GLOBAL ENERGY DEVELOPMENT

OIL & GAS

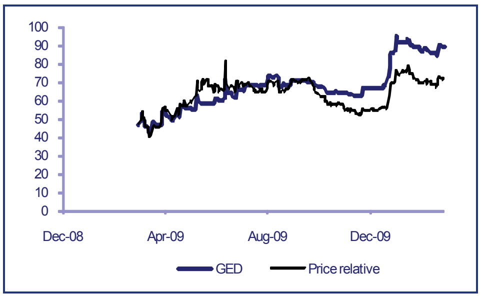
ROUTE MAP FOR COLOMBIA VALUE

Global has put forward its three-year, 13-well, plan to realise value from its large reserve base. The programme looks feasible, operationally and financially, and now the company must execute in order to demonstrate the latent value within the portfolio. We are raising our TP from 149p to 169p.

- **Strategy Plan for 2010–12 is Global Energy's (GED) most ambitious programme so far.** GED has 2P oil reserves in Colombia and Peru of 147mmbbls, yet just 4% of these reserves (on the Rio Verde licence) provides 53% of current production. Over 79% of the reserves lie in the Bolivar and Bocachico licences in Colombia's Magdalena Valley, but GED still has work to do to fully demonstrate the substantial commercial production potential of these two licences. In late 2009 GED carried out a complete review of its assets, and this has resulted in the new three-year plan, which consists of 13 wells with estimated capex of about $110m (including contingencies). The company anticipates that the full three-year plan can be achieved entirely using operating cashflow, but a decision to accelerate the programme or other factors could result in GED looking for financing alternatives.
- **Phase 1 – 2010/11 – Rio Verde licence cashflow.** In 2010, GED plans to drill two or three wells on the Rio Verde licence. The first well, Rio Verde-2 (an exploration well, but close to the producing Boral-1 well) is expected to spud imminently and we anticipate that this will be followed by development wells on the nearby Tilodiran field. GED believes that production from each of these wells could be around 750 bopd (net). We are more cautious on well deliverability and production start-up times, but still we think that average production for 2010 should be around 1,460 bopd (up from 1,100 bopd in 2009). In 2011 there should be three further wells, which we expect to result in average production of nearly 3,500 bopd in 2011.
- **Phase 2 – 2012 – Bocachico/Bolivar reserve focus.** The plan proposes seven wells on the Magdalena Valley licences in 2012. Both licences currently have proven and probable reserves and limited current production. While there should be a further uplift in average production from these wells, we think the greatest benefit would come from a demonstration of geological understanding and the ability to convert that into consistent, meaningful new production.
- **Raising TP from 149p to 169p.** We have now refined our anticipated production profile for Rio Verde, which has cut our forecast for 2010, but has led to higher levels in 2011 and 2012 than we previously anticipated. Our long-term Brent oil price assumption has also increased from $70 per barrel in November (when our GED initiation was published) to $80 per barrel now. As a result our TP increases from 149p to 169p.

Rating	CORPORATE
Target price (p)	**169**
Current price (p)	89.5
Shares outstanding (m)	35.4
Market cap (£m)	31.7
EV (£m)	41.7
Sector	Oil & Gas
Reuters/Bloomberg	GED
52-week range	42.5-96

Year-end Dec (US$)	2009A	2010E	2011E
Revenue (m)	22.2	34.2	87.5
Operating profit (m)	4.1	12.6	52.6
Pre-tax profit	2.7	11.5	51.3
Net income (m)	0.7	8.1	33.9
EPS (p)	1.3	13.8	57.9
Op. CF post tax (m)	6.5	16.7	52.9
Capex	6.1	19.9	45.5
Production (bopd)	1,097	1,459	3,474
Brent Price ($/bbl)	62.0	75.0	80.0



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MATRIX

22 MARCH 2010

CORPORATE CAPITAL

DISCUSSION & VALUATION

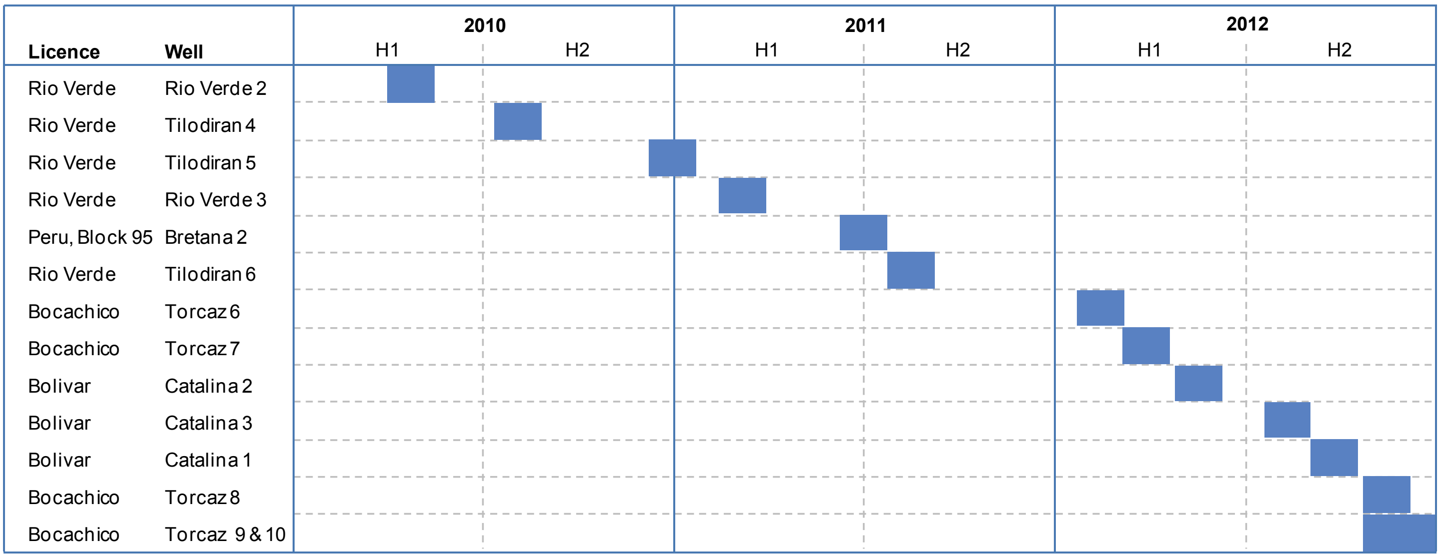
Global Energy is at the start of a very exciting schedule, designed to realise meaningful market value from its reserve base. The company, along with its reserve engineers, Ralph E Davis, has devised a programme that could be accomplished entirely from current cash and operating cashflow. We note, however, that this may be tight, especially in 2010, which we see as essentially a cashflow-neutral year. Hiccups in well deliverability or production timing could impact the operating cashflow, and so, to maintain the pace of the programme, alternative external financing remains an option.

2010 & 2011 are focussed on low-risk cashflow generation

2012 oriented towards demonstration of commerciality for the majority of GED's reserve base.

We see the 2010 and 2011 drilling programmes (excluding the Bretana well) as providing low-risk cashflow generation opportunities. Assuming the company delivers on this (timing, costs and production), we believe that that part of the programme alone should have a significant impact on the company's market visibility and stock rating. The bigger prize is for this cashflow to provide the foundation for a very busy drilling programme in 2012 on the main part of GED's reserve base (in the Bolivar and Bocachico licences). We see this phase as medium risk but high potential. While cashflow generation should remain important throughout the process, we think the primary task in 2012 will be to convert the large probable and even possible reserve base into proven and probable reserves and properly demonstrate the commerciality of these reserves.

Figure 1: Three-year Plan Drilling Timetable



Source: Matrix Corporate Capital

Our previous valuation and TP of 149p was based only on our 'core' valuation, which included projected development of the Rio Verde licences, together with only current production from the other licences. We have now refined our anticipated production profile for Rio Verde and this has cut our production forecast for 2010, but increased our 2011 and 2012 forecasts. Our long-term Brent oil price assumption has also increased from $70 per barrel in November (when our GED initiation was published) to $80 per barrel now. We have not included the projected increase in production from Bocachico and Bolivar from 2012 in our 'core' value, as we believe the outcome is still uncertain. The vast majority of reserves in these licences remains in the 'upside' value.

The effect of the production forecast adjustments and our increased oil price assumption raises our 'core' value and TP from 149p to 169p.

There is still considerable additional potential in the 2P reserves in Colombia and Peru that is not yet commercially proven. Consequently, we classify this as 'upside' and do not include it in our target price.

Figure 2: Global Energy Development Valuation

Licence	Field	Modelled reserves (mmbbls)	Net WI post royalty (%)	Pot. net WI res. (mmbbls)	NPV(10) WI ($/bbl)	Potential net unrisked value ($m)	Chance of success (%)	Risked NPV ($m)	Risked NPV (£m)	Risked NPV (p/share)	Unrisked NPV (p/share)
Alcaravan	Estero	0.59	88%	0.52	11.6	6.0	100%	6.0	3.7	10	10
Rio Verde	Tilo/Boral	7.87	92%	7.24	19.1	138.0	80%	110.4	66.9	174	218
Bolivar	Buturama	0.03	80%	0.03	0.8	0.0	100%	0.0	0.0	0	0
Bocachico	Torcaz	0.06	80%	0.05	10.9	0.5	100%	0.5	0.3	1	1
Los Hatos		0.08	92%	0.08	18.3	1.4	100%	1.4	0.8	2	2
Core' assets		**8.55**		**7.83**		**144.6**		**118.4**	**71.7**	**187**	**230**
Cash @ 31/12/09						3.1	100%	3.1	1.9	5	5
Options						2.4	100%	2.4	1.5	4	4
Debt @ 31/12/10						-16.6	100%	-16.6	-10.1	-26	-26
'Core' value								**107.3**	**65.0**	**169**	**213**
Bolivar		50.4	80%	40.4	5.3	212.1	20%	42.4	25.7	67	335
Bocachico		73.6	80%	58.9	5.3	309.3	20%	61.9	37.5	98	488
Peru - Block 95	Bretana	21.0	50%	10.5	5.3	55.2	10%	5.5	3.3	9	87
'Upside' value				**109.7**				**109.8**	**66.5**	**173**	**910**
Total value								**217.1**	**131.6**	**343**	**1,123**

Source: Company data; Matrix Corporate Capital

FINANCIALS

Figure 3: Income Statement

	2008A	2009A	2010E	2011E	2012E	2013E	2014E	2015E
Net production post royalty (bopd)	1,200	1,097	1,459	3,474	3,210	2,368	1,906	1,626
Actual net post royalty production (bbls)	438,007	401,700						
Net production post royalty (bbls)	**431,857**	**400,241**	**532,389**	**1,267,849**	**1,171,630**	**864,492**	**695,531**	**593,597**
Oil price	**98.5**	**62.0**	**75.0**	**80.0**	**80.0**	**80.0**	**80.0**	**80.0**
Total revenue post royalty, transport	**32.8**	**22.2**	**34.2**	**87.5**	**80.8**	**59.6**	**48.0**	**40.9**
Actual production costs ($m)								
Total production costs ($m)	**9.1**	**8.2**	**9.6**	**12.4**	**12.6**	**11.3**	**9.5**	**9.1**
Other income	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other income correction	0.0							
Expensed exploration	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total G&A	**6.3**	**4.4**	**4.5**	**4.7**	**4.9**	**4.9**	**4.9**	**5.4**
Cash	6.1	4.2	4.5	4.7	4.9	4.9	4.9	4.9
- Increase		**-31%**	**5%**	**5%**	**5%**	**0%**	**0%**	**0%**
Share based payments	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.5
EBITDA	**17.5**	**9.7**	**20.1**	**70.4**	**63.3**	**43.5**	**33.5**	**26.5**
Total DD&A ($m)	**6.4**	**5.6**	**7.5**	**17.8**	**16.5**	**12.1**	**9.8**	**8.3**
DD&A ($m)	**6.4**	**5.6**	**7.5**	**17.8**	**16.5**	**12.1**	**9.8**	**8.3**
DD&A ($/bbl)	14.5	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Total CoS ($m)	15.5	13.8	17.1	30.2	29.1	23.4	19.3	17.4
Profit from operations	**11.2**	**4.1**	**12.6**	**52.6**	**46.9**	**31.3**	**23.8**	**18.1**
Unsuccessful exploration w/o ($m)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Impairment charge ($m)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total finance costs ($m)	**-1.2**	**-1.4**	**-1.1**	**-1.3**	**-1.1**	**-1.0**	**-0.4**	**0.4**
Finance income ($m)	0.2	0.0	0.1	0.0	0.1	0.2	0.9	1.6
Finance expense ($m)	-1.4	-1.4	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Profit before tax ($m)	**9.9**	**2.7**	**11.5**	**51.3**	**45.8**	**30.3**	**23.4**	**18.5**
Total tax ($m)	**-2.6**	**-2.0**	**-3.5**	**-17.5**	**-15.6**	**-10.3**	**-8.0**	**-6.3**
Colombian tax ($m)	-2.6	-2.0	-3.5	-17.5	-15.6	-10.3	-8.0	-6.3
Tax rate	20%	-74%	30%	34%	34%	34%	34%	34%
Retained earnings ($m)	**7.3**	**0.7**	**8.1**	**33.9**	**30.2**	**20.0**	**15.5**	**12.2**
Shares outstanding (m)	**35.3**	**35.4**	**35.4**	**35.4**	**35.4**	**35.4**	**35.4**	**35.4**
EPS (US cents)	20.7	2.0	22.8	95.6	85.3	56.4	43.6	34.5
Exchange rate ($/£)	1.85	1.57	1.65	1.65	1.65	1.65	1.65	1.65
Basic EPS (p)	**11.2**	**1.3**	**13.8**	**57.9**	**51.7**	**34.2**	**26.4**	**20.9**

Source: Company data, MCC estimates

Figure 4: Cashflow Statement

	2008A	2009A	2010E	2011E	2012E	2013E	2014E	2015E
Cashflow from operating activities								
Op. profit before int/tax	11.16	4.1	12.6	52.6	46.9	31.3	23.8	18.1
Depreciation & depletion	6.36	5.6	7.5	17.8	16.5	12.1	9.8	8.3
Write offs	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in receivables	3.32	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Change in inventories	-0.41	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Change in payables	2.41	-1.9	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.39	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Share based payments	0.17	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Cash generated from operations	**24.39**	**8.1**	**20.1**	**70.4**	**63.3**	**43.5**	**33.5**	**26.5**
Tax paid	-2.2	-1.6	-3.5	-17.5	-15.6	-10.3	-8.0	-6.3
Net cashflow from operations	**22.2**	**6.5**	**16.7**	**52.9**	**47.7**	**33.2**	**25.6**	**20.2**
Cashflow from investing activities								
Tangible investment in Colombia	**-21.8**	**-6.4**	**-20.0**	**-36.5**	**-45.0**	**-10.0**	**0.0**	**0.0**
Alcaravan investment		0.5	0.0	0.0	0.0	0.0	0.0	0.0
Rio Verde investment		5.4	17.0	28.5	0.0	0.0	0.0	0.0
Bocachico investment		0.0	1.0	3.0	45.0	10.0	0.0	0.0
Bolivar investment		0.0	2.0	5.0	0.0	0.0	0.0	0.0
Los Hatos investment		0.5	0.0	0.0	0.0	0.0	0.0	0.0
Tangible invesment in Peru		0.0	0.0	-9.0	0.0	0.0	0.0	0.0
Intangible investment in Colombia	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase/Sale of assets	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Interest received	0.2	0.0	0.1	0.0	0.1	0.2	0.9	1.6
Change in short term deposits	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total cash flow from investing activities	**-22.2**	**-6.1**	**-19.9**	**-45.5**	**-44.9**	**-9.8**	**0.9**	**1.6**
Cashflow from financing activities								
Net proceeds from issue of equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net proceed from issue of debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net proceeds from issue of convertible bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest paid	-0.9	-1.0	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Total cashflow from financing	**-0.9**	**-1.0**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.2**
Net change in cash	-0.9	-0.7	-4.5	6.2	1.7	22.1	25.2	20.6
Operating cashflow (USc/share)	69.0	22.8	56.8	198.6	178.6	122.6	94.6	74.7
Operating cashflow (p/share)	37.3	14.5	34.4	120.4	108.3	74.3	57.3	45.3
Cash at start	**4.6**	**3.7**	**3.0**	**-1.4**	**4.8**	**6.4**	**28.6**	**53.8**
Net period cashflow	-0.9	-0.7	-4.5	6.2	1.7	22.1	25.2	20.6
Other effects	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash at end of period	**3.7**	**3.0**	**-1.4**	**4.8**	**6.4**	**28.6**	**53.8**	**74.3**

Source: Company data, MCC estimates

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