

SILVERSTONE

SILVERSTONE
ENERGY
LIMITED

*Building a New
North Sea
Business*

Matt Brister
Simon Munro

Royal Bank of
Scotland
Oil and Gas
Conference 2006

Topics To Be Covered

- 1. What Lime Rock Looks For in a Deal**
- 2. Why Silverstone Energy?**
- 3. Silverstone's Perspective on the UKCS**
- 4. Current Attraction for New Small Players**
- 5. Silverstone's Business Plan and Experience**
- 6. Challenges Silverstone Needs to Address**

Lime Rock Overview

- ▶ Lime Rock Partners was founded in 1998
- ▶ Invests in small, well-managed companies in rapidly growing sectors of the energy industry, primarily in North America and Europe
- ▶ Takes \$5-\$50 million initial positions with substantial influence or control in portfolio companies
- ▶ Adds value to portfolio companies through active board involvement, rigorous monitoring, and assistance with strategic decision-making

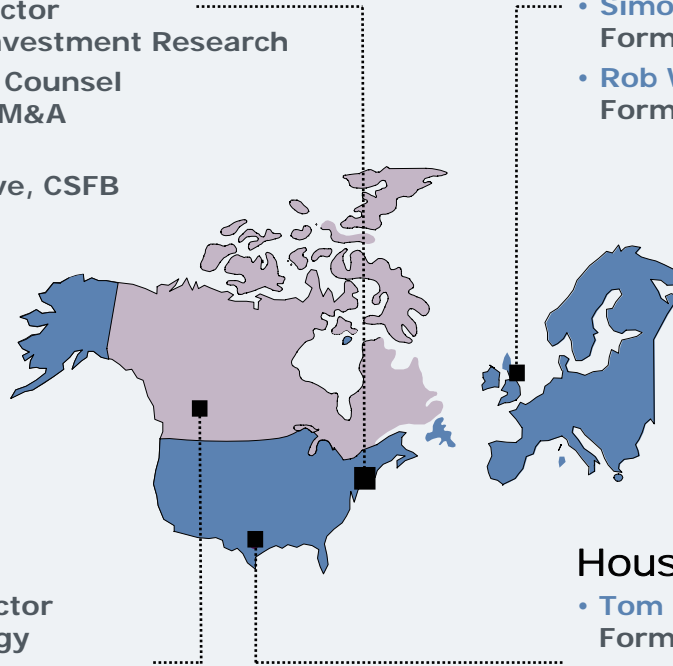
Lime Rock's Global Investment Team

Westport

- **Jonathan Farber**, Managing Director
Formerly at Goldman Sachs Investment Banking/Research
- **John Reynolds**, Managing Director
Formerly at Goldman Sachs Investment Research
- **Mark McCall**, CFO and General Counsel
Formerly at Lehman Brothers M&A
- **Jeff Scofield**, Associate
Formerly at Harrison Lovegrove, CSFB
- **Michael Teplitsky**, Associate
Formerly at UBS

Aberdeen

- **Lawrence Ross**, Managing Director
Former Head of 3i Oil and Gas Team
- **Simon Munro**, Principal
Formerly at J.P. Morgan, Simmons
- **Rob Willings**, Principal
Formerly at Schlumberger, Simmons



Calgary

- **John Clarkson**, Managing Director
Formerly at Renaissance Energy
- **Connie Shevkenek**, Vice President
Formerly at Renaissance Energy, McDaniels

Houston

- **Tom Bates**, Managing Director
Formerly at Schlumberger, CEO Weatherford
- **Will Franklin**, Principal
Formerly at Riverstone, Simmons
- **J McLane**, Principal
Formerly at Pioneer Natural Resources

Lime Rock's Funds and Strategy

\$1.3 billion under management

- ▶ Lime Rock Partners I, \$105 million fund, 12 investments since October 1998
- ▶ Lime Rock Partners II, \$320 million fund, 16 investments since August 2002
- ▶ Lime Rock Partners III, \$425 million fund, 7 investments to date since November 2004
- ▶ Lime Rock Resources, \$450 million, acquires and operates properties in the U.S.

Lime Rock Partners Investment Timetable

- ▶ 5 years to invest
- ▶ 5 years to harvest
- ▶ 2 one-year extensions

Lime Rock Partners Return Criteria

- ▶ >30% IRR
- ▶ >3x ROI
- ▶ Adjusted dependant upon risk associated with deal
- ▶ Capital gain-focused

What is Lime Rock Partners Looking For From a Team?

- ▶ Management team with a track record
- ▶ Clear strategy: what are you going to do with our money?
- ▶ Appropriate skill set/balanced team
- ▶ Alignment between management team and ourselves
- ▶ Focus on capital gain/exit

What Kind of Deal is Lime Rock Partners Looking For?

- ▶ Less focus these days on producing assets
- ▶ More focus on “D” and even “E” rather than “P”
- ▶ Something with an angle
 - ▶ Promote licence roll-up
 - ▶ Assets with exploration/development opportunities which may be below the majors’ investment criteria

Lime Rock Partners' View of the UKCS

- ▶ Numerous attractive exploration and development opportunities below majors' investment thresholds
- ▶ Opportunity to pursue targeted investment theme: exploration and development of smaller, marginal fields
- ▶ Goal: over a period of 5 years aim to create a significant business with a portfolio of production, development and exploration opportunities
- ▶ What we needed:
 - ▶ The right team
 - ▶ Access to sufficient capital
 - ▶ Willingness to create value through the drill bit

Silverstone Background

- ▶ Aberdeen based start-up E&P company, founded March 2005
- ▶ 50:50 JV between Lime Rock Partners and Storm Ventures International (“SVI”)
- ▶ SVI is a small Calgary based independent focused on international opportunities
 - ▶ UKCS
 - ▶ Tunisia
- ▶ Seeking to marry:
 - ▶ Entrepreneurial flair of North American small company approach
 - ▶ Local UKCS basin knowledge and experience

Matt Brister, Chairman and CEO Based in Calgary

- ▶ Strong track record of value creation
- ▶ CEO Pinnacle Resources
 - ▶ Start-up in 1986
 - ▶ Grew to >40,000 b/d
 - ▶ Sold 1998 - share price rose from C\$0.20 to C\$16
- ▶ Founder and CEO Storm Inc
 - ▶ Grew from 1,200 b/d to 12,000 b/d from 1998 to 2002
 - ▶ Share price - rose from C\$1.21 to C\$10.00 (trust conversion)
- ▶ Founder and CEO Storm Energy Limited
 - ▶ Grew from 3,000 b/d to 5,000 b/d in short timeframe
 - ▶ Share price – rose from C\$2.25 to C\$6

SVI Team in Calgary Provide Technical Support

Grant Wierzba VP Operations

- ▶ Co-founder of SVI
- ▶ 30 years experience
- ▶ Senior management level Renaissance Energy and Pinnacle Resources
- ▶ Production optimisation, facility design, construction, drilling, completions

Tom Lindskog VP Exploration

- ▶ Co-founder of SVI
- ▶ 25 years experience
- ▶ Proven oil finder
- ▶ Managed annual drilling programmes Western Canada of >250 wells

Roy Smitshoek

- ▶ 25 years experience
- ▶ Dome Petroleum and Renaissance Energy
- ▶ Iran, Tunisia, North Sea, United States

Steve Horton, Silverstone COO Based in Aberdeen

- ▶ 27 year career in BP
- ▶ Various senior roles:
 - ▶ Director for HSE, worldwide drilling operations
 - ▶ Drilling Manager, European Region drilling and well operations
 - ▶ Drilling Director, worldwide drilling operations
 - ▶ Asset Manager, Venezuela (Pedernales Field)
 - ▶ Manager, Alaska Region drilling and workover operations
 - ▶ Has lived and worked in UK, Korea, China, Papua New Guinea, Venezuela, Brazil, Texas, Alaska
- ▶ Runs Silverstone on the ground in Aberdeen
 - ▶ Aberdeen team being built around him

Silverstone Financial Capability

- ▶ Initial equity funding of \$20m drawn down (50:50 Lime Rock and SVI)
- ▶ Further \$20m later in 2006
- ▶ Lime Rock target investment for Silverstone ~\$50m
- ▶ SVI has ready access to capital markets in Calgary:
 - ▶ Brister track record
 - ▶ Completed C\$40m private placement in October
- ▶ Silverstone will be in a position to invest >\$75m of equity in a balanced portfolio of opportunities; with reasonable leverage significant additional funding capacity will be available

In Summary, Why Did Lime Rock Want To Do This Deal?

- ▶ Backing a three-time winner in Matt Brister
- ▶ Close alignment between SVI and Lime Rock (50:50)
- ▶ Combining successful Canadian small company approach with UKCS basin knowledge
- ▶ “War chest” and track record of management provides credibility with Majors and DTI
- ▶ Focus on creating value over the longer term

Silverstone's Perspective: Canadian Junior Producer

- ▶ Successful active participant in a large aggressive market
- ▶ Over 800 rigs, 20,000 wells/year, 5 mmoed
- ▶ Experienced maturing process of WCSB in 1980's
- ▶ Juniors played an important role in driving aggressive exploitation in the face of Majors' refocus
- ▶ Valuable experience in full cycle, heavy oil, tight gas, sour gas/oil
- ▶ Canadian Hunter, CNRL, Renaissance Energy

Stage looks similar today in the UKCS.

Attractiveness of the UKCS to a New Entrant

- ▶ Mature basin in decline?
- ▶ Data quality and access is excellent
- ▶ Fiscal terms attractive, investment environment stable (??)
- ▶ Regulatory barriers to entry are reasonable
- ▶ Regulatory evolution is improving access and quality of investment opportunities

Challenge: to meet increased return expectations of shareholders from smaller pools in a high-cost environment.

The Silverstone Business Plan

- 1. Combine** strengths to create a high performance platform
- 2. Develop** a portfolio of niche opportunities through a disciplined approach
- 3. Establish** a track record as an efficient explorer and low-cost producer
- 4. Become** a focused, profitable, mid-sized niche player in three to five years

1. Combine Strengths to Create a High-Performance Platform



- ▶ Energy focused private equity player
- ▶ Aberdeen & UK business experience
- ▶ Access to capital
- ▶ Prudent fiscal discipline



- ▶ Drilling bias
- ▶ Start-up discipline
- ▶ "A to Z"
- ▶ Access to capital



- ▶ North Sea operating experience
- ▶ Basin subsurface experience
- ▶ Established contacts

2. Develop Portfolio of Niche Opportunities Through a Disciplined Approach

- ▶ Develop all critical skill capabilities internally
- ▶ QC against peer opportunities, upgrade where possible
- ▶ Scale, cost of entry and repeatability are critical—pick the right trend
- ▶ Concentrate our efforts around early success to generate expertise and economies

3. Establish Track Record as an Efficient Explorer and Low-Cost Producer

- ▶ Continue to develop capacity and capability
- ▶ Drilling bias to develop expertise and advantage
- ▶ Acquire exploitable assets in areas of demonstrated expertise
- ▶ Exploitation experience in medium gravity oil projects
- ▶ Technology applications in tight sand fairways

Challenges Silverstone Needs to Address

- ▶ Deal flow complicated and cumbersome
- ▶ Regulatory flexibility to achieve “fit for purpose”
- ▶ Ownership transfer of mature assets
- ▶ Maintaining standards in the face of scarcity
- ▶ Finishing the construction project!

Overall, it's an exciting opportunity for a new entrant!