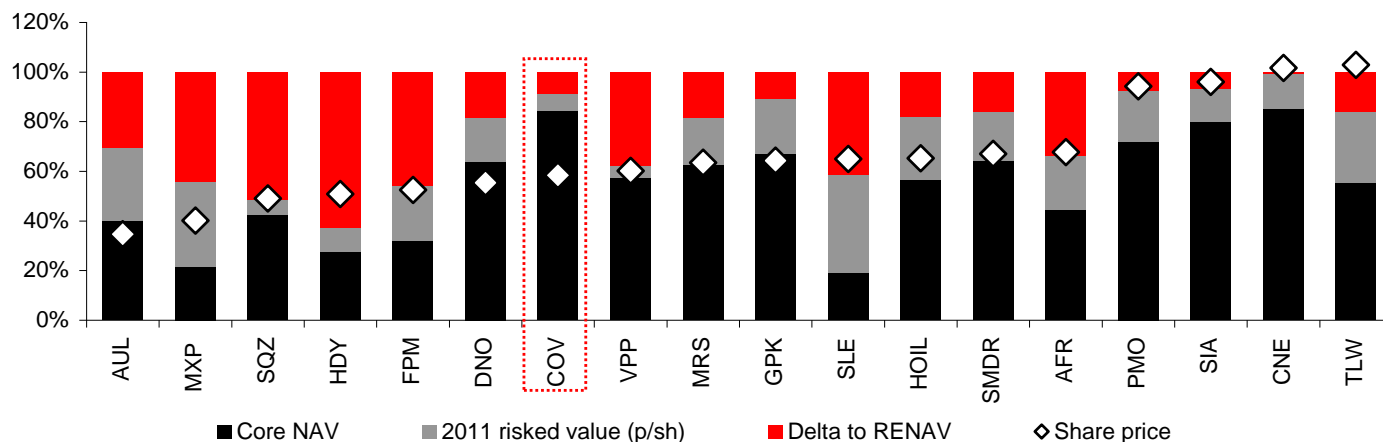
Cove Energy plc					
	MMBOE	Unit Value (\$/BOE)	Flat Pricing PV AT \$mm	p/Sh	RENAV composition
Assets (NPV10)					
Producing Assets	0.3	8.34	3	0.3	0%
Cash/(Net Debt) (US\$ mm)		na	216	26.7	17%
Undeveloped Assets	142.2	5.97	849	104.9	65%
Other assets less G&A			(9)	(1.1)	
Core NAV	142.5	7	1,059	131p	81%
<i>Current Price/NAV</i>				70%	
Option Proceeds (US\$ mm)			5	0.6	
Risked Upside	68.6	4	242	29.9	19%
RENAV			1,306	161p	100%
Target Price				150p	
Current Stock Price				91p	
Upside				65%	
Near-term exploration risked upside				20.2p	
Near-term exploration unrisked upside				57.6p	
Near-term risked / unrisked delta				37.4p	

Source: Macquarie Research, May 2011; current stock price as of the close on May 10, 2011

a development crystallisation value play

Trading at a 30% discount to our risked Core NAV, Cove stands out as a development crystallisation value play amidst a peer group which is trading at parity to Core. While Cove and its partners are still in the FEED stages of their US\$10b development in Mozambique, we believe sufficient gas volumes have now been discovered to justify a commercial LNG development and we expect the partnership to FID the project by end-2013.

Fig 8 UK E&P sector premium/discount to RENAV



Source: FactSet, Macquarie Research, May 2011

LNG development economics

We estimate a potential LNG development project gross point-forward NPV10 of US\$10.5bn and a project IRR of 24.6%. This base case scenario assumes a 12tcf offshore upstream development linked to onshore liquefaction facilities with first gas expected in early 2019.

The key assumptions underpinning our project development economics are;

life-of-field capital spend of US\$12.4bn

- Gross life-of-field capital spend of US\$12.4bn – (including exploration and appraisal spend of US\$2.5bn of which US\$0.4bn has already been spent). As shown in Figure 7, our development cost assumptions comprise US\$4.7bn for a Tension-Leg Platform and US\$5.2bn for three liquefaction trains.

Fig 9 Development costs summary

12tcf	US\$bn	US\$/boe	US\$/tonne
Upstream upfront costs	2,900	1.42	242
Upstream drilling costs	1,800	0.88	150
Total upstream costs	4,700	2.30	392
Liquefaction Initial train	2,000	2.94	500
Liquefaction Second train	1,600	2.35	400
Liquefaction Third train	1,600	2.35	400
Total liquefaction costs	5,200	2.55	433
TOTAL Devex	9,900	4.85	825

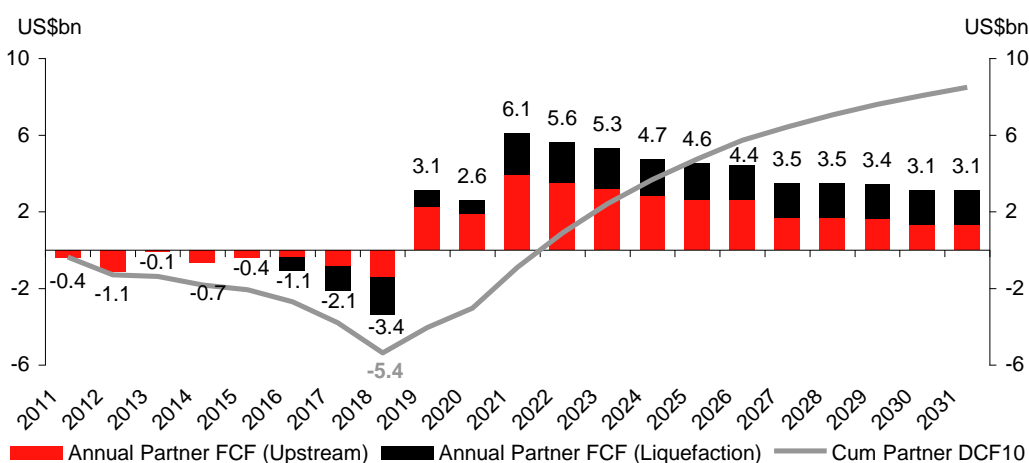
Source: Company data, Macquarie Research, May 2011

- Average operating costs are assumed at 3% of capex, or US\$2.74/boe (US\$291m p.a.).
- Our current assumption is liquefaction costs are outside the PSC and as a result a transfer price is established at ~36% price allocation for the liquefaction stream. Based on our US\$90/b long term WTI oil price assumption, we calculate a long term LNG sales price of US\$13.1/mscf and an implied transfer price of US\$8.3/mscf. A more detailed discussion of the implications of excluding the liquefaction facilities from the PSC can be found at the back of this report.

PSC (upstream):
Anadarko (op.) - 36.5%
Mitsui - 20%
BPRL - 10%
Videocon - 10%
Cove Energy - 8.5%
ENH* - 15%
 * carried to development

Outside PSC (liquefaction):**
Anadarko - 0%
Mitsui - 31%
BPRL - 16%
Videocon - 16%
Cove Energy - 13%
ENH - 24%
 ** assumed interests

Fig 10 Project Economics and discounted FCF (Concessionaire group)



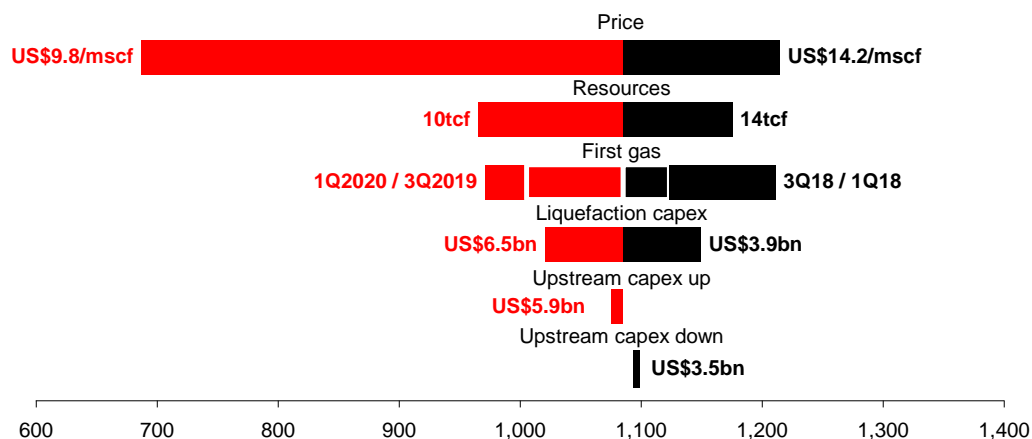
Source: Company data, Macquarie Research, May 2011

Our mid-case project NPV10 net to Cove is US\$1.1bn and a project IRR of 24.4%. This is slightly different from 8.5% of the project gross NPV due to the carried interest of the Mozambique national oil company ENH through the exploration and appraisal period, varying participation in the upstream and liquefaction streams as described on the left; and Cove royalty payment of 4.95% of profit oil share to Artumas (as agreed at time of farm-in).

Project sensitivities at 12tcf base case

The potential LNG development we have modelled is robust under various sensitivities shown below in Figure 11. Our pricing assumption appears to be one of the biggest swing factors in our un-risked project NPV net to Cove of US\$1,085m.

Fig 11 Project NPV sensitivities net to Cove (12tcf base case, US\$m)



Source: Company data, Macquarie Research, May 2011

LNG seller will get 14.5% of the oil price

- We currently assume that the LNG contract will be priced proportionally to oil and that various oil price bands will allow different percentage linking. In the mid range between US\$40/b and US\$90/b inclusive, the LNG seller will get 14.5% of the oil price. This ratio drops to 5% of any increment outside the mid range. Given our long term oil price assumption of US\$90/b (at the upper limit of the mid range) a 25% increase in the underlying oil price results in only an 8% increase in the realised LNG price to US\$14.1/mscf will result in limited upside to Cove as project value leaks downstream of the liquefaction facility. Conversely an oil price that is 25% lower leads to a LNG price that is also 25% lower resulting in a more marked impact on our implied Cove valuation. Our assumption on LNG pricing is therefore one of the most material risks to our assumptions.
- Sensitivity around first gas differs markedly between a six-month and a 12-month period. We note the relatively marginal valuation impact between a six-month delay and a twelve-month delay contrasted against the material impact to valuation by flexing project start date by six-months. First gas 12 months ahead of our expectations increases our NPV net to Cove 12% compared to 4% in the case the project commences commercial operations 6 months ahead of our expected start-2019 date.
- The terms of the PSC provide a reasonably robust cushion for increases in upstream capex, but limit the upside in case of project savings. The negative impact on NPV is due to lower cost oil. This is contrasted by the predictable impact liquefaction capex savings and overruns have on project economics.

Our valuation of the project economics is within the range described by the operator, Anadarko, which referenced US\$3-5b for its equity interest, implying US\$8-14b for the full project, or US\$935m for Cove's 8.5% (in the middle of its range). Cove has separately published its own view of the project NPV net to the company in a range of US\$644-US\$1,085m.

*potentially 11
exploration and
appraisal wells over
the next year*

Low-case (8tcf) and high-case (16tcf) resource developments

With the addition of a second drilling rig to the region in 4Q 2011 (potentially 11 exploration and appraisal wells over the next year) we believe there is merit in flexing our discovered resource estimates from our 12 tcf base case scenario.

Under the 16tcf scenario outlined below we add a fourth 4mmtpa LNG train starting up in 2022. Conversely an 8tcf development would only require two LNG trains compared to our three train base case scenario. We assume our opex assumptions on a unit basis remain the same as in our mid-case 12tcf development scenario.

Fig 12 Development costs comparison

	8tcf		12tcf		16tcf	
	US\$bn	US\$/unit	US\$bn	US\$/unit	US\$bn	US\$/unit
Upstream upfront costs	2,000	1.47	2,900	1.42	3,400	1.25
Upstream drilling costs	1,200	0.88	1,800	0.88	2,400	0.88
Total upstream costs	3,200	2.35	4,700	2.30	5,800	2.13
Liquefaction Initial train	2,000	500	2,000	500	2,000	500
Liquefaction Second train	1,600	400	1,600	400	1,600	400
Liquefaction Third train	0	0	1,600	400	1,600	400
Liquefaction Fourth train	0	0	0	0	1,600	400
Total liquefaction costs	3,600	450	5,200	433	6,800	425
Total capex	6,800	5.00	9,900	4.85	12,600	4.63

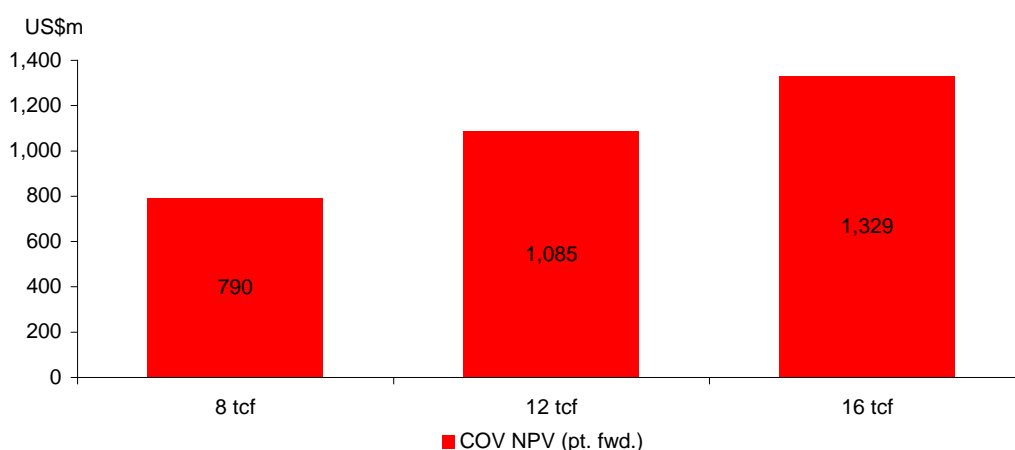
*US\$/boe for Upstream costs and Total capex

*US\$/tonne for liquefaction costs

Source: Company data, Macquarie Research, May 2011

Our analysis suggests the project remains robust under each development scenario, with the implied fully de-risked value net to Cove ranging from US\$1,329m (164p/sh) in the 16tcf scenario to US\$790m (98p/sh) in the 8tcf development.

Fig 13 De-risked project NPV net to Cove under different EUR scenarios



Source: Macquarie Research, May 2011

We extend this analysis one stage further, adjusting our LNG price assumptions under the differing resource ranges highlighted above. As we described earlier, our assumption on LNG pricing would appear to be one of the principal value drivers through the development process. Figure 13 also shows the implied project NPV net to Cove when we flex up/down our cost of capital from our current base assumption of 10% which is in-line with standard benchmarks across the industry.

Fig 14 Valuation sensitivity: Resource size vs LNG price

LNG price	Cove NPV (US\$m)		
	8 tcf	12 tcf	16 tcf
\$9.8/mscf	513	687	860
\$11/mscf (Cove est.)	616	839	1,040
\$13.1/mscf (Macquarie est.)	790	1,085	1,329
\$14.2/mscf	881	1,215	1,500

Source: Macquarie Research, May 2011

Fig 15 Valuation sensitivity: Resource size vs cost of capital

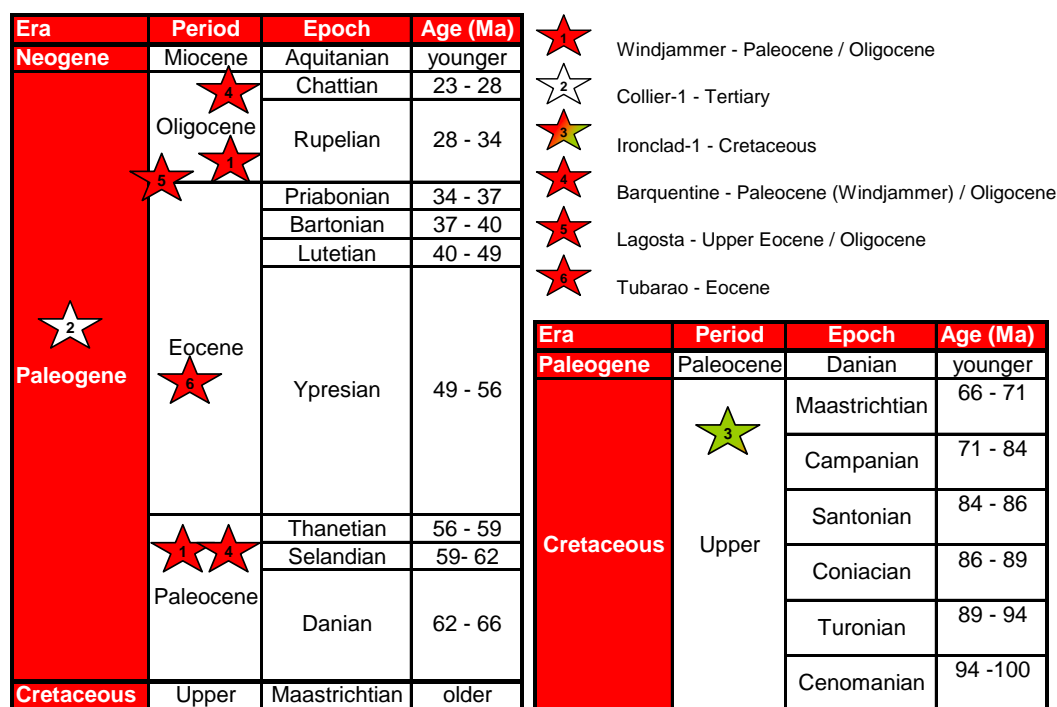
Cost of Capital	Cove NPV (US\$m)		
	8 tcf	12 tcf	16 tcf
6%	1,583	2,247	2,820
8%	1,118	1,562	1,935
10%	790	1,085	1,329
12%	558	749	908
14%	390	510	612

Source: Macquarie Research, May 2011

Fully-funded exploration and appraisal

Exploration success to date in Area-1 offshore Mozambique has resulted in four discoveries over a number of geological plays as shown in Figure 14 below. The partnership is currently conducting a full core analysis over all the proven gas reservoir intervals (Paleocene, Eocene, and Oligocene) and this data will be used in formulating a development plan for the commercialisation of the Area-1 gas discoveries.

Fig 16 Three different gas plays discovered: Oligocene, Eocene, and Paleocene

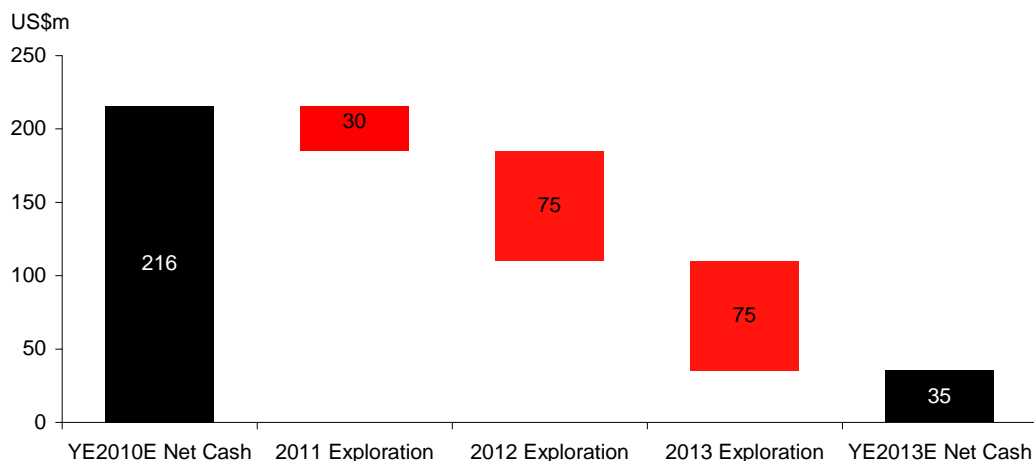


Source: Macquarie Research, May 2011

estimate Cove was +US\$200m net cash at end-2010

Following last November's £110m capital raising and entry into the new Kenyan licenses we estimate Cove was +US\$200m net cash at end-2010. We therefore believe Cove is fully funded for a multi-year drilling campaign comprising more than 20 exploration and appraisal wells throughout East Africa.

Fig 17 Cove cash flow evolution 2011-2013E

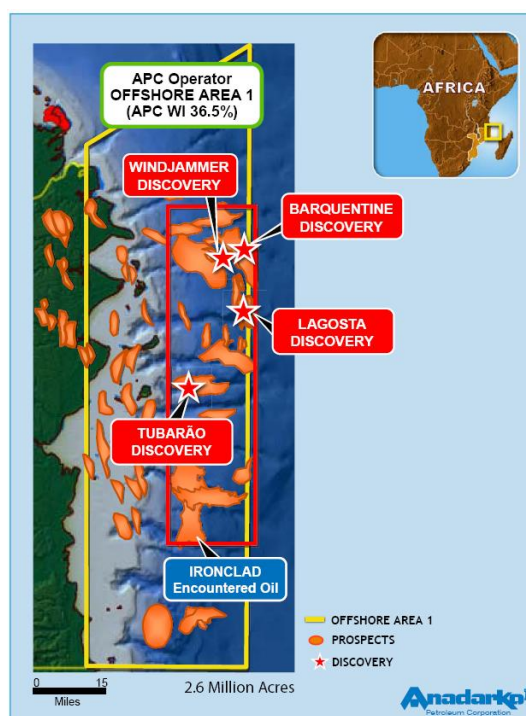


Source: Company data, Macquarie Research, May 2011

**expect further
guidance in 3Q 2011**

As the partnership is in the process of collection and interpreting new 3D seismic over Area-1 there has been limited guidance in terms of the prospectivity and the timing of future exploration and appraisal activity in the block. Therefore it is difficult to draw firm conclusions on the majority of the geological plays to be targeted in the upcoming round of exploration and appraisal activity at this stage. We expect further guidance in 3Q 2011 once the most recent 3D seismic over the more liquid prone “Quirimbas” southern part of Area-1 has been fully interpreted.

Fig 18 Mozambique Offshore Area – 1 discoveries



Source: Company data, May 2011

**the October 2010
Barquentine
discovery will be the
first to be appraised**

However, the partnership has now approved the contracting of the Deepwater Millennium drillship which is expected to commence appraisal operations in the region from 4Q 2011.

Cove has disclosed that the October 2010 Barquentine discovery will be the first to be appraised by the Deepwater Millennium drillship. At the time of the initial Barquentine discovery, Cove announced that it believed 108ft of gas bearing reservoir in Paleocene sands was connected to the Windjammer discovery 3km to the southwest. It would therefore appear logical that the partnership has decided to appraise Barquentine first.

**fully de-risking the
near-term
exploration and
appraisal campaign
has the potential to
add 17%**

We currently assume the remainder of the exploration targets in Offshore Area-1 are 1tcf gas prospects with varying chances of success. Collectively we estimate fully de-risking the near-term exploration and appraisal campaign has the potential to add 17% (25p/sh) to our 150p/sh price target. At this stage we would view the liquid potential to the south of Area-1 as potential upside to our estimates.

In addition to the proposed drilling campaign offshore Mozambique, Cove and their partners are also shooting a 2,448 sq km 3D seismic survey over the “Cabo Delgado” area in the northern section of Area-1. At the time of writing this survey is +30% complete. The northern section of the block lies between Cove’s Barquentine discovery and the Tanzanian border. This is close to BG’s recent Chaza-1 gas discovery in block 1 offshore Tanzania (see Figure 23).

Fig 19 Expected future drilling activity across all of Cove's portfolio (2011-2013 only)

Country	Area	Well / Prospect	Cove WI	2011e				2012e				2013e				Rig confirmed (Y/N)	Risked p/sh (FD)	Unrisked p/sh (FD)	Rig Name	Targeted Layer(s)
				1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q					
LNG Project Appraisal Phase - confirm 12tcf, potential to add another 4tcf																				
Mozambique	offshore	Barquentine 2	8.5%		■										Yes	} 9.9 includes Lagosta 4	} 30.1	Belford Dolphin		
Mozambique	offshore	Barquentine 3	8.5%		■	■	■							Yes	Belford Dolphin					
Test						■	■												Belford Dolphin	
Mozambique	offshore	Windjammer 3	8.5%				■							Yes					Belford Dolphin	
Mozambique	offshore	Barquentine 4	8.5%				■	■	■					Yes					DW Millennium**	
Mozambique	offshore	Lagosta 2	8.5%				■	■	■					Yes					DW Millennium	
Mozambique	offshore	Lagosta 3	8.5%				■	■	■					Yes					DW Millennium	
Mozambique	offshore	Atum 2	8.5%				■	■	■					Yes	0.8			7.5	DW Millennium	
Test							■	■	■					Yes					DW Millennium	
Mozambique	offshore	Lagosta 4	8.5%							■	■			Yes	^ included above			DW Millennium		
Mozambique	offshore	Golfinho 2	8.5%							■	■			Yes	0.4	7.5	DW Millennium			
Mozambique	offshore	Linguado 2	8.5%							■	■			No	0.4	7.5	DW Millennium***			
Mozambique	offshore	Badejo 2	8.5%							■	■			No	0.4	7.5	DW Millennium***			
Test										■	■			Yes			DW Millennium			
																11.8	60.2			
Exploration upside																				
Mozambique	offshore	Atum 1	8.5%		■ 3D		■							Yes	1.9	7.5	Belford Dolphin			
Mozambique	offshore	Golfinho 1	8.5%				■	■	■					Yes	1.9	7.5	Belford Dolphin			
Mozambique	offshore	Linguado 1	8.5%				■	■	■					Yes	1.9	7.5	Belford Dolphin			
Mozambique	offshore	Badejo 1	8.5%				■	■	■					Yes	1.9	7.5	Belford Dolphin			
Mozambique	offshore	Camarao 1	8.5%				■	■	■					Yes	1.9	7.5	Belford Dolphin			
Mozambique	offshore	Black Pearl	8.5%							■	■			Yes	0.4	7.5	Belford Dolphin	Eocene (Tubarão Analogue)		
Mozambique	offshore	Enchova 1	8.5%							■	■			Yes	0.4	7.5	DW Millennium			
Mozambique	offshore	Barracuda 1	8.5%							■	■			Yes	0.4	7.5	DW Millennium			
Kenya	offshore	Well 1	15.0%		■ 3D									No	0.5	9.3	DW Millennium***			
Kenya	offshore	Well 2	15.0%											No	0.5	9.3	DW Millennium***			
Mozambique	onshore	Well 1	10.0%			■ 2D		■						No	0.1	2.6	n/a			
Tanzania	Mnazi Bay	Well 1	20.5%				■ 3D							No			n/a			
																11.6	81.4			

* Rig is under contract until 1Q2013

■ Appraisal wells ■ Exploration wells

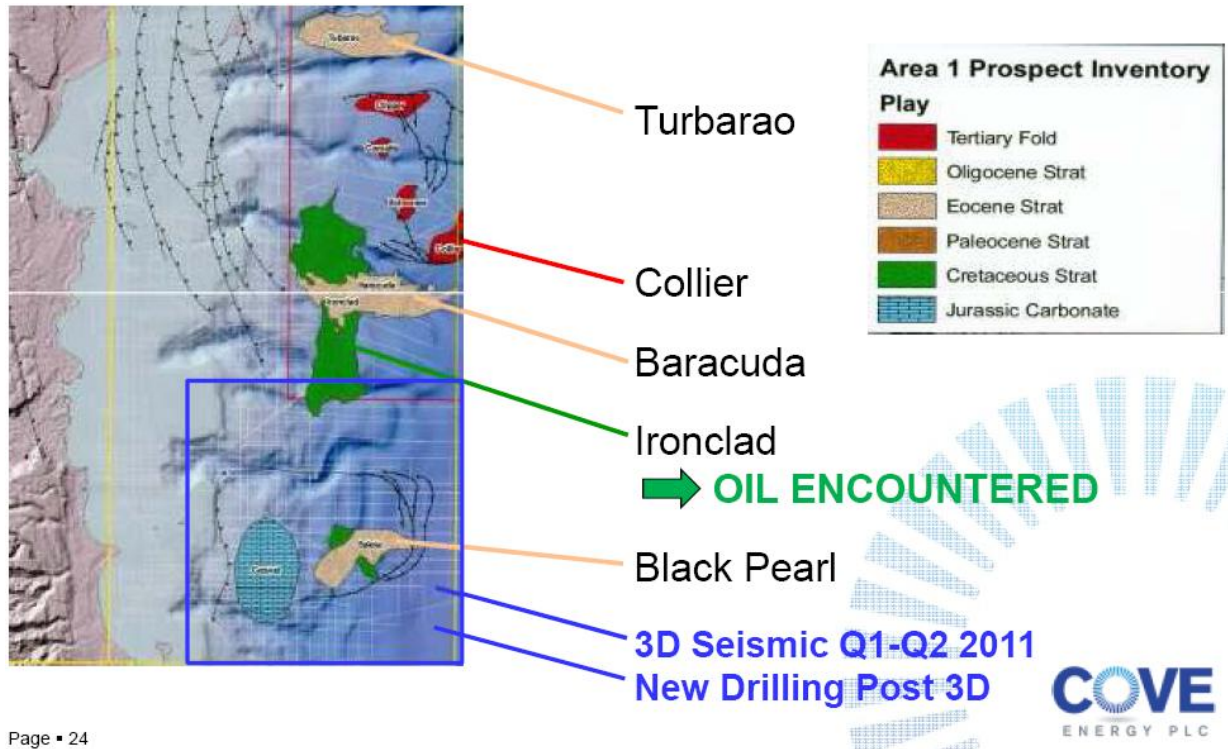
** Contract approved by partners, rig expected 4Q11 (currently subleased by Anadarko to Tullow for operations offshore Ghana). Assumed contract duration 2 years

*** Principally agreed to be subleased to Kenya from Mozambique, if slot available

2011-2013 E&A programme	23.4	141.6
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Source: Company data, May 2011

Fig 20 Oil potential in the south of Area-1



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Source: Company data, May 2011

Elsewhere across their portfolio, Cove is accelerating its exploration programme in the deepwater Kenya blocks L5, L7, L11a, L11b & L12. A 3,517 km² 3D seismic acquisition process is set to commence in mid May 2011. Cove has decided to accelerate this programme following encouraging results from the interpretation of the 2D seismic survey acquired in 2010 and the recent gas discoveries nearby.

Fig 21 Cove Energy financials

COVE ENERGY PLC (COV LN, Outperform, Target price: 150p)

Price Assumption	2009A	2010E	2011E	2012E	2013E	Half-yearly Forecast	H1/10A	H2/10E	H1/11E	H2/11E	H1/12E		
Oil-Brent	\$/b	62.60	80.30	116.50	119.50	118.50	Oil-Brent	\$/b	78.43	82.17	110.76	122.50	118.00
Gas - NBP	p/therm	33.5	42.4	42.4	42.4	42.4	Gas - NBP	p/therm	37.0	47.8	55.3	61.3	59.0
Gas-Henry Hub	US\$/mmbtu	3.95	4.40	4.40	5.25	5.50	US\$/€	\$	1.3	1.3	1.4	1.4	1.4
US\$/C\$ (per end)	\$	0.95	1.00	0.95	1.00	1.00							
US\$/£ (per end)	\$	1.62	1.56	1.60	1.60	1.60							
US\$/€ (per end)	\$	1.48	1.34	1.40	1.40	1.40							
Income Statement													
Oil & Liquids	kb/d	0.0	0.0	0.0	0.0	0.0	Oil & Liquids	kb/d	0.0	0.0	0.0	0.0	0.0
Natural Gas	mmcf/d	0.0	0.3	0.3	0.5	0.8	Natural Gas	mmcf/d	0.0	0.0	0.0	0.0	0.0
Total Production	kboe/d (@ 6:1)	0.0	0.1	0.1	0.1	0.1	Total Production	kboe/d (@ 6:1)	0.0	0.0	0.0	0.0	0.0
Gas Production Ratio	%	na	100.0	100.0	100.0	100.0	Gas Production Ratio	%	nfm	nfm	nfm	nfm	nfm
Production per Share Growth YoY	%	0.0	0.0	-15.1	50.0	66.7	Revenue (net of hedging & transp.)	m	0.2	0.3	0.4	0.4	0.4
Revenue (net of hedging & transp.)	m	0.0	0.5	0.8	1.0	1.7	EBITDA	m	-3.3	-1.9	-1.9	-1.8	-1.8
Royalties	m	0.0	0.0	0.0	0.0	0.0	Net Income	m	(2.9)	(1.3)	0.2	0.1	(0.1)
Operating Costs	m	0.0	(0.0)	(0.0)	(0.0)	(0.0)	EPS (basic)		(0.93)	(0.32)	0.04	0.01	(0.02)
G&A Costs	m	(0.7)	(4.4)	(4.4)	(4.4)	(4.4)	EPS (diluted)		(0.92)	(0.31)	0.04	0.01	(0.02)
Adjusted EPS (diluted)							Adjusted EPS (diluted)		(0.92)	(0.31)	0.04	0.01	(0.02)
EBITDAX	m	-0.7	-3.9	-3.7	-3.5	-2.7	Cash Flow from Operations	m	-1.6	-1.3	0.2	0.1	-0.1
Interest Costs	m	0.2	1.1	4.2	3.3	1.8	CFPS		(0.51)	(0.30)	0.04	0.01	(0.02)
DD&A & Other Non-Cash Costs	m	(1.13)	(1.37)	(0.23)	(0.30)	(0.54)	Production per Share Growth YoY	%	nfm	nfm	-37.3	-15.1	0.0
Net Income	m	(1.6)	(4.2)	0.3	(0.4)	(1.4)	Production per Share Growth HoH	%	nfm	-26.1	-26.1	0.0	0.0
EPS (basic)		(1.83)	(1.16)	0.05	(0.09)	(0.30)	CFPS Growth YoY	%	-41.7	-64.7	-107.9	-104.5	-141.2
EPS (diluted)		(1.83)	(1.14)	0.05	(0.09)	(0.29)	CFPS Growth HoH	%	-40.2	-41.0	-105.1	-66.4	-130.9
Adjusted EPS (diluted)		(1.83)	(1.14)	0.05	(0.09)	(0.29)	Revenue/boe	\$/boe	26.51	44.09	49.80	55.68	53.64
EBITDA per Share Growth YoY	%	0	-49	29	6	21	Royalties/boe	\$/boe	na	na	na	na	na
Basic WA Shares OS	m	89.9	364.2	490.8	490.8	490.8	Operating costs/boe	\$/boe	0.00	(2.65)	(1.40)	(1.41)	(1.41)
Diluted WA Shares OS	m	89.9	371.2	502.4	502.4	502.4	Operating Netback/boe	\$/boe	26.51	41.44	48.41	54.27	52.23
							G&A/boe	\$/boe	(297.58)	(292.12)	(310.25)	(308.54)	(311.93)
							Interest/boe	\$/boe	49.43	92.21	304.30	279.59	263.19
							Cash Netback/boe	\$/boe	(221.64)	(158.47)	42.46	25.33	3.49
Balance Sheet							Cashflow Analysis						
Cash (including Restricted)	m	51.2	215.6	185.5	110.1	33.7	Cash Flow from Operations	m	(1.4)	(2.9)	0.3	(0.4)	(1.4)
Debt	m	0.0	0.0	0.0	0.0	0.0	Chgs in Working Cap	m	1.4	(1.8)	0.0	0.0	0.0
Net Debt (Cash)	m	-49.9	-216.0	-185.9	-110.5	-34.1	Net Cash Flow from Operations	m	(0.0)	(4.7)	0.3	(0.4)	(1.4)
Bank Lines	m	0.0	0.0	0.0	0.0	0.0	Cash Flow from Investing	m	(19.1)	(44.8)	(30.4)	(75.0)	(75.0)
Net Debt as % of Bank Lines	%	na	na	na	na	na	Cash Flow from Financing	m	67.9	214.3	0.0	0.0	0.0
Total Assets	m	72	282	282	282	280	Increase in Cash	m	48.8	164.8	(30.1)	(75.4)	(76.4)
Total Liabilities	m	3	1	1	1	1	Free Cash Flow ¹	m	(19.4)	(35.1)	(30.1)	(75.4)	(76.4)
Total S/H Equity	m	69	281	281	280	279	Debt Adjusted Cash Flow (DACF)	m	(2.0)	(3.9)	0.4	(3.9)	(3.8)
Ratios Analysis							CFPS		-1.58	-0.78	0.05	-0.08	-0.28
ROA	%	-5	-2	0	0	-1	Capital Expenditures	m	19.4	30.4	30.4	75.0	75.0
ROCE	%	-5	-3	-1	-1	-1	Capex/Cash Flow	x	-13.6	-10.5	112.5	-182.9	-53.4
ROE	%	-5	-2	0	0	-1							
Net Debt/Equity	%	-72	-77	-66	-39	-12							
Net Debt/CF	x	35.0	74.4	-687.8	269.5	24.3							
Price/Book	x	5.5	2.4	2.4	2.4	2.4							
Book Value	€/SH	0.26	0.57	0.57	0.57	0.57							
Valuation							Per Boe Statistics						
P/E	x	nfm	nfm	nfm	nfm	nfm	Revenue/boe	\$/boe	nfm	35.38	52.75	54.46	53.73
P/CF	x	nfm	nfm	nfm	nfm	nfm	Royalties/boe	\$/boe	na	0.00	0.00	0.00	0.00
Dividend Yield	%	0.0	0.0	0.0	0.0	0.0	Operating costs/boe	\$/boe	na	(1.34)	(1.40)	(1.41)	(1.10)
Enterprise Value	\$m	306	373	437	536	683	Operating Netback/boe	\$/boe	0.00	34.04	51.35	53.05	52.64
EV/DACF	x	-108.6	-73.0	828.6	-97.7	-128.6	G&A/boe	\$/boe	na	(294.83)	(309.40)	(247.91)	(138.13)
EV/Reserves ⁴	\$/boe	nfm	nfm	nfm	nfm	nfm	Interest/boe	\$/boe	na	71.02	291.92	187.40	57.05
EV/2P + 2C ⁵	\$/boe	nfm	nfm	nfm	nfm	nfm	Capital Tax/boe	\$/boe	na	0.00	0.00	0.00	0.00
EV/Production ⁴	\$k/boe/d	nfm	6833.27	7996.27	6549.95	5005.08	Cash Netback/boe	\$/boe	nfm	(189.76)	33.87	(7.46)	(28.45)
Reserve/Production (2P)	years	0.0	0.0	0.0	0.0	0.0	Depletion and Depreciation/boe	\$/boe	na	(1.34)	(1.40)	(1.41)	(1.41)
Core Net Asset Value (PV10AT) ⁴	p/sh	131					Stock based compensation/boe	\$/boe	na	(84.09)	0.00	0.00	0.00
P/CoreNAV	x	0.7					Other Non-cash/boe	\$/boe	na	0.00	0.00	0.00	0.00
Core NAV + Risked Resource Upside ⁴	p/sh	161					Cash Taxes/boe	\$/boe	na	(5.87)	(14.98)	(15.49)	(15.37)
P/RENAV	x	0.5					Deferred Taxes/boe	\$/boe	na	0.00	0.00	0.00	0.00
							Earnings Netback/boe	\$/boe	0.00	(281.06)	17.48	(24.37)	(45.22)
Sensitivities (Adjusted Cash Flow)							Capital Efficiencies						
Oil Brent +/- US\$1.00/b	%	nfm	0.0	0.0	0.0	0.0	F&D (Proven) ²	\$/boe	nfm	nfm			
Gas +/- \$0.25/mcf	%	nfm	0.0	0.1	-0.1	0.0	FD&A (2P) ³	\$/boe	nfm	nfm			
Oil +/- 100 b/d	%	nfm	nfm	nfm	nfm	nfm	Recycle Ratio - (2P) ³	x	nfm	nfm			
Gas +/- 1.0 mmcf/d	%	na	-0.5	8.2	-5.5	-1.6							

All figures US\$ unless noted and production and reserve figures are gross of royalties

1) Cash flow from Operations (before chg in WC) Less Capex and Dividends; 2) Excludes Revisions; 3) Includes changes in Future Development Capital;

4) Excludes non-producing assets; contingent resources if disclosed; 5) Risked resource upside based on LT price of US\$6.00/mmbtu HH, US\$90/b WTI, and US/C\$0.95

Source: Company Data, Macquarie Research, May 2011

Source: Company data, Macquarie Research, May 2011

Strategically well positioned

We believe that the global reaction to recent events at the nuclear power generation facilities at Fukushima, Japan will ultimately lead to a tightening global LNG market. This would make Cove's gas resources offshore Mozambique well positioned to capture any uptick in demand for LNG into Asia. East Africa is an emerging hydrocarbon frontier with a number of IOC, NOC and Independent operators planning high-impact, multi-year exploration campaigns across the region. Given our positive macro view on LNG prices into Asia and an expected near-term uptick in drilling activity around their portfolio, we believe Cove's portfolio is extremely attractive and we would not be surprised if management were to crystallise the value of their Area-1 asset ahead of what will be a capital intensive LNG development.

Tightening LNG market

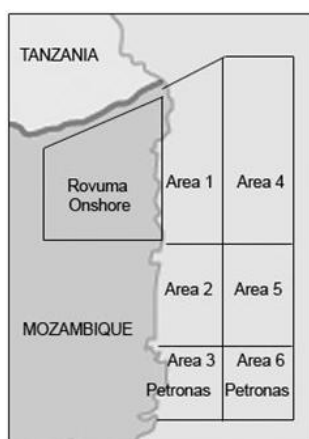
The 11 March 2011 earthquake and tsunami that hit Japan's east coast had many tragic consequences. Aside from the tragic loss of life, 12GW of nuclear generation capacity was shut-in, and Chubu Electric recently announced it would be taking an additional 3.6GW of capacity off-line due to safety concerns. In addition, we estimate ~5GW of coal generation capacity will be off-line in Japan for an extended period.

Germany has also announced that it will shut 7GW (2 of which were already off-line) of pre-1980 nuclear capacity for at least 3 months. Fears of contagion quickly spread, and it remains to be seen which country, if any, will next move to idle current capacity or delay future plans for construction.

We think it is unlikely that mass-scale denuclearization could be implemented given global reliance (roughly 13.5% of global generation). We view investment decisions on how to power the next decade as the ones that are now most at-risk. More than 200 nuclear reactors are in construction or planning phases globally. Uncertainty about the development of these facilities should, in our opinion, support greater levels of LNG development for usage in combined-cycle generators.

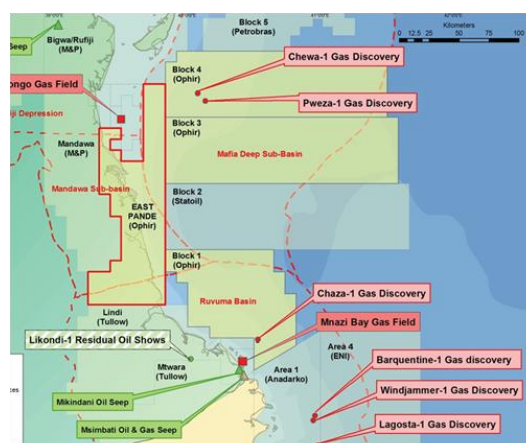
Emerging East Africa

Fig 22 Rovuma Basin, Mozambique



Source: BMI, May 2011

Fig 23 East Africa geological setting



Source: Ophir Energy, May 2011

East Africa is an emerging hydrocarbon frontier with a number of IOC, NOC and Independent operators planning high-impact, multi-year exploration campaigns across the region. While far from exhaustive, we note the list of operators below who have guided to exploration drilling in the region by the end of 2011. Further details on planned activity across the region are given in Figure 26.

- Area 4, Mozambique – Eni to drill an exploration well in 3Q 2011
- Blocks 1,3, 4, Tanzania – BG to recommence exploration drilling in late 2011, few details disclosed at this stage
- Block 2, Tanzania – Statoil to drill an exploration well in late 2011

In addition to a number of ongoing seismic surveys, we note that Dominion Petroleum has stated its intentions to farm-down part of its 100% equity across Block 7 offshore Tanzania once the current 3D seismic campaign has been completed. We also believe the three gas discoveries made by BG Group and Ophir Energy in Blocks 1 and 4 offshore Tanzania over the last nine months imply that the geological play offshore Mozambique extends to the North.

While it is difficult to draw any tangible value read-across from this level of activity at this stage we believe the amount of exploration planned across the region alone serves to highlight the optimism of the industry for East Africa as an emerging hydrocarbon frontier. In Figure 22 we highlight some recent exploration only transactions offshore East Africa. Acknowledging that Cove is one of the three acquirers, the weighted average of these transactions implies a value of \$5k/Km² of acreage.

Fig 24 Recent exploration only transactions offshore East Africa

Date	Acquirer	Seller	Fee (\$m)	Asset	Interest acquired	Gross size Km ²	Net Size Km ²	\$k/ Km ²	Additional details
28 Jul 10	Cove Energy	DEPCO	15.5	5 contiguous blocks in deepwater Kenya - L5, L7, L11a, L11b, L12	15%	30,682	4,602	3.4	2D acquired in 2010, 3D seismic survey in 2011 followed by potential drilling in 2012
16 Feb 11	Apache Corp.	Origin Energy	13.2	Block L8 deepwater Kenya	50%	5,115	2,558	5.2	Apache will also meet an agreed component of Origin's costs of an exploration well to be drilled in Block L8 on the Mbawa structure
07 Mar 11	Tullow Oil	Pan-continental	10.0	Block L8 deepwater Kenya	10%	5,115	512	19.6	Tullow to "free carry" Pancontinental through a major portion of the L8 program including drilling the Mbawa Prospect, option for additional 5% for \$6m, 3D completed

Weighted Av. 5.0

Source: Company data, Macquarie Research, May 2011

Crystallise value pre-development

Given our positive view on the LNG market and upcoming industry activity across East Africa we believe there is a chance Cove's Area-1 assets may appeal to potential acquirers. We can also see the merit in Cove management seeking to exit Area-1 (as was reported by Bloomberg on 9 December, "Cove Energy to Sell Mozambique Gas Assets Before LNG") ahead of a capital intensive LNG development given the size of Cove's balance sheet. As a reminder we expect a 12tcf development to cost ~US\$12.4b which equates to US\$1.2b net to Cove. Given the recent additions to Cove's portfolio offshore Kenya, we believe an asset sale rather than an outright corporate transaction would be most likely and the table below outlines some potential acquirers, their rationale and our view of the likelihood of a transaction materialising.

Fig 25 Potential acquirers of Cove's Area-1 asset

Potential acquirer	Rationale	Macquarie view
<i>Existing partners</i>		
Anadarko	Greater control over the project, belief in further exploration upside across Area-1	Unlikely given recent commentary from the APC CEO raising the possibility of bringing in KNOC as a partner (Upstream)
Mitsui	Belief in further exploration upside across Area-1, resource hungry, +US\$3bn set aside for mineral and energy investments	Possible but difficult to determine appetite for increased exposure
BPRL	Belief in further exploration upside across Area-1, resource hungry, proximity to Indian market	Possible but funding could be an issue
Videocon	Belief in further exploration upside across Area-1, resource hungry, proximity to Indian market	Possible but funding could be an issue
<i>New entrants</i>		
KNOC	Resource hungry and funded for acquisitions, strong relationship with Kogas (Area-4), LNG demand into Korea, recent hints from APC CEO, history of acquiring/trying to acquire UK E&P assets	A credible potential acquirer although their appetite is likely to depend on drilling results from Area-4
Eni	Exploration drilling planned "next-door" in Area-4, history of acquiring/trying to acquire UK E&P assets, lacking material growth projects, appetite for East Africa (Uganda)	A credible potential acquirer although their appetite is likely to depend on drilling results from Area-4
Sinopec, CNOOC	Resource hungry and funded for acquisitions, limited exposure to East Africa at this stage, history of acquiring/trying to acquire UK E&P assets	Should not be ruled out from any discussion regarding access to resources in Africa

Source: Company data, Macquarie Research, May 2011

Fig 26 Other operators active offshore Kenya, Tanzania, Mozambique

Country	Basin	License	Company	Equity	2011-13 Planned activity	Comment	
Mozambique	Rovuma	Area-1	Anadarko *	37%	Two-rig continuous exploration and appraisal activity planned until end-2013. 3D seismic data collection also underway	4 gas discoveries over 2010, preliminary estimates of resources +12Tcf	
			Mitsui	20%			
			BPRL	10%			
			Videocon	10%			
			Cove Energy	9%			
			ENH	15%			
	Area-2	Statoil *	90%	Decision to drill an exploration well to 3D completed in 2010			
		ENH	10%	be made by 1 June 2011			
	Area-3	Petronas *	90%	Potential for exploration drilling in 2011-12			
		ENH	10%				
	Area-4	Eni *	70%	Exploration well planned for 3Q 2011	Considering acceleration of exploration and appraisal campaign		
		Galp	10%				
		Kogas	10%				
		ENH	10%				
	Area-5	Statoil *	90%	Decision to drill an exploration well has to be made by 1 June 2011	3D completed in 2010		
		ENH	10%				
	Area-6	Petronas *	90%	Potential for exploration drilling in 2011-12			
		ENH	10%				
Kenya	Lamu	Block L5	Anadarko *	70%	3D seismic to be collected in 2011	Cove farmed-in to 15% held by DEPCO for \$16m (across 5 blocks) in 2010	
			Cove Energy	15%	Potentially drilling by end-2013		
			DEPCO	15%			
		Block L7	Anadarko *	70%	3D seismic to be collected in 2011	Cove farmed-in to 15% held by DEPCO for \$16m (across 5 blocks) in 2010	
			Cove Energy	15%	Potentially drilling by end-2013		
			DEPCO	15%			
		Block L11A	Anadarko *	70%	3D seismic to be collected in 2011	Cove farmed-in to 15% held by DEPCO for \$16m (across 5 blocks) in 2010	
			Cove Energy	15%	Potentially drilling by end-2013		
			DEPCO	15%			
		Block L11B	Anadarko *	70%	3D seismic to be collected in 2011	Cove farmed-in to 15% held by DEPCO for \$16m (across 5 blocks) in 2010	
Cove Energy	15%		Potentially drilling by end-2013				
DEPCO	15%						
Block L12	Anadarko *	70%	3D seismic to be collected in 2011	Cove farmed-in to 15% held by DEPCO for \$16m (across 5 blocks) in 2010			
	Cove Energy	15%	Potentially drilling by end-2013				
	DEPCO	15%					
Block L8	Apache *	50%	Drilling plans remain subject to new operator	Mbawa Cretaceous prospect unrisks mean resources of 2.0bn bbl. Jurassic prospects unrisks prospective mean resources of c140m bbl. Tullow Oil paid \$10m for 10% in March 2011. Partnership subject to regulatory approval			
	Origin Energy	25%					
	Pancontinental	15%					
		Tullow Oil	10%				
Block L9	Dominion	60%	3D seismic to be collected within 2yrs	Initial terms require spending of \$50m on exploration over next 2-6yrs. Simba-1 well drilled in 1979 encountered gas in Tertiary and Upper Cretaceous formations			
	Petroleum *						
	Flow Energy	30%					
		Avana	10%				
		Petroleum					
Block L10A	BG Group	40%	2D and 3D seismic campaigns planned as part of initial work programme	BG expected to become operator, partnership to be confirmed			
	Cove Energy	25%					
	Premier Oil	20%					
		Pancontinental	15%				
Block 10B	BG Group	45%	2D and 3D seismic campaigns planned as part of initial work programme	BG expected to become operator, partnership to be confirmed			
	Premier Oil	25%					
	Cove Energy	15%					
		Pancontinental	15%				
Tanzania	Rovuma	Block 1	BG Group **	60%	3D seismic completed in 2011, further 3D data acquisition underway	Gas discovery at Chaza-1 well in February 2011 BG farmed-in to acreage in May 2010	
			Ophir	40%	Second drilling campaign across Blocks 1, 3, 4 to start in late 2011		
		Mafia Deep Sub-basin	Block 2	Statoil *	65%	Exploration drilling planned in late 2011/early 2012	ExxonMobil farmed-in to acreage in March 2010
			Block 3	BG Group **	60%	3D seismic completed in 2011, further 3D data acquisition underway	BG farmed-in to acreage in May 2010
			Block 4	BG Group **	60%	3D seismic completed in 2011, further 3D data acquisition underway	Gas encountered at the Pweza-1 exploration well in October 2010 Gas discovery at Chewa-1 well in December 2010. BG farmed-in to acreage in May 2010
			Block 5	Petrobras *	100%	Plans to drill in the coming years	3D seismic obtained
			Block 6	Petrobras *	100%	Plans to drill in the coming years	3D seismic obtained
		Block 7	Dominion	100%	3D interpretation ongoing, potentially drilling in 2012 post farm-down	Prospective resources +1bn boe	
			Petroleum *				

* Operator

** Expected to become operator

Source: Company data, Macquarie Research, May 2011

Cove Energy Overview

Cove Energy was formed in May 2009 under a dramatic strategic overhaul which saw an existing company focused on platinum projects in Sweden transformed into an oil and gas company focused on early upstream opportunities in Africa and the Mediterranean. As well as a change of strategy and a new name, these changes resulted in the appointment of Michael Blaha as Non-Executive Chairman and the appointment of John Craven as Chief Executive Officer.

Today Cove's principal asset is its 8.5% equity in the deepwater Area-1 license offshore Mozambique where +12tcf of natural gas has been discovered. As shown in Figure 25, Cove also has a number of other assets throughout Mozambique, Tanzania and Kenya.

Fig 27 Cove Energy summary portfolio

Country	License	Cove Energy equity (%)	Description	2011-13 planned activity	Macquarie EMV (\$m)	Macquarie EMV (p/sh)
Mozambique	Rovuma Offshore Area-1	8.5	+12tcf discovered undeveloped gas resources	multiple exploration and appraisal wells, 3D seismic in 1H 2011, FEED	1,041	128
	Rovuma Onshore Block	10	Exploration asset	2D seismic in 3Q 2011, two exploration wells	2	0
Tanzania	Mnazi Bay	16, 21	Partially developed gas discovery awaiting further development and appraisal	3D seismic in 4Q 2011	43	5
Kenya	L5, L7, L11a, L11b, L12 (L10a and L10b tbc)	15, 25, 15	Deepwater frontier exploration licenses	3D seismic in 2011, potentially drilling in 2012	8	1
					1,094	134

Source: Company data, Macquarie Research, May 2011

Mozambique

Anadarko is currently the operator of the block

The Rovuma Offshore Area-1 was licensed to Anadarko during the 2005 2nd Licensing Round and the PSC was signed in 2006. Anadarko is currently the operator of the block with a 36.5%. Other partners include Mitsui (20%), BPRL Ventures Mozambique B.V. (10%), Videocon Mozambique Rovuma 1 Limited (10%), Cove Energy (8.5%) and Empresa Nacional de Hidrocarbonetos (Mozambique NOC - 15% carried interest).

Guidance on the discovered resources in the Anadarko-operated Rovuma Offshore Area-1 remains ill-defined at this stage. Cove has guided to 12tcf of discovered undeveloped gas across the license excluding the most recent Tubarão discovery. The table below summarises the key events in Area-1 over the last 15 months.

Fig 28 Drilling events to date in Area-1 offshore Mozambique

Date	Discovery / prospect	Detail
18 Feb 2010	Windjammer	The Windjammer discovery was a rank wildcat exploration well in that it was the first of its kind offshore East Africa. Its success proved the potential of a new petroleum province. Windjammer proved one of seven play types across Area-1, derisking a substantial proportion of 50 additional leads. The well found a total of 555ft (185m) of net gas pay in excellent quality reservoirs in the Northeast of the block, 75ft of which were found in the Paleocene and the remaining in Oligocene. Windjammer was drilled to a total depth of 14,000 feet in ~4,800 feet of water ~30miles east of the Mozambique coast.
20 Apr 2010	Collier	Collier-1 was the next prospect to be drilled. The well in the Southeast of the block was suspended at the top of the predicted reservoir objective due to unexpected pore pressure issues. The well has been sealed and can be re-entered.
18 Aug 2010	Ironclad	The Ironclad well encountered 38m of net oil and gas saturated sands in the upper Cretaceous. Ironclad is particularly noteworthy as it is the first documented occurrence of oil in the East African deepwater. Further analysis of the oil and gas column is currently being conducted and 3D seismic has just been shot over the area. The consortium continues to believe in the liquid potential of the "Quirimbas" southern part of Area-1 despite Ironclad failing to flow commercial volumes.
19 Oct 2010	Barquentine	Barquentine encountered more than 416ft of net gas pay, 308ft of which is in Oligocene sands separate to Windjammer. 108ft of gas bearing reservoir was also discovered in Paleocene sands and the consortium believe this interval is connected to the Windjammer discovery 2 miles to the southwest. The Barquentine discovery meant that the discovered resource base offshore Mozambique was now in the multi tcf range.
29 Nov 2010	Lagosta	The Lagosta gas discovery to the south of Area-1 encountered 550ft of net pay gas in Tertiary sands (Oligocene and Upper Eocene). Together with Windjammer and Barquentine, the Anadarko-led consortium confirmed that the discoveries exceeded the threshold for a LNG development.
07 Feb 2011	Tubarao	The fourth and final gas discovery to date offshore Mozambique was at Tubarao where 110ft of net gas pay was encountered in the Eocene interval. This discovery was a separate play to any of the previous three further confirming the gas resource base in Offshore Area-1.

Source: Company data, Macquarie Research, May 2011

Cove also has 10% WI in the Rovuma onshore block, where 2D seismic is planned for 3Q11. Two exploration wells in this acreage are preliminary planned in 2012 and 2014 although guidance is vague at this stage. Anadarko is the operator of the block as well and the licence has been renewed into the second phase of the PSC.

Tanzania

Over 2009/2010 Cove acquired an operating interest in the Tanzanian section of the Rovuma basin adjacent to the onshore and offshore Rovuma blocks in Mozambique to the south. Cove has a 16.4% interest in the Mnazi Bay production license and a 20.5% WI for all exploration activities in the license.

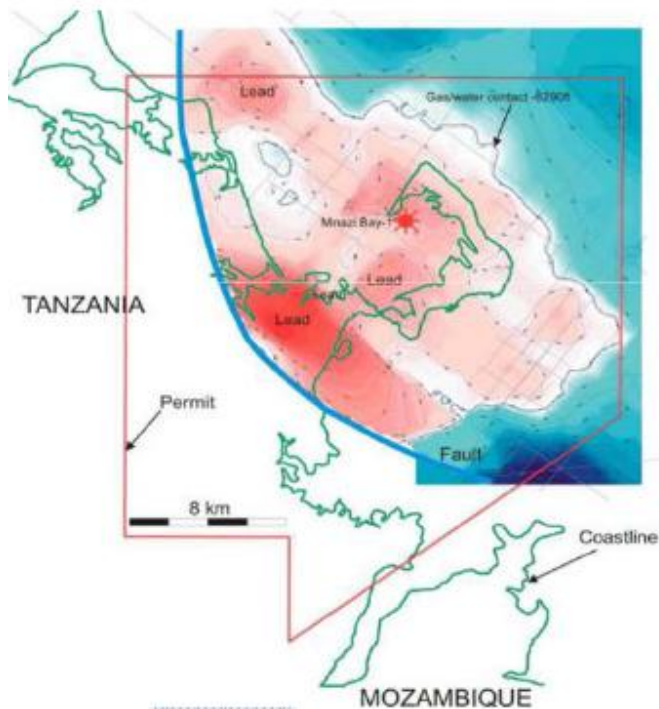
Cove is producing ~2mmscf/d of natural gas at Mnazi Bay

At present, Cove is producing ~2mmscf/d of natural gas at Mnazi Bay from a Turbidite fan channel system. However the company expects local demand to grow to ~6mmscf/d in the next 2-3 years and up to full capacity of 30mmscf/d in ten years as a new 300MW power station, a new cement plant (~7mmscf/d) and other smaller projects come on-line. At present Cove is negotiating two new gas sales agreements (GSAs) for sales to the new power plant and the cement plant.

Cove is also working towards development of a larger market for Mnazi bay, excluding the potential export option via a neighbouring liquefaction plant in Mozambique. Cove believes that production from Mnazi bay can find a market of between 100-500mmscf/d from a discovery of further 1-3.5tcf on- and offshore. A methanol/ammonia plant could add ~150mmscf/d of incremental capacity on top of the current estimate for the local market. Further power plant projects/expansion of existing capacity could add another 75mmscf/d. The biggest contributor to incremental demand could come if a pipeline is built from Mnazi bay to Tanzania's capital, Dar es Salaam, in the north.

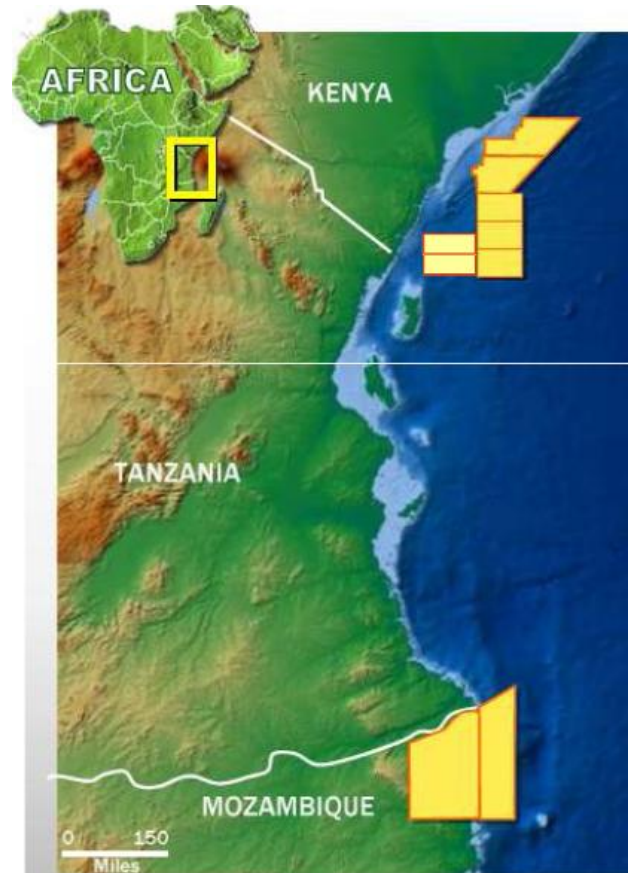
Cove estimates that FID for such an incremental upstream development can happen in 2014/15 with a build-up period of 2-3 years. Feasibility and preliminary studies are ongoing for the downstream projects.

Fig 29 Mnazi bay location map



Source: Company data, May 2011

Fig 30 Geography of East Africa



Source: Company data, May 2011

Kenya

Cove has 15% WI in five deepwater blocks offshore Kenya. The total exploration area for Blocks L5, L7, L11A, L11B and L12 is ~30,000 sq km (~7.6m acres). There are multiple play types identified across this region and the geology is expected to be similar to offshore Mozambique. There is evidence of an active petroleum system through seeps and flat spots on the 2D seismic however this is largely unexplored acreage with only 4 wells drilled to date (only one of which was in deepwater)

3D seismic in 2011

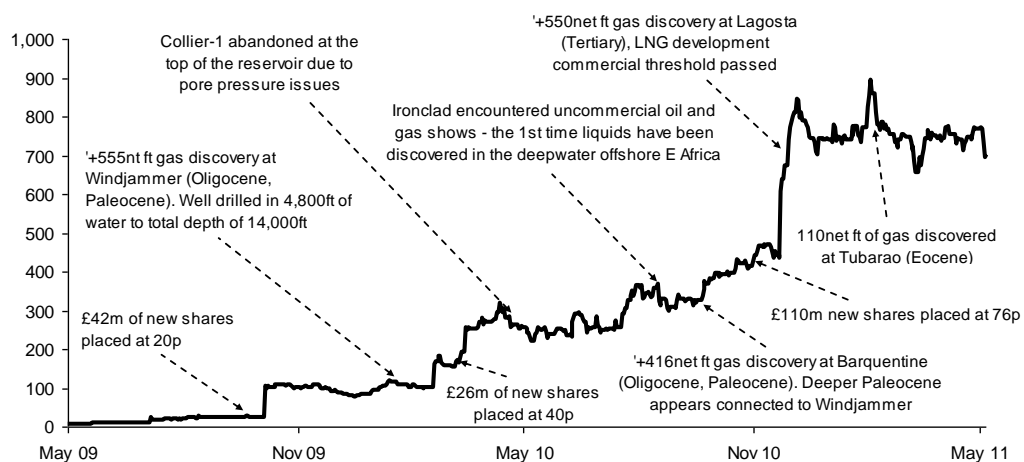
The 2D seismic commitment of Phase I has already been fulfilled and Cove and their partners are planning on shooting 3D seismic in 2011 before entering the next phase of the license in March 2012 which will require the drilling of an exploration well. Cove estimates that two wells can be drilled in 2013 over this acreage and the company has hinted that there is an agreement with the Mozambique Rovuma offshore partners to sub-lease the Deepwater Millennium drilling rig for a two-well campaign in 2013. Cove has also stated it is looking to farm down its 15% WI to 10% for a carry commitment. In addition, Cove is in a BG-led consortium negotiating for two offshore blocks (Blocks 10A and 10B) closer to the coast.

Management

*founder and CEO of
Petroceltic
International*

- **Michael Blaha, Executive Chairman** - a petroleum engineer with twenty nine years industry experience at Royal Dutch Shell Group. Prior to joining Cove as Executive Chairman Blaha was Country Chairman for Shell in Algeria. Other roles at Shell during his career include External Relations director for EP Africa (2003-2005), Vice President EP for Russia (Salym, Sakhalin) from 2001 to 2003 and Vice President EP Iran (Soroosh and Nowrooz) from 1998 to 2001. He has also held senior roles in the Philippines, Syria, Thailand and the UK. Mr Blaha has an MSc in Chemistry from Universiteit van Amsterdam.
- **John Craven, CEO** - a petroleum geologist with thirty five years experience in senior technical and commercial roles in upstream oil and gas E&P companies. Prior to joining Cove, he was founder and CEO of Petroceltic International - the AIM and IEX quoted African and Mediterranean focussed, exploration company. Under his direction Petroceltic grew to include a diversified portfolio of exploration and appraisal projects in Italy, Algeria and Tunisia. Mr Craven has an MSc in Petroleum Geology from the Royal School of Mines in London and an MBA from Queens University in Belfast.
- **Michael Nolan, Finance Director** - a Chartered Accountant from Deloitte & Touche in Dublin. Nolan is currently executive chairman of Vancouver-based, Rathdowney Resources Limited, a private natural resource company operating in Ireland and supported by the Hunter Dickinson Group. From 1999 to August 2007 he was CEO of AIM-listed mining company Minmet Plc while he also serves on the board of several resource exploration and investment companies. Mr Nolan was re-appointed to the Board on 13 September 2009.

Fig 31 Cove market cap evolution and key events (US\$m)



Source: Company data, FactSet, Macquarie Research, May 2011

Fig 32 Top 20 Cove shareholders

Holder Name	% O/S
BlackRock Investment Management (UK) Ltd.	12.78
JPMorgan Asset Management (UK) Ltd.	10.02
F&C Asset Managers Ltd.	7.14
Standard Life Investments Ltd.	3.51
M&G Investment Management Ltd.	2.41
Threadneedle Asset Management Ltd.	2.26
AEGON Asset Management (UK) Plc	2.06
HSBC Securities (Market-Maker)	1.79
UBS Ltd. (Market Maker)	1.40
Norges Bank Investment Management	1.37
Credit Suisse Securities (Europe) Ltd.	1.21
FIL Investments International	1.08
Blakeney Management	0.95
Credit Suisse First Boston (Market-Maker)	0.91
Martin Currie Investment Management Ltd.	0.90
Hargreave Hale Ltd.	0.90
Brewin Dolphin Ltd.	0.84
Ignis Investment Services Ltd.	0.82
Northern Trust (Securities Lending)	0.76
Artemis Investment Management LLP	0.66
	53.78

Source: FactSet, May 2011

Mozambique overview

Fig 33 Mozambique’s location in Africa



Source: CIA World Factbook, May 2011

Fig 34 Geography of East Africa



Source: CIA World Factbook, May 2011

Fig 35 Mozambique general information

Background 5 centuries as a Portuguese colony came to an end with independence in 1975. Large-scale emigration, economic dependence on South Africa, a severe drought, and a prolonged civil war hindered the country's development until the mid 1990s. The ruling Front for the Liberation of Mozambique (Frelimo) party formally abandoned Marxism in 1989, and a new constitution the following year provided for multiparty elections and a free market economy. A UN-negotiated peace agreement between Frelimo and rebel Mozambique National Resistance (Renamo) forces ended the fighting in 1992. In December 2004, Mozambique underwent a delicate transition as Joaquim Chissano stepped down after 18 years in office. His elected successor, Armando Emilio Guebuza, promised to continue the sound economic policies that have encouraged foreign investment. President Guebuza was re-elected to a second term in October 2009.

Population	22,948,858
Population growth (%)	2.44%
Av. Age	16.8
Urban population (%)	38.00%
Religious mix	Catholic 23.8%, Muslim 17.8%, Zionist Christian 17.5%, other 17.8%, none 23.1% (1997 census)
GDP	US\$10.21bn
GDP growth rate (%)	8.30%
Labour force (m)	9.87
Labour force by occupation	agriculture: 81%, industry: 6%, services: 13% (1997 est.)
Central bank discount rate	9.95% (31 December 2009)
Oil production (2009)	0 bbl/day (2009 est.)
Oil consumption (2009)	18,000 bbl/day (2009 est.)
Gas production (2009)	3.3 billion cu m (2008 est.)
Gas consumption (2009)	100 million cu m (2008 est.)

Current Foreign & Commonwealth travel advice

Most visits to Mozambique are trouble-free

*All figures for 2010 unless otherwise stated

Source: CIA World Factbook, Foreign & Commonwealth Office, Macquarie Research, May 2011

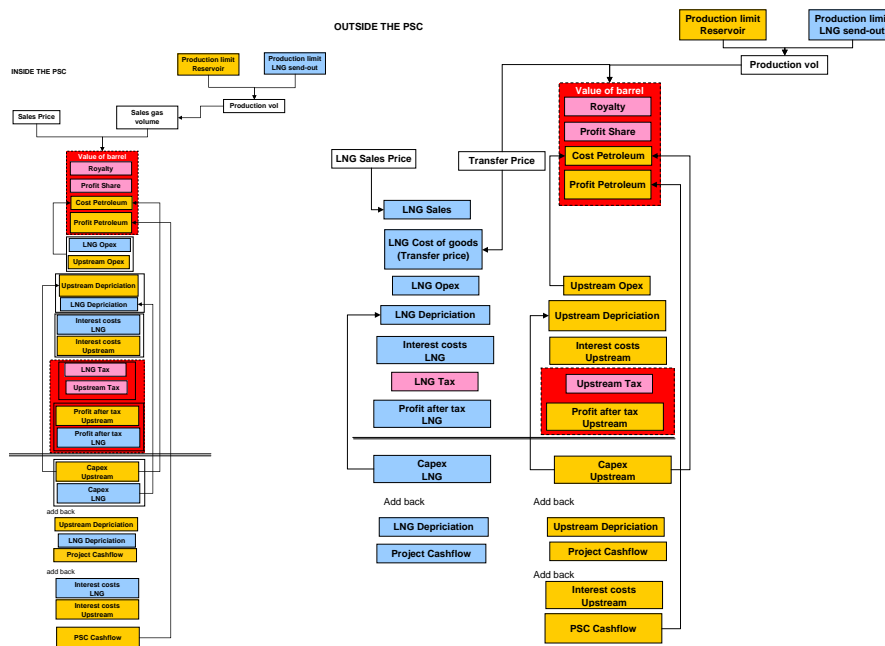
LNG project economics

Transfer price and PSC treatment of the LNG business

Negotiations on transfer pricing are ongoing

Bringing the liquefaction stream within the PSC is currently not considered to be likely by Cove or the operator of Offshore Area-1 Anadarko. Keeping the liquefaction business outside the PSC however requires an agreement with the Mozambique government on a transfer price. This remains one of the key risks to the upside of having the liquefaction operation outside the PSC terms. Negotiations on transfer pricing are ongoing and Cove has indicated a base case price assumption of US\$11/mscf for the LNG sales price and US\$7/mscf transfer price. This implies a 36% price allocation which we have maintained in our analysis.

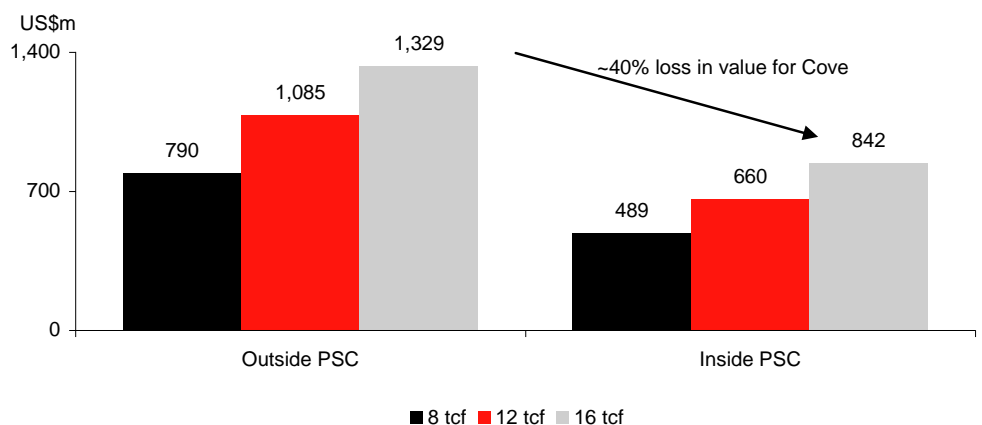
Fig 36 Liquefaction plant inside the PSC ring-fence / Liquefaction plant outside the PSC ringfence



Source: Macquarie Research, May 2011

Any difference in the price allocation or to the formula calculating the transfer price could represent risks to both the downside and the upside around our estimates. The figure below illustrates the significant loss in value if the liquefaction unit is included in the PSC. This is because the mechanics of the PSC mean that applying profit tranches to both the upstream and the liquefaction profits increases the government revenues from the overall project.

Fig 37 Liquefaction inside the PSC decreases project economics for Cove



Source: Company data, Macquarie Research May 2011

Fig 38 International liquefaction projects benchmark

Project	Capex		US\$		Startup
	\$USm	mtpa	Capex/Tonne		
MLNG Dua	\$ 3,505	9.0	\$ 389		1995
Qatargas-1	\$ 3,927	9.7	\$ 405		1996
RasGas I	\$ 2,680	6.6	\$ 406		1999
Atlantic LNG 1	\$ 1,391	3.2	\$ 435		1999
NLNG Base	\$ 5,162	6.7	\$ 773		1999
OLNG	\$ 2,693	7.2	\$ 374		2000
Atlantic LNG 2&3	\$ 1,364	6.8	\$ 201		2002
NLNG Expansion	\$ 2,381	3.3	\$ 713		2002
MLNG Tiga	\$ 2,385	7.4	\$ 322		2003
RasGas II	\$ 2,741	14.1	\$ 194		2004
Qalhat LNG	\$ 812	3.7	\$ 219		2005
ELNG 2	\$ 1,011	3.6	\$ 281		2005
Damietta	\$ 1,530	5.0	\$ 306		2005
ELNG 1	\$ 1,907	3.6	\$ 530		2005
Atlantic LNG 4	\$ 1,480	5.2	\$ 285		2006
NLNG Plus	\$ 2,702	8.1	\$ 334		2006
Darwin	\$ 2,014	3.6	\$ 560		2006
EG LNG	\$ 1,658	3.7	\$ 446		2007
NLNG 6	\$ 2,054	4.1	\$ 507		2007
Snohvit	\$ 8,269	4.1	\$ 2,017		2007
RL 3	\$ 5,653	15.6	\$ 362		2009
Qatargas-2	\$ 6,661	15.6	\$ 427		2009
Sakhalin 2	\$ 4,347	9.6	\$ 453		2009
Yemen LNG	\$ 4,282	6.7	\$ 639		2009
Qatargas-3	\$ 3,459	7.8	\$ 443		2010
Peru LNG	\$ 3,999	4.5	\$ 899		2010
Qatargas-4	\$ 4,609	7.8	\$ 591		2011
Pluto	\$ 7,035	4.8	\$ 1,466		2011
Angola LNG	\$ 7,342	5.2	\$ 1,412		2012
IOC PNG	\$ 910	2.0	\$ 455		2013
QCLNG	\$ 8,368	8.5	\$ 984		2014
PNG LNG	\$ 7,933	6.6	\$ 1,202		2014
Gorgon	\$ 20,230	15.0	\$ 1,349		2014
GLNG	\$ 10,925	7.2	\$ 1,517		2014
Australia Pacific LNG	\$ 8,436	7.4	\$ 1,140		2016
Wheatstone LNG	\$ 21,466	8.6	\$ 2,496		2016
Ichthys	\$ 9,510	8.4	\$ 1,132		2017
Brass LNG	\$ 13,073	10.0	\$ 1,307		2017
Prelude FLNG	\$ 5,508	3.5	\$ 1,574		2017
NLNG Seven Plus	\$ 7,817	8.4	\$ 931		2018
Browse	\$ 13,872	12.0	\$ 1,156		2018

Source: Wood Mackenzie Ltd., Macquarie Research, May 2011

Red box indicates a range for initial train valuation

Gray box indicates a range for follow-on incremental trains

Fig 39 Mozambique LNG – 12 tcf

Train	Capacity	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
LNG sales - Train 1	mmtpa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0	4.0	4.0	4.0	4.0
LNG sales - Train 2	mmtpa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0	4.0	4.0	4.0	4.0
LNG sales - Train 3	mmtpa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.0	8.0
Total LNG sales	mmtpa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.0	8.0	8.0	16.0	16.0

Source: Company data, Macquarie Research, May 2011

Fig 40 Mozambique LNG Project, Total Partner group – 12 tcf

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Natural gas production - LNG	mmscfd	12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,139.7	1,136.6	1,709.6	1,709.6	1,709.6	1,704.9	1,709.6	1,709.6	1,709.6	1,704.9	1,709.6	1,709.6
Production for domestic market	mmscfd	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total production	mmscfd	12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,139.7	1,136.6	1,709.6	1,709.6	1,709.6	1,704.9	1,709.6	1,709.6	1,709.6	1,704.9	1,709.6	1,709.6
Total Contracted Volume	mmscfd	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% of volumes contracted	mmscfd	0.0	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Uncontracted volumes	mmscfd	12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,139.7	1,136.6	1,709.6	1,709.6	1,709.6	1,704.9	1,709.6	1,709.6	1,709.6	1,704.9	1,709.6	1,709.6
LNG deliveries (mmtpa)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.0	8.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
LNG deliveries (mmscfd)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,139.7	1,136.6	1,709.6	1,709.6	1,709.6	1,704.9	1,709.6	1,709.6	1,709.6	1,704.9	1,709.6	1,709.6
LNG pricing formula (contract)	\$/mscf	14.03	14.28	14.40	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05
LNG pricing formula (uncontracted)	\$/mscf	14.03	14.28	14.40	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05	13.05
Transfer price	\$/mscf	8.93	9.08	9.16	8.30	8.30	8.30	8.30	8.30	8.30	8.30	8.30	8.30	8.30	8.30	8.30	8.30	8.30	8.30	8.30	8.30
Total barrel Revenue	\$m	156,904	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5,428.8	5,428.8	8,143.2	8,143.2	8,143.2	8,143.2	8,143.2	8,143.2	8,143.2	8,143.2	8,143.2	8,143.2
Total Cost Recovery Gas	\$m	9,836	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,200.6	956.6	2,472.4	1,310.0	510.0	510.0	135.0	135.0	135.0	135.0	135.0	135.0
Concessionaire's portion of Profit Petroleum	\$m	46,553	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,066.5	2,186.1	2,345.4	3,014.7	3,654.7	3,197.9	3,460.4	3,460.4	2,471.7	2,471.7	2,368.1	1,894.4
Concessionaire Revenue (PSC)	\$m	56,389	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3,267.1	3,142.7	4,817.8	4,324.7	4,164.7	3,707.9	3,595.4	3,595.4	2,606.7	2,606.7	2,503.1	2,029.4
LNG Sales (if outside PSC)	\$m	156,904	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5,428.8	5,428.8	8,143.2	8,143.2	8,143.2	8,143.2	8,143.2	8,143.2	8,143.2	8,143.2	8,143.2	8,143.2
LNG Cost of Goods (if outside PSC) - transfer pricing assumed	\$m	100,186	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3,454.7	3,454.7	5,182.0	5,182.0	5,182.0	5,182.0	5,182.0	5,182.0	5,182.0	5,182.0	5,182.0	5,182.0
LNG Gross profit (if outside PSC)	\$m	57,249	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,974.1	1,974.1	2,961.2	2,961.2	2,961.2	2,961.2	2,961.2	2,961.2	2,961.2	2,961.2	2,961.2	2,961.2
Total Project Revenue - Partner Group	\$m	113,638	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5,241.2	5,116.8	7,779.0	7,285.9	7,125.9	6,669.0	6,556.5	6,556.5	5,567.9	5,567.9	5,464.2	4,990.6
Upstream opex	\$m	2,596	0.0	0.0	0.0	0.0	0.0	0.0	0.0	90.0	90.0	135.0	135.0	135.0	135.0	135.0	135.0	135.0	135.0	135.0	135.0
LNG Plant operating expenses	\$m	3,016	0.0	0.0	0.0	0.0	0.0	0.0	0.0	104.0	104.0	156.0	156.0	156.0	156.0	156.0	156.0	156.0	156.0	156.0	156.0
Shipping fees	\$m	2,545	0.0	0.0	0.0	0.0	0.0	0.0	0.0	87.8	87.8	131.6	131.6	131.6	131.6	131.6	131.6	131.6	131.6	131.6	131.6
Interest costs (upstream)	\$m	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest costs (liquefaction)	\$m	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other costs	\$m	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenses	\$m	8,157	0.0	0.0	0.0	0.0	0.0	0.0	0.0	281.8	281.8	422.6	422.6	422.6	422.6	422.6	422.6	422.6	422.6	422.6	422.6
Depreciation upstream	\$m	7,240	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,177.3	800.0	2,337.4	1,175.0	375.0	375.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation Liquefaction	\$m	5,200	0.0	0.0	0.0	0.0	0.0	0.0	0.0	720.0	720.0	1,040.0	1,040.0	1,040.0	320.0	320.0	320.0	320.0	320.0	320.0	320.0
Depreciation (for tax calc)	\$m	12,440	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,897.3	1,520.0	3,377.4	2,215.0	1,415.0	695.0	320.0	0.0	0.0	0.0	0.0	0.0
Income before tax (upstream)	\$m	46,553	0.0	0.0	0.0	0.0	0.0	0.0	0.0	999.8	2,252.7	2,345.4	3,014.7	3,654.7	3,197.9	3,460.4	3,460.4	2,471.7	2,471.7	2,368.1	1,894.4
Income before tax (liquefaction)	\$m	46,488	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,062.4	1,062.4	1,633.5	1,633.5	1,633.5	2,353.5	2,673.5	2,673.5	2,673.5	2,673.5	2,673.5	2,673.5
Income before taxes	\$m	93,041	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,062.2	3,315.1	3,979.0	4,648.2	5,288.2	5,551.4	5,813.9	6,133.9	5,145.2	5,145.2	5,041.6	4,568.0
Income Tax paid (Upstream)	\$m	13,106	0.0	0.0	0.0	0.0	0.0	0.0	0.0	240.0	540.6	562.9	723.5	877.1	767.5	830.5	830.5	790.9	790.9	757.8	606.2
Income Tax (Liquefaction)	\$m	14,876	0.0	0.0	0.0	0.0	0.0	0.0	0.0	340.0	340.0	522.7	522.7	522.7	753.1	753.1	855.5	855.5	855.5	855.5	855.5
Income taxes paid	\$m	27,982	0.0	0.0	0.0	0.0	0.0	0.0	0.0	579.9	880.6	1,085.6	1,246.3	1,399.9	1,520.6	1,583.6	1,686.0	1,646.5	1,646.5	1,613.3	1,461.8
Profit after tax (upstream)	\$m	33,447	0.0	0.0	0.0	0.0	0.0	0.0	0.0	759.9	1,712.1	1,782.5	2,291.2	2,777.6	2,430.4	2,629.9	2,629.9	1,680.8	1,680.8	1,610.3	1,288.2
Profit after tax (liquefaction)	\$m	31,612	0.0	0.0	0.0	0.0	0.0	0.0	0.0	722.4	722.4	1,110.8	1,110.8	1,110.8	1,600.4	1,600.4	1,818.0	1,818.0	1,818.0	1,818.0	1,818.0
Profit after tax	\$m	65,059	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,482.3	2,434.5	2,893.3	3,402.0	3,888.4	4,030.8	4,230.3	4,447.9	3,498.8	3,498.8	3,428.3	3,106.2
Add back depreciation upstream	\$m	7,240	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,177.3	800.0	2,337.4	1,175.0	375.0	375.0	0.0	0.0	0.0	0.0	0.0	0.0
Add back depreciation liquefaction	\$m	5,200	0.0	0.0	0.0	0.0	0.0	0.0	0.0	720.0	720.0	1,040.0	1,040.0	1,040.0	320.0	320.0	320.0	320.0	320.0	320.0	320.0
Add back depreciation	\$m	12,440	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,897.3	1,520.0	3,377.4	2,215.0	1,415.0	695.0	320.0	0.0	0.0	0.0	0.0	0.0
Upstream expex	\$m	2,540	413.1	1,121.4	100.0	454.1	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Upstream devex	\$m	4,700	0.0	0.0	0.0	200.0	300.0	390.0	875.0	1,435.0	705.0	615.0	180.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liquefaction capex	\$m	5,200	0.0	0.0	0.0	0.0	0.0	720.0	1,260.0	1,940.0	560.0	720.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditures including expex	\$m	12,440	413.1	1,121.4	100.0	654.1	400.0	1,110.0	2,135.0	3,375.0	1,265.0	1,335.0	180.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cashflow upstream	\$m	33,447	-413.1	-1,121.4	-100.0	-654.1	-400.0	-390.0	-875.0	-1,435.0	2,232.1	1,897.1	3,939.9	3,466.2	3,152.6	2,805.4	2,629.9	2,629.9	1,680.8	1,680.8	1,610.3
Free cashflow liquefaction	\$m	31,612	0.0	0.0	0.0	0.0	-720.0	-1,260.0	-1,940.0	882.4	722.4	2,150.8									

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2011

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	45.65%	65.72%	59.70%	43.02%	68.91%	51.16%	(for US coverage by MCUSA, 14.36% of stocks covered are investment banking clients)
Neutral	39.49%	19.00%	29.85%	53.09%	26.43%	35.73%	(for US coverage by MCUSA, 17.55% of stocks covered are investment banking clients)
Underperform	14.86%	15.28%	10.45%	3.89%	4.66%	13.11%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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