



**ITHACA**™  
E N E R G Y

Iain McKendrick CEO Ithaca Energy

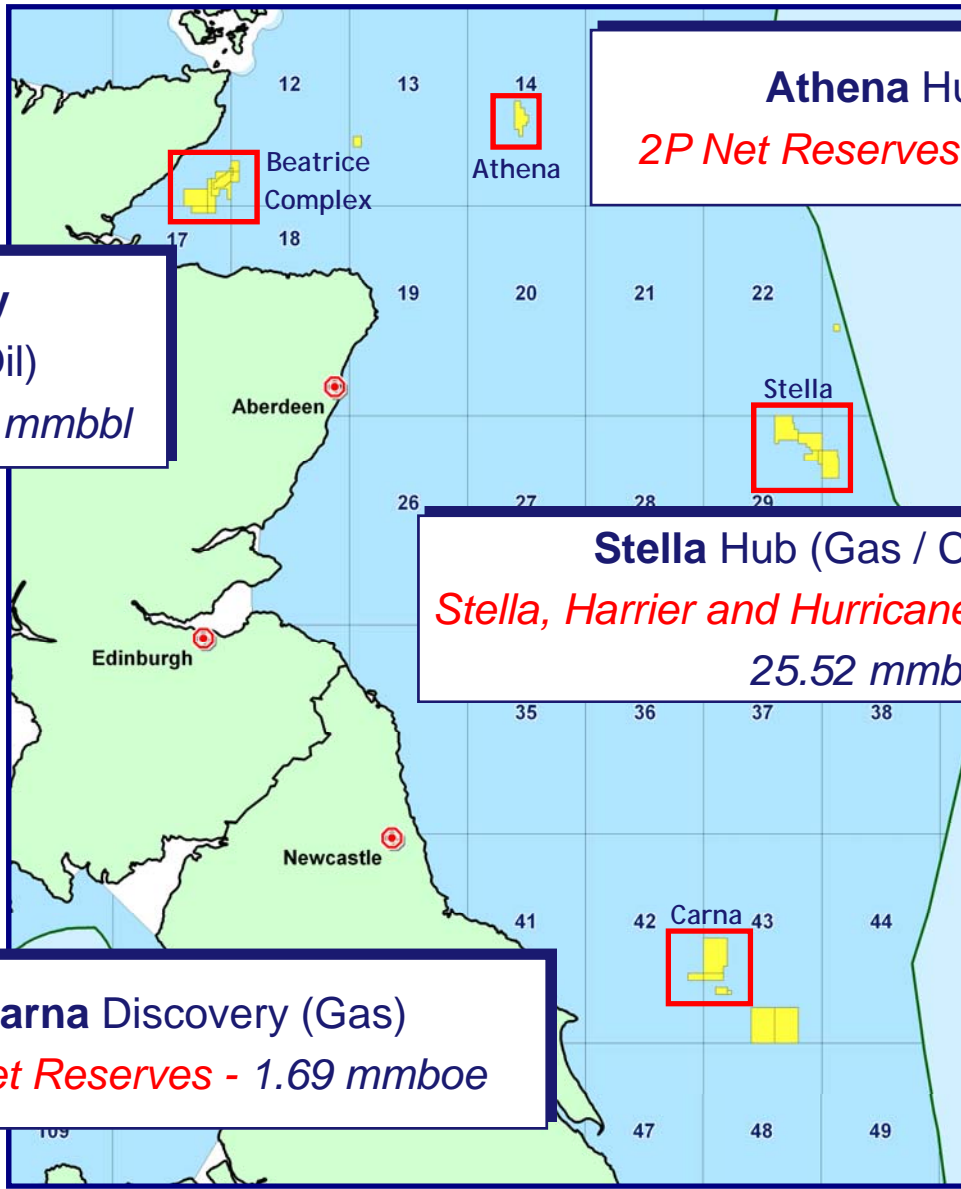
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Scottish Oil Club  
Edinburgh

# Small Oil Company Do's and Don'ts - Some Practical Advice



# Introduction to Ithaca

2P = Proved + Probable



**Athena Hub (Oil)**  
*2P Net Reserves - 5.49 mmbbl*

**Beatrice & Jacky**  
Production Hub (Oil)  
*2P Net Reserves - 4.48 mmbbl*

**Stella Hub (Gas / Condensate)**  
*Stella, Harrier and Hurricane 2P Net Reserves - 25.52 mmboe\**

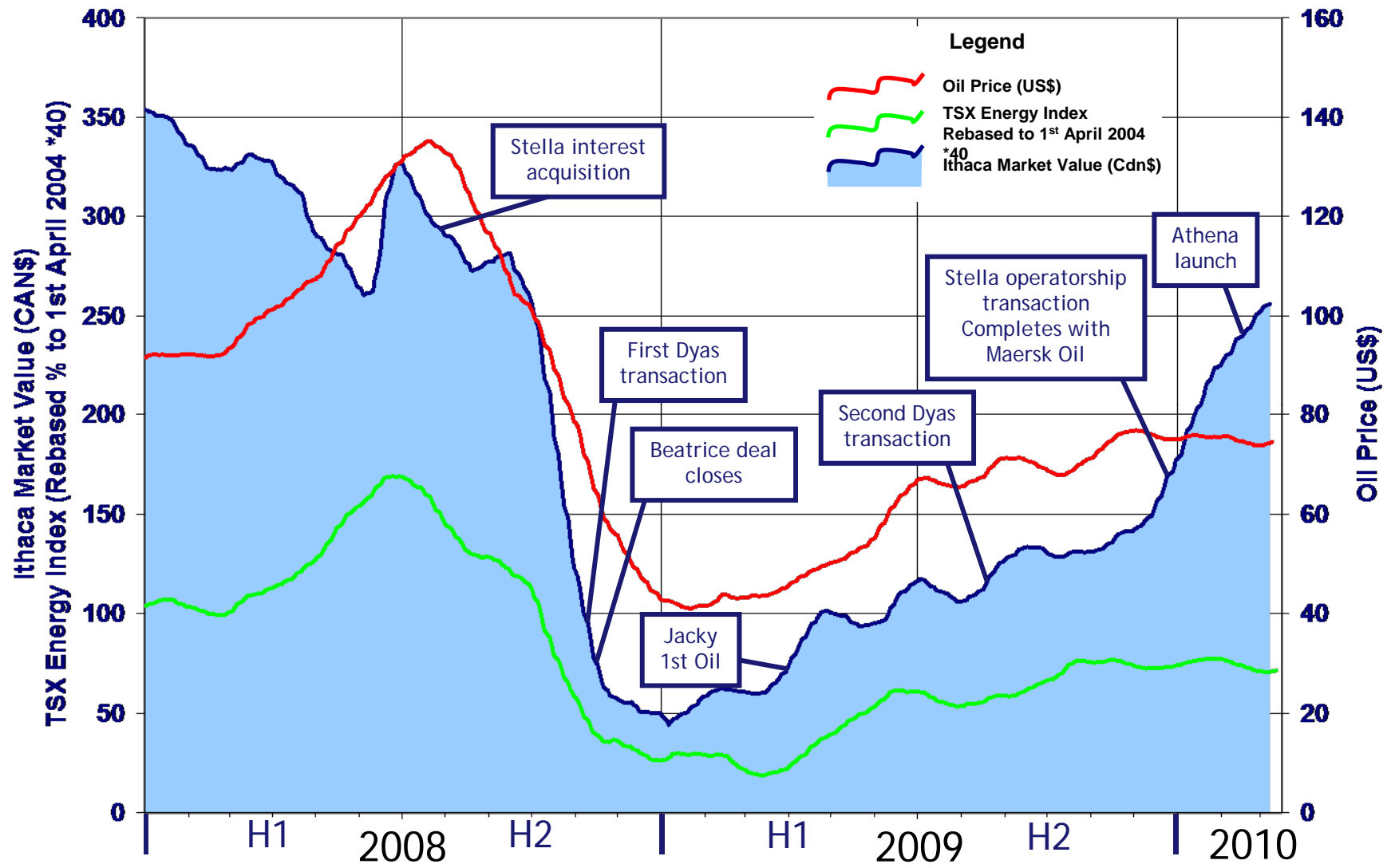
North Sea Focused  
Net 37.19 Mboe Reserves  
5 Core Areas  
4 Operated

**Carna Discovery (Gas)**  
*2P Net Reserves - 1.69 mmboe*

\* Post CMI Transaction



# The context of the advice



“There is a light at the end of the tunnel...and it’s not a train coming the other way”



# Can I give advice to the audience?

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- ◆ Prior to Ithaca multiple managerial positions with Total in UKCS, S.America and N.America
- ◆ Seen both sides
- ◆ Joined Ithaca as COO in Feb 2008 before becoming CEO in Dec 2008
- ◆ In the heat of the financial crisis worked on deals to release cash and eliminate debt
- ◆ Oversaw the bringing on stream of Jacky discovery in 2009



# North Sea Proving Ground

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- ◆ Cost and execution risk
- ◆ Higher Reward (Production Rate/Value)
- ◆ Established Infrastructure
- ◆ The greatest amount of investment is upfront
  - Plan, Plan and Plan again
  - Get the team right
  - Mitigate the execution risk

The UK system can be beaten (the UK weather cannot)  
- Ithaca bought Jacky onstream in 2 years from well



# Communicate





# Communicate

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- ◆ Do clarify the direction of the company
- ◆ Do communicate with all stakeholders (Staff, DECC, Contractors)
- ◆ With good communication to all involved inside and out even a small company has a fighting chance to weather the storms

Ithaca weathered the financial storm through active communication with all involved



# Scale







- ◆ Don't as a small company ignore the big picture
- ◆ Always prioritise getting through to production  
(and cashflow)
- ◆ But keep your eye on what can be added to the portfolio

'Don't smoke your own dope'



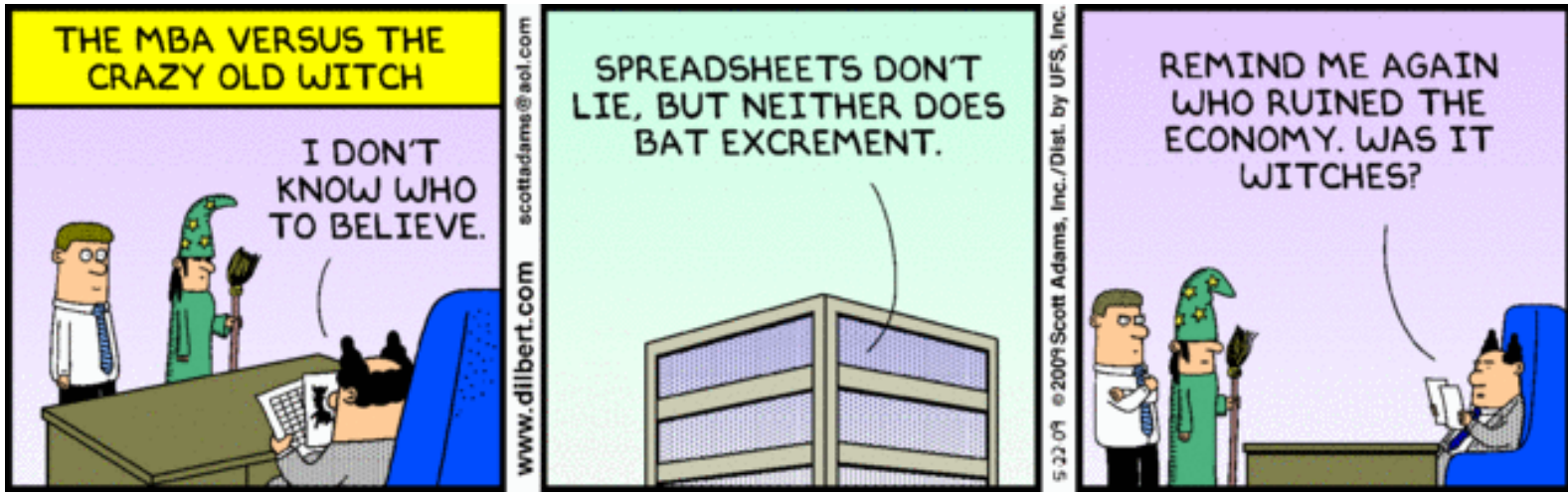


- ◆ The availability of money is key
- ◆ Banks are always a good starting point...but
- ◆ Wider thinking is essential
- ◆ Many financing options are available outside of the banks

Ithaca made 2 deals with Dyas an independent private company creating space to develop and no debt



# Pipeline of money





# Pipeline of money

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- ◆ Do pursue a constant flow of cash
- ◆ When times are 'good' actively manage the portfolio and spread the risk...don't wait
- ◆ Do find a balance between Debt and Equity
- ◆ Find manoeuvrability with future developments

Ithaca has strong cash flow with minimal debt but is constantly looking at deals, the banking market and equity market



# Cash Management





# Cash Management

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- ◆ Don't Overstretch
- ◆ Do resist the temptation to look at logs and look at bank balances instead
- ◆ Do look at hedging
- ◆ Don't drill 100%
- ◆ Do drill Turnkey
- ◆ Do always question the bank covenants

Ithaca manages cash on a weekly, monthly, annual and three yearly basis

Ithaca hedges commodity price to protect investment



# The 'team'



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# The Team

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- ◆ Do keep your team intact
- ◆ Invest in your team in good times and bad
- ◆ Always look to strengthen your team - look to add talent constantly

Ithaca increased its staffing through 2008/09



# Innovation





# Innovation

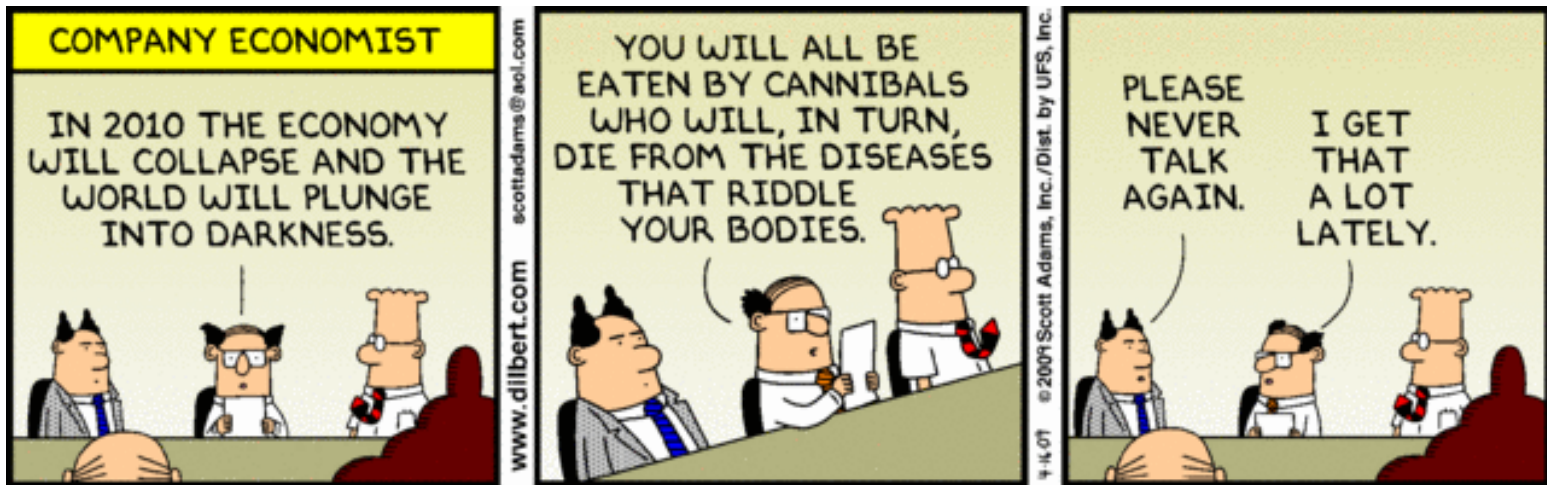
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- ◆ The market has evolved, old methods do not bring the same reward
- ◆ When prices move, move quickly and decisively to valorise
- ◆ Even now consider unconventional sources
  - Develop relations with strong supportive partners
  - Be up front with regulatory bodies
  - Create breathing space by having debt availability
- ◆ Innovating from both a business and a technical angle are imperative
- ◆ Never kid yourself that there is still easy oil to be had

Ithaca continues to place technical excellence as No1 but all staff are expected to be talented at business



# Planning for a rainy day





# Planning for a rainy day

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- ◆ Do build an acreage base for the future
- ◆ Discoveries and prospects that may not look viable today may quickly be attractive tomorrow
- ◆ When you have cash in hand make it work for you, buy and add to your portfolio

Ithaca dedicates large amounts of time to searching carefully for new acreage



# Portfolio effect

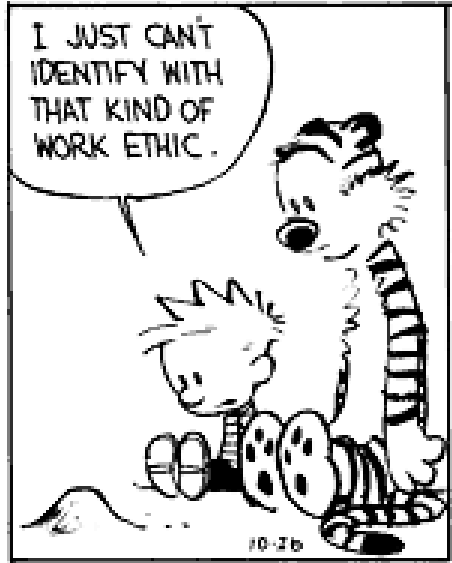


LOOK AT THIS ONE. HE'S CARRYING A CRUMB THAT'S BIGGER THAN HE IS, AND HE'S *RUNNING*.



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HEBA



10-20



# Portfolio effect

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- ◆ Do look for multiple eventualities with developments
- ◆ If available consider acreage with undeveloped discoveries giving you hub potential
  
- ◆ Ithaca's Greater Stella Area Hub
  - Develop Stella
  - Develop Stella and Harrier
  - Develop Stella, Harrier and Hurricane

A majority of Ithaca value is found in its  
Hub developments



# Risks for a small company







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- ◆ Cash, Cash, Cash or more so the lack of it
- ◆ Commodity Prices
- ◆ Credit Committees
- ◆ Sharks in the water
- ◆ Disputes created by others in distress

Ithaca has so far avoided or mitigated risks



# Summary

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- ◆ Small companies are still at the mercy of market
- ◆ Debt and cash management is vital
  - Act faster to access funding
  - Employ creative thinking
  - Eliminate debt quickly
- ◆ Recognize our own failings