

Company Name: Global Energy Development (01/09/11)

Stock Sector: Oil & Gas Producers

Stock Ticker: GED:AIM

Company Website: www.globalenergyplc.com



Last Closing Price: 87.5p

Market Capitalisation: £31.30Million

52 Week High: 112.5p

Shares In Issue: 35.767 Million

52 Week Low: 59.5p

Company Profile

Global Energy Development is a petroleum exploration and production company focused on Latin America. The company holds six contracts in the countries of Colombia and Peru. Five of the company's Contracts, Alcaravan, Bolivar, Bocachico, Rio Verde and Los Hatos are all 100% owned and located in Colombia. The one remaining Licence Contract is located in Peru, the Block 95 Area Licence Contract which Global Energy Development holds a 40% interest.

| Contract Name | Interest | Country | Basin | Expiry Date | Acreage | Status | Initial Royalty | Proved Reserves (BOE)** | 2P Reserves (BOE)** |
|---------------|----------|----------|------------------|-------------|-----------|---------------------------|-----------------|-------------------------|---------------------|
| Bolivar | 100% | Colombia | Middle Magdalena | 12/07/24 | 21,000 | Production & Development | 20% | 24.4M | 33.2M |
| Bocachico | 100% | Colombia | Middle Magdalena | 07/03/22 | 54,700 | Production & Development | 20% | 14.9M | 75.9M |
| Rio Verde | 100% | Colombia | Llanos | 14/05/34 | 75,000 | Production & Development | 10.5% | 2.1M | 3M |
| Alcaravan | 100% | Colombia | Llanos | 13/02/21 | 24,000 | Production & Development | 20% | 1.3M | 3.9M |
| Los Hatos | 100% | Colombia | Llanos | 04/06/34 | 295 | Production & Development | 8% | 0.2M | 0.2M |
| Block 95 | 40%* | Peru | Marañon | 07/06/35 | 1,275,000 | Development & Exploration | 5% | 11.9M | 11.9M |

*Farm-out agreement secured with Gran Tierra Energy in December 2010.

**Correct at 31 December 2010.

Market Information

Global Energy Development is one oil & gas exploration and production company which appears to trade under the radar of many private investors. The company which listed on AIM in 2002 delivered solid performances and progressive growth, year after year up to 2009. The company like many of its peers was hit by the effects of the global recession and declining oil price.

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------------|----------|---------|---------|---------|---------|----------|----------|----------|----------|
| Revenue | \$7.6M | \$8.6M | \$11.0M | \$19.0M | \$21.1M | \$27.3M | \$32.8M | \$22.2M | \$23.8M |
| Gross Profit | \$1.9M | \$3.2M | \$5.3M | \$9.3M | \$9.5M | \$13.8M | \$17.3M | \$8.3M | \$5.2M |
| PBT | (\$1.9M) | \$0.8M | \$3.1M | \$4.8M | \$4.7M | \$8.9M | \$9.9M | \$2.7M | (\$3.2M) |
| Net Income | (\$2.5M) | \$1.0M | \$2.6M | \$4.1M | \$3.5M | \$7.0M | \$7.3M | \$0.7M | (\$2.1M) |
| Capex | \$2.8M | \$4.4M | \$8.7M | \$18.5M | \$15.2M | \$13.3M | \$22.7M | \$6.4M | \$10.8M |
| Total Assets | \$56.1M | \$56.8M | \$63.7M | \$82.5M | \$95.2M | \$103.9M | \$116.6M | \$116.0M | \$123.2M |

Of course investors are primarily interested in the cashflow and profits which will be generated in future years of the company's operations and that is what we have outlined below as we discuss the current turnaround plan and potential financial performance of Global Energy Development.

Global Energy Development operates in Colombia, during this first part of our research report we have highlighted some of the obstacles which have been previously encountered by the company and hurdles which the company may have to pass in the future.

The company reported its first financial loss in 2010 as production decreased and costs increased. Colombia presents many risks to commodity exploration companies and its investors. Colombia does not currently have the ideal level of infrastructure to deal with the yearly increases in production output from the oil & gas companies operating within the region. Average daily production in 2010 reached 750,000 barrels per day and this has already increased to over 900,000 barrels per day during 2011. Reports suggest that production is set to increase to 1,450,000 barrels per day by 2013. Although work is being carried out to improve oil & gas infrastructure and increase Colombia's pipeline capacity to 1.4 million barrels per day by 2014, there could still be a bottle neck effect seen in the pipeline infrastructure for the country. This is obviously a problem many countries would be glad to have, but one which can affect many of the junior oil companies operating in Colombia. Global Energy development found itself with increasing service costs and escalating transportation costs as a result of this significant production increase across the country. The company had to truck portions of its production to unloading facilities wherever those facilities became available and experienced increasing inventory levels. The company has since taken actions to help deal with these problems and has now expanded its customer base enabling it to maintain low inventories and sell its production on a timely basis. There are also early stage plans in Colombia to develop a new pipeline from the oil-rich Llanos Basin to the Pacific coast which would allow companies to tap into Asian markets. Global Energy Development holds three contracts, the Rio Verde, Alcaravan and Los Hatos in the Llanos Basin. A project of this size is however likely to engage many environmental obstacles and would take at least 4-5 years to bring online, but the plan does highlight the size and amount of work which is currently being considered and undertaken to help Colombia deal with this highly desirable problem.

The increasing production from Colombia comes on the back of increased exploration investment which has flooded into the country as the threat of Columbia's rebel leftist guerrillas, Fuerzas Armadas Revolucionarias de Colombia (FARC) became reduced. Colombia's FARC is renowned for its economically damaging attacks and ransom kidnappings which have deterred many investors in the past, but this threat has become reduced in recent years thanks to the Plan Colombia and anti-rebel program. The Plan Colombia and anti-rebel program which was boosted by billions of dollars in aid from the US has enabled the Colombian military to take control of much of the territory and significantly reduced the number of attacks by the guerrillas on the oil industry infrastructure. There has also been a reduction in the number of kidnappings by the rebel group, with registered kidnappings falling to 282 in 2010, from a high of over 3,500 registered cases in 2000. Although these reductions have occurred, the significant threat is still clearly visible and highlighted by the recent increase in kidnappings during 2011 as the rebel abductors target oil workers. The FARC's recent step up in kidnapping of oil workers and renewed attacks on oil infrastructure has led to suggestions that the FARC wish to undermine the Colombian governments claims that it is now safe to invest in Colombia and thus deter foreign investment. We have highlighted this threat because we feel it is important for investors to understand the risks surrounding Colombia and some of the possible explanations as to why Global Energy Development's shares are trading at a significantly discounted value.

Global Energy Development Investment Case

The question now appears to be, where is the investment case for Global Energy Development?

Financial performance has declined in the last two reported full year accounts, production decreased in 2010, and the company operates in a highly volatile country. Well, although 2010 was the worst recorded financially for the company, the period of consolidation and prudent control of cash preservation since 2009 has put Global Energy Development in a fantastic position to strongly outperform over the coming years, and we are beginning to see this come to fruition now. Where else on the UK AIM market can you invest in a company currently valued at under £32 million that generates revenue from production of over 2,500 bopd, with Proved plus Probable 2P Reserves of 123.6 million barrels of oil?

In 2010 the company outlined a highly ambitious 3 year programme to increase production through the drilling of 13 strategically located wells and one well re-entry. The company also outlined plans for two seismic data acquisitions at the Bolivar and Bocachico contracts. (Details listed below)

The company is hoping to complete the programme using cashflow generated from its oil production but has not ruled out the possibility of using finance facilities to accelerate the programme. The first well (Rio Verde 2) of the programme was drilled at the company's Rio Verde contract and was tested in June 2010. Log evaluation of the well had initially indicated commercial hydrocarbons with a total net productive pay of 23 feet in the Middle Gacheta formation and 10 feet in the Lower Gacheta formation. Unfortunately, the company suffered a setback at the Rio Verde 2 well when testing of four separate zones produced no commercial hydrocarbons. The company was forced to re-evaluate the timetable of the 3 year programme and the next development well in the programme, the Tilodirán 4, was re-scheduled from H2 2010 to H2 2011. The Tilodirán 4 is also located on the Rio Verde contract and will target the Gacheta and Ubaque formations which proved productive in the company's Tilodirán 2 and Tilodirán 3 wells. Both of these wells showed initial daily production of over 800 bopd and currently contribute significantly to the company's overall production.

We have included a list of wells/activity which the company plans to complete and the proposed order for their execution.

Completed Wells/Activity

Rio Verde 2 – Dry Well (Tested in June 2010).

Period of re-assessment and consolidation, the company remains committed to the programme.

Tilodirán 2 – Successful workover completed.

Tilodirán 3 – Successful workover completed.

Boral 1 – Successful workover completed.

Bolivar Seismic – Engaged Third Coast Enterprises, Inc. to aid in the design of an approximately 100 square kilometre 3D survey over the Bolivar Association Contract Area. The company is also in the process of soliciting bids for selection of an acquisition company (April 2011).

Bocachico Seismic – Engaged Third Coast Enterprises, Inc. to aid in the design of an approximately 200 square kilometre 3D survey (May 2011).

Upcoming Wells/Activity

Tilodirán 4 – Scheduled for H2 2011

Tilodirán 5 – Scheduled for H2 2011

Bolivar Seismic – News due on the design phase, move to permitting & acquisition phase.

Bocachico Seismic – News due on the design phase, move to permitting & acquisition phase.

Unscheduled Wells

Tilodirán 6

Block 95 Exploration well – (Est. by Gran Tierra Energy, H2 2012)

Torcaz 6 – Bocachico Contract
Torcaz 7 – Bocachico Contract
Catalina 2 – Bolivar Contract
Catalina 3 – Bolivar Contract
Catalina 1 – Re-entry well
Torcaz 8 – Bocachico Contract
Torcaz 9 – Bocachico Contract
Torcaz 10 – Bocachico Contract

Although physical drilling currently remains dormant at the company's Colombian Licence Contracts, Global Energy Development has been working to improve production from its current producing wells and has secured a farm-out agreement with Gran Tierra Energy at its Block 95 Licence in Peru.

Block 95 Farm-out Agreement

Global Energy Development entered into a farm-out agreement with Gran Tierra Energy (GTE) at the end of 2010 in a move which would see the company reduce its stake in the licence to 40%, with the new operator GTE taking a 60% interest. GTE will now assume 100% of the costs for the first exploration well up to a maximum of US\$15 million and will pay Global Energy Development US\$2 million for previous costs incurred on the licence. Under the terms of the agreement, GTE will become the operator of the Contract, subject to and following approval from the Peruvian authorities. The transfer of operatorship is expected to be completed within 2011 with the first exploration well planned for H2 2012.

Well Workovers Completed

The company has completed workover programmes at the Boral 1, Tilodirán 2 and Tilodirán 3 wells. In early June 2011 the company announced that following the workovers, production had been increased from 1,100 bopd to 2,200 bopd. The Tilodirán 2 and Tilodirán 3 wells were producing at a combined stabilized rate of 1,800 bopd, with oil gravities ranging from 15.3-16.2 degrees API. The workover at the Tilodirán wells targeted various un-perforated productive intervals in the middle and lower Cretaceous formations and allowed the company to quickly increase production while taking advantage of the increasing price of oil. The Vasconia blend heavy crude oil produced at the Tilodirán wells is sold at a premium price to that of West Texas Intermediate due to favourable market conditions.

The news quickly got better for shareholders when less than 2 weeks later, Global Energy Development announced that production had reached sustainable levels of 2,520 bopd. This further improvement came as a result of improved surface facilities and capabilities. The total uplift in production represented a near 130% increase from the 1,100 bopd level seen just a few weeks earlier.

We have taken a quick look at how this could affect the company's earnings for the fiscal year ending 31 December 2011.

2011 Production

1 Jan – 31 May - 1,100 bopd (approx.) = 166,100 BOE
1 June – 20 June - 2,200 bopd (approx.) = 44,000 BOE
20 June – 30 Nov - 2520 bopd (approx.) = 408,240 BOE
1 Dec – 31 Dec – 3000 bopd+ (approx.) = 93,000 BOE

2011 Total Production = (approx.) 711,340

Total Revenue @ \$85/barrel = \$60,463,900

The company has arranged for the sale of its increased production from the Tilodirán wells at a premium to WTI. Many analysts have forecasted a long term price of \$90/barrel for WTI. We have been more conservative and estimated a long term WTI price just over \$80/barrel and believe Global Energy Development will realise an average sale price of at least \$85/barrel throughout 2011.

Royalty tax = (approx.) \$6,348,709 – 10.5% @ Rio Verde Contract

A large percentage of the company's production will come from the Rio Verde Contract and this will be further increased as the next three wells in the development program are all planned for the Rio Verde Contract. This Licence carries an associated 10.5% royalty tax as indicated in the Licence Contract Information above.

Estimated cost of sales excluding DD&A = (approx.) \$14,226,800**Estimated cost of sales including DD&A = (approx.) \$24,541,230**

Comment From Global Energy Developments 2010 Annual Accounts:

"2010 also saw the Company complete a vigorous and successful compliance programme across all disciplines of its operations including environmental, social and technical operational efforts. In addition, the Company reorganised its administrative structure to concentrate most administrative functions in Colombia where its principal operations are located. We look forward to reaping the benefits of these efficiency and cost reduction actions in 2011."

Admin expenses = (approx.) \$5,500,000

The company has consolidated and restructured its management team to decrease general and administrative costs. It has switched focus to Bogota, the location of the company's operations office in Colombia.

Finance Costs = (approx.) US\$3,268,357

The company's short term bank loan was due for re-payment on 3 June 2011. The balance outstanding at 31 December 2010 was \$1,900,000 and carried a 7.5% annual interest charge.

HKN loan of \$5,000,000 is not due for repayment until September 2012 but carries an annual interest charge of 10.5%. The balance outstanding at 31 December 2010 was \$4,900,000.

There are two sets of fixed-rate convertible loan notes outstanding. The balance of the first loan notes issued in 2005 stands at \$5,798,000, these notes can be converted to ordinary shares at a fixed rate of \$1.78:£1 and at a fixed price of 305.8p at any time. If the notes are not converted they are due for repayment in full on the 30 October 2012. The second sets of loan notes issued in 2006 are due for repayment in full on 8 December and currently have a balance of \$11,303,000. These notes can be converted to ordinary shares at a fixed rate of \$1.90:£1 and at a fixed price of 179p. The 2005 loan notes will incur a fixed 7% interest charge per quarter of the 2011 year, resulting in an interest charge of approx. US\$1,623,440. The 2006 loan notes will incur an annual interest rate charge of 6% to 8 December 2011 and a 7% interest charge from 8 December 2011 – 31 December 2011. The charge resulting from the 2006 loan notes for 2011 will be approx. US\$685,301. There is also US\$385,000 of accredited interest charged to the statement of comprehensive income over the life of the notes.

Commitment to drill 2 Rio Verde wells in 2011 = \$21,294,000

As part of the contractual obligations in association with the Rio Verde Licence Contract, the company is obliged to drill 2 wells during 2011. These will be the Tilodirán 4 and Tilodirán 5 wells. The company

indicated capital commitments of \$21,294,000 in respect of the two wells when it released the 2010 annual accounts in March 2011.

Other Investment Activities could range from just a few \$million to several \$million dependent on the work carried out. If the company precedes with the acquisition of the Bolivar and Bocachico 3D seismic data during 2011 the cost will run to approx. \$8 million dependent on payment completion. This would be in addition to the \$21,294,000 outlined for the Tilodirán 4 and 5 wells.

Potential Income For 2011

| | |
|-----------------------------|---------------------|
| Revenue - | \$60,463,900 |
| Royalty payment - | (\$6,348,709) |
| Revenue net to GED - | \$54,145,191 |
| Cost of sales Inc DD&A - | (\$24,541,230) |
| Gross profit - | \$29,573,961 |
| Administrative expenses - | (\$5,500,000) |
| Operating profit - | \$24,073,961 |
| Finance expense - | (\$3,268,357) |
| Pre-tax profit - | \$20,805,604 |

Cash generated exc. increase/decrease in trade receivables and payables, inventories and other provisions:

| | |
|---------------------------------------|--|
| Operating profit - | \$24,073,961 |
| DD&A (approx.) \$14.5/barrel - | \$10,314,430 |
| Cash generated - | \$34,388,391 |
| Tilodirán 4 & 5 drills - | \$21,294,000 |
| Other investing expenditure - | \$8,000,000+ (Dependent on Bolivar & Bocachico 3D seismic) |
| Total Investing expenditure - | \$29,294,000 |
| Cash surplus exc tax payment - | \$5,094,391 |

Global Energy Development had cash & cash equivalents of \$7,344,000 at 31 December 2010. We believe the company will not need to raise any capital during 2011 and may add to this current cash balance dependent on investment expenditure. The company may also take the decision to re-pay some of the outstanding HKN loan detailed above.

Immediate Focus

The company's immediate focus remains at the Rio Verde Contract with the drilling of the Tilodirán 4, 5 and 6 wells all to come during the next 12/18 months. This will enable the company to unlock and add further reserves to its proven resource category while boosting both production and revenue. While this remains the immediate focus of the company, it is also undertaking work via the acquisition of 3D seismic data at the Bolivar and Bocachico Contracts. The 3D seismic data at Bolivar will be used to determine the intersection of fracture systems in the currently and previously produced carbonates reservoirs and define future drilling locations. At Bocachico, the company plans to use the data to define areas of improved reservoir quality and select future drilling locations. The company has always stated that where necessary, it would seek a potential partner to accelerate the proposed drilling programme and this may well be the case for each of the Licence Contracts discussed above. The company said that it had begun an aggressive plan in 2011 to seek partners for the development of its Rio Verde Contract. While no news has been released regarding any further farm-outs, we expect that this may be the route taken by the company to accelerate its drilling activities at the Bolivar and Bocachico Contracts, where the vast majority of its current Proved Reserves are contained.

The two contracts not discussed in our research report thus far are the Alcaravan and Los Hatos Contracts. The Las Hatos contract is considered fully developed by the company and no further exploratory work has been planned. The Alcaravan contract contains the Palo Blanco and Canacabare fields which represent additional development opportunities for the company. The company is considering acquiring 3D seismic surveys over both fields to identify additional drilling locations. At 31 December 2010, the Alcaravan Contract had provided the largest contribution (1.66 million barrels) to the company's total production (3.4 million barrels) since it listed on AIM in 2002.

Currently Under Offer

Global Energy Development (GED) is currently the subject of a mandatory cash offer at 72p per share. The offer is mandatory because parties holding shares in the company are deemed to be acting in concert and will hold over 50% (59%) once Lyford (a member of the concert party) has completed its acquisition of 3,565,936 ordinary shares in GED from the United States Marshals Service, which it did on the 29 August 2011. The Independent Directors of GED have recommended that Global Shareholders do not accept the Offer. Full details of the mandatory offer can be found below. The mandatory offer has created a stand-off effect on the company's shares with very few investors willing to take the plunge until the offer is formerly dismissed.

RNS Release Dated 16 June 2011 From Global Energy Development:

****Start****

Earlier today, Lyford announced that it had acquired a beneficial interest in Global through entering into an agreement to acquire 3,565,936 Global Shares, representing an interest of approximately 9.97 per cent. in Global, from the United States Marshals Service (the "USMS"), at a price of approximately US\$95.9 cents per Global Share (equivalent to approximately 59.2p per Global Share based on a closing mid exchange rate of US\$1.62:£1 on 15 June 2011) (the "Acquisition"). Following completion of the Acquisition, Lyford will be interested in 8,897,236 Global Shares, representing approximately 24.88 per cent. of the issued share capital of Global.

Lyford is a company incorporated in the British Virgin Islands which is controlled by Brean. Brean also controls approximately 52.8 per cent. of HKN, a US company traded on the NYSE Amex, which in turn holds approximately 33.25 per cent. of Global's issued share capital.

Phyllis Quasha, who controls Brean, also controls Evansville, which in turn holds approximately 0.49 per cent. of Global's issued share capital.

In addition, Mr Mikel Faulkner, a director of both HKN and Global, holds approximately 0.66 per cent. of Global's issued share capital.

For the purposes of the Code, Phyllis Quasha, Brean, HKN, Evansville and Mikel Faulkner are deemed to be acting in concert with Lyford (together, the "Concert Party"). Immediately prior to the Acquisition, the Concert Party was beneficially interested in approximately 49.31 per cent. of Global's issued share capital. Following completion of the Acquisition, the Concert Party will be beneficially interested in approximately 59.28 per cent. of Global's issued share capital.

As a result of the Acquisition, under Rule 9 of the Code, the Concert Party is obliged to make a mandatory cash offer to acquire the entire issued share capital of Global not already owned by members of the Concert Party, conditional only upon HKN receiving such acceptances which will result in the Concert Party holding more than 50 per cent. of the Global Shares. Accordingly, following consultation with the Takeover Panel, HKN is announcing the terms of a mandatory cash offer to be made to the shareholders of Global at a price of 72p per share.

The Offer will comprise 72p in cash for each Global Share valuing the whole of Global's existing issued share capital at approximately £25.8 million.

The Offer Price is final and will not be increased.

The Independent Directors of Global recommend that Global Shareholders do not accept the Offer.

****End****

Summary

Private investors spend many years searching and investing in small cap oil stocks looking for multiple returns on their investment and we believe Global Energy Development has the potential to deliver just that. The company has fewer than 36 million shares in issue, of which nearly 60% are tightly held by the Concert Party (offering group). It goes without saying that these shares could well be subject to large volatile movements on any bit of positive/negative news. As the second half of 2011 comes to a close we believe Global Energy Development will become one of the hotly tipped stocks for 2012. Based on current production alone the company is significantly undervalued at £31.5 million (87.5p per share). We initially introduced the stock to our viewers in May 2011 when the company's share were trading at 64p, but the 130% increase in production has left us firmly believing that there is much more to come from Global Energy Development over the next 2-3 years. We do not brandish ridiculous or unachievable price targets to our viewers but wish to point out that a share price of £3 would still give the company a valuation of just £107.1 million. This level of valuation could easily be achieved with the development of the company's Rio Verde Contract. The development of the Bolivar and Bocachico Contracts presents yet further potential upside which could be unlocked quicker than we are expecting through the addition of farm-out agreements.

The company is currently suffering from a lack of investor confidence as previous timelines for exploration activities have failed to be met. However, for those like Stock-Eye that believe the company is about to turn a corner and re-discover its past record of growth, the current share price of 87.5p represents a fantastic entry point. There are too many oil & gas companies littering the AIM Market with no production, ever increasing shareholder dilution and a lack of any previous performance delivery. Global Energy Development is not one of those stocks and we would encourage all of our viewers to take a closer look at the company.