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Mediterranean OIL & GAS Plc.

Ombrina Mare could be transformational

By Edward Roberts

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Mediterranean Oil and Gas has production, reserves, cash and a number of drillable targets. Positive results from Ombrina Mare, or Monte Grosso, have the potential to put the company firmly on the map.

Mediterranean Oil and Gas has many of the attributes one looks for in an E&P company. It's already a producer, giving it experience, credibility and cash flow. It's operating in stable European markets where infrastructure is good, prices are high for hydrocarbons, there is strong local demand, and political risk is minimal. The management is very experienced and well qualified, and there is still plenty of exploration potential in the portfolio to add a bit of spice to the mix.

Mediterranean Oil and Gas (MOG) aims to become a mid-sized producer, and this ambition is likely to be realised thanks to the development of its Ombrina Mare discovery. Ombrina Mare is the only oil field development, offshore Italy that is not controlled by a major oil company, which puts this small cap oil company on the map! The management is also hoping to increase the company's gas reserves significantly, through development of its Italian onshore and offshore Adriatic assets. The core production assets are in Italy and consist of 21 Italian concessions producing approximately 1 Billion cubic feet (Bcf) of gas per annum - approximately 500 barrels of oil equivalent per day (boepd) - with reserves of around 10Bcf gas and 5 million barrels of oil (MMbbls) of oil. Production revenues combined with an €18 million facility from the Bank of Scotland ensures the company is well financed into 2009.

Italy

Ombrina Mare (100% and Operator)

The Ombrina Mare oil discovery is clearly a key development project for the company. The field is located 7 kilometres offshore in 20 metres of water, near ENI's Miglianico discovery and Edison's giant Rospo Mare field. ELF drilled an appraisal well on Ombrina Mare in 1987, and produced 400 boepd from a vertical well with 18 degrees API oil with biogenic gas. With oil prices below USD20 at the time, this was of no interest to ELF, but in the realities of today, a field of this nature is very commercial. An oil storage facility is located within 25kms of the field. Moreover, with nearby refining capacity and infrastructure, the economics for the development of this field are exceedingly attractive. Current estimates put the oil in place volumes at 160-337MMbbls, with recoverable oil of 27.5MMbbls to 60MMbbls of contingent resources (including 5 MMbbls of 2P reserves) assigned to the field. Besides the main field, the block also contains two potential oil containing prospects with 10MMbls 20MMbbls prospective oil resources and three prospective gas leads. Any success on these satellite developments could be tied into the main infrastructure, reducing developmental costs considerably. The plan for the appraisal/developmental well (Ombrina Mare-2) is to drill vertically through the main Mio-Oligocene and Cretaceous reservoirs before drilling back horizontally through the Mio-Oligocene to provide a production leg for the well; aiming to achieve a production index many times that of the vertical reservoir section. A recent independent report certified a 2P reserve of 5MMbbls for the OM-1 well; this is likely to be increased significantly upon completion of the OM-2 well. Full development of the field will take around three years, with targeted production by 2011 of 8,000 to 13,500boepd from a 5-8 well development programme with horizontal and vertical wells. Mediterranean Oil and Gas is bullish about the prospects of Ombrina Mare, and has every right to be. The Rospo Mare field located to the south with 10 degrees API oil has been successfully developed and operating for several decades. A year after Elf discovered Ombrina Mare it introduced horizontal well technology at Rospo Mare, boosting production rates compared to vertical wells by a factor of 10. MOG intends to use similar technology at Ombrina Mare to that which has now been successfully operating at Rospo Mare for over 20 years.

Serra San Bernardo (22.89% and Operator)

MOG is in with some big industry players on this block, with joint venture partners being ENI and Total. The fact that MOG is not only a significant equity participant with these two industry giants but also the Operator of the permit speaks volumes about the Company's operational credibility in Italy. Big rewards attract big players and the block contains the Monte Grosso prospect. The fact that this is a deep well makes it technically challenging and, quite often, reservoir preservation and quality are key factors for these deep prospects. Prospective resources have been suggested in the region of 280MMbbls, with as much as 1.2 billion barrels of oil (BBbls) in place. This prospect is geologically similar to the Monte Alpi and Tempa Rossa oil fields located less than 20 km to the south of Monte Grosso and producing in excess of 100,000 BBbls, which suggests good potential. The management has great confidence in this project and has described its location as "arguably the most exciting province for large oil deposits in Western Europe". Crucially, a drill rig has finally been secured, and drilling is expected to commence in the 3rd quarter of 2008, taking a mind-boggling 12-14 months to complete! Worth the wait as the prize is of company-making proportions.

Malta (80% and Operator)

Malta is a hot area for exploration activity. Pretty much every super major on the planet has acreage just south of MOG's acreage in Malta, and MOG did well to get in before the big rush. The company holds an 80% working interest in blocks 4, 5, 6 and 7 in area 4, offshore Malta. These blocks cover a huge area - some 5000 square kilometres. A number of large prospects and leads have been identified, and further seismic was acquired during 2007 in order to mature some of these prospects to drill-ready status. The best estimate of the prospective resources identified was an impressive 1.5 billion barrels, with up to 14 billion barrels of oil in place. Leni Gas and Oil farmed into area 4 for a 20% working interest, by funding 2D and 3D infill seismic (approximately $5m USD), with the option to increase this interest to 50% by funding 80% of the first exploration well. MOG is also in the middle of negotiating production-sharing agreements on the Blocks, and it aims to start testing drill ready targets between 2009-2011.

Tunisia (25%)

In March 2006, MOG acquired a 25% interest in the massive 5,000 square kilometres Madjerda Block petroleum licence in North Tunisia. A prospect, Teboursouk, had already been identified in the Southern part of the block, and more 2D seismic lines were acquired to define prospects in the Northern part of the block. The Teboursouk-1 well was spudded on the 18th of February and reached target depth of 2,500 meters last week. So far, the well has turned up at least 5 metres of oil shows and a gas return of 0.5-3.3% while drilling the secondary Bahloul formation. The joint venture has decided to log the primary target zone and run a drill stem test (DST) on that section of the well with hydrocarbon shows. The results of those tests should be known in a couple of weeks. The well reached the primary target 200m deeper than expected. The cuttings have shown some fluorescence in the mud and some background gas indications; the well is to be electrically logged to determine the significance of these shows. As the first exploration well on the block, MOG is very pleased with the results, which have confirmed the depth and sequence of the primary and secondary targets, and confirmed the presence of an active hydrocarbon system on the block. With a 25% interest, this is a good project, but investors shouldn't get in a fuss if the well isn't deemed commercial as this is the first exploration well on a frontier prospect.

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France (11.154%)

The company holds an 11.154% working interest in a 652 square kilometre licence in the Aquitaine Basin, in France which contains the Grenade heavy oil discovery. Grenade is not a core asset for MOG, yet when the disappointing results of Grenade-3 were announced, shares in MOG fell disproportionately hard.

Conclusion

Pure exploration companies are finding it tough going at the moment. Cash is scarce and costs are rising. Put into this perspective, Mediterranean Oil and Gas is a fine candidate for any oil and gas investor looking to add quality to their portfolio. The mix of cash flow, management, development assets and exploration potential give the company a good mix of production, reserves, cash and drillable targets. MOG is one to keep an eye on.