



The small company specialists

# COMPANY INFORMATION

Cap Energy Ltd (PLUS:CAP)

Date: November 2006

Company Eye Ranking

12/50

## EDITOR'S NOTE

This practice of picking up small abandoned and uneconomical oil projects is very popular in the USA and even Russia. The majors have higher overheads so find it harder to make these smaller fields profitable. This is where the independents come in. There are an abundance of these opportunities at the moment, with daily BBL varying on each field.

In practice revenue is never what is originally hoped but the current valuation of this one does give some possible upside in the mid-term.

This business is a high risk investment, In our opinion the company would best to be avoided at the moment.

## KEY INFORMATION FOR INVESTORS

\* Cap Energy has been set up to invest in oil and gas opportunities through the direct acquisition of exploration and/or producing oil assets

\* Cap Energy is looking to purchase exploration assets with moderate risk and small to medium sized abandoned producing wells, particularly those by the major oil

companies

\* Cap Energy aims to purchase a number of these assets and build the Company into a sizable oil company

\* Cap Energy's market of choice is the USA where a number of these opportunities have been identified

## CHART



## FUNDAMENTALS

Company Name	Cap Energy Ltd
Current Price	25.50p
Status	Plus
Market Cap	£1.05 m
Shares in Issue	411,690,8
Activities	Cap Energy aims to invest in oil assets.
Sector	Speciality & Other Finance
Corporate advisor	St Helen's Capital plc
Registrar	SLC Registrars Ltd

## HISTORY

Cap Energy has been established as an investment vehicle for a specific investment objective: to invest in oil exploration and/or production assets, particularly focused on North America. The Company has analysed a number of opportunities, particularly in the North American market and believe that there are deals available at prices that will produce a substantial return. Cap Energy has put together a team of Directors, an American associate and an engineer to ensure that deals can be sourced, appropriately evaluated and developed.

The Company has raised £229,000 from a small syndicate of sophisticated and/or high net worth investors. Over 20 investors have agreed to subscribe £125,850 in this Offer. It proposes to consider a move to AIM at a later stage once the Company has acquired and integrated a number of assets. Cap Energy is currently considering a number of possible acquisitions. At present details are commercially confidential and therefore they cannot be disclosed at this time.



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### MARKET OPORUNITY

Cap Energy aims to take advantage of the current high oil price and the availability of a number of oil asset opportunities particularly in North America.

Current thinking amongst industry experts is that the price of oil will remain high due to a number of factors: the rise of oil consumption by China, the dependence of oil supply on unstable regions which has been exacerbated by recent events in the Gulf of Mexico, where the price per barrel has risen to \$70.

Oil asset opportunities have become available for a number of reasons: abandonment of small and 'uneconomical' oil fields by the oil majors, identification of further exploration opportunities in areas where producing fields have similar geologies, and bank sales.

The major oil companies are presently focusing on the larger oil fields. They are abandoning smaller fields that are less economic for a major oil company to operate. Typically, an oil field producing less than 1,000 B/D is not, in their view, attractive. Using the benchmark of production costs at \$20 a barrel, the

majors are abandoning fields that can be profitable with the price of oil at \$40+ a barrel. Likewise, new technologies have been introduced over the past five years which have extended the life of oil producing wells. Hence, smaller operators with lower overheads can generate profits by purchasing a number of abandoned fields and exploiting further their opportunity by uncapping individual wells which still have their licences. A smaller streamlined company can operate these wells at approximately \$15 a barrel. Hence with oil at \$40+ and operating costs at \$15, there is an arbitrage opportunity.

Cap Energy's research shows it is possible to buy individual fields/wells at a cost per barrel of between \$20-25, including acquisition costs. This leaves profitable margins relative to the current price of oil.

Two deals have been reviewed along this model but for various reasons have been rejected.

A further deal, this time in the exploration space, has been evaluated and negotiations are currently taking place.

### STRATEGY

The strategy of Cap Energy is to take moderate risk in the exploration or production opportunities and share this risk with their American associate. The objective is to invest in small to medium sized opportunities to begin with and develop these opportunities with further investment and in this way, build a sizeable oil company.

Once cash flow has been established a number of relationships have been established with US banks to leverage the investment.

The Directors believe that with their skills and Cap Energy's identified associates, the Company has the necessary capabilities to source, evaluate and develop deals.

### ACTIVITIES

Cap Energy Ltd was established to take advantage of the high oil price, the relative stability of the USA (where the Company's activities are based), and the availability of small oil production assets.

Since its formation, the Company has raised its first equity funding, listed on Ofex, and negotiated and signed a joint investment agreement with Wantagh Energy LLC.

Cap Energy now has four oil interests in North America which are as follows.

\* De Shields - oil and gas production and exploration site in Oklahoma, USA. The site is comprised of five test sites which, if successful, could provide a net annual production of 12,800 barrels of oil equivalent ("BOE") with total reserves of 99,000 BOE. Using wellhead prices of \$60 per barrel for oil and \$6 per Mcf for gas, net operating cashflow could be over \$320,000 during 2006 rising to over \$538,000 in 2007.

\* Horns Corner - oil and gas production and exploration site in Oklahoma, USA. The company has an 85% working interest with joint venture partner Wantagh Energy. Cap Energy's share will be an annual production of 7,800 BOE and the site has total reserves of 65,000 BOE. Using wellhead prices of \$60 per barrel for oil and \$6 per Mcf for gas, net operating income for 2006 should be over \$238,000 and for 2007 should be over \$310,000.

\* 12 October 2006 Cap Energy USA, Inc, the wholly owned trading subsidiary of Cap Energy Limited, has acquired its fourth oil and gas asset from the Cook Oil Company. This acquisition, comprising three oil producing properties (Ray, Peggy and Shults), was acquired in conjunction with DeShields Oil and Gas, Inc.



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\* Beacon Prospect - oil exploration site in Wyoming where test drilling is being planned. Cap Energy has built assumptions, based on an analogous field, Red Bird. If it follows the Red Bird operation, Beacon could provide Cap Energy with over \$244,000 in net

cash flow in 2006 and \$439,000 in 2007. For the full roll out, if successful, the assumptions yielded a NPV valuation of \$35 million and reserves of 2.5 million barrels of oil for Cap Energy's share.

## DIRECTORS

### TIM HEARLEY

Tim Hearley graduated in Physics from Oxford University and in the 1970s became a research analyst with Sheppards and Chase, focusing on the mining sector, including oil and gas. In his early career he also worked for GEC Telecomms and W S Atkins.

In the 1980s he moved into manufacturing industry and has broad experience in the automotive industry, including his acquisition of 50% of Aston Martin which he jointly chaired with Victor Gauntlett, and as the Chairman of Virgin Cars which he helped launch in 2000.

In 1984 Tim was a Director and Chairman of Oceanic Commercial Holdings Ltd, which held a significant investment in Intrepid Oil & Gas Inc., a Delaware company owning and operating oil and gas wells in Oklahoma County; Tim has first hand knowledge of oil and gas drilling and operational techniques including an understanding of geological results and experience in the financial analysis of individual wells.

Tim is an experienced chairman and director of a number of listed and private businesses, and an active private investor. As a director and investor in Moorepay Group Plc he took the business to AIM at a valuation of \*6m and led negotiations for its \*40m sale to Rebus in early 2000. He chaired the fully listed software company Rolfe & Nolan until 2003, when he led a successful public-private deal. More recently, Tim has become a non-executive director of AIM listed Oakdene Homes and Plus listed IQ Holdings and Vicorp Group Plc.

### PHILIPPE SCHREIBER

Philippe Schreiber is a US attorney and business consultant with nearly 35 years experience in the domestic US and international oil industry. Philippe graduated from Columbia University in New York with a Juris Doctor degree and practised law with Coudert Brothers, a large international law firm, in New York and London for several years before becoming Vice President and General Counsel of

Weeks Petroleum Limited, an independent international oil company, in the 1970s. He also worked for 18 months as Assistant General Counsel for Boise Cascade Corporation, advising the companies in their international engineering and construction division until the component companies were sold to Halliburton and other purchasers.

Since 1979, Philippe has practised law, both independently and as partner and Counsel to a New York law firm (now merged into Alston & Bird) from 1985 to 1998, with his practice emphasising oil and gas matters and other European investment in the United States. Philippe has served on various occasions as the chief executive officer of independent oil and gas companies with direct involvement in oil and gas exploration and production in the United States, including Intrepid Oil Company, a joint venture of America and British companies. Each of those companies was eventually merged into larger oil companies. Philippe also served as an independent director of several publicly traded companies, including Excel Energy Corporation (Denver, Colorado) and Owl Creek Investments Limited. Philippe was a non-executive director of Barrett Resources Corporation which was publicly traded on the NYSE until its acquisition by the Williams Companies in August 2001 following a hostile bid by Shell. Philippe is currently a non-executive director of Bill Barrett Corporation, which completed a highly successful IPO in December 2004 and is now publicly traded on the NYSE. He is a member of that Board's Audit and Compensation Committees.

Philippe has directly overseen petroleum investments and operations and is familiar with exploration and production operations in the United States from an operational, legal and financial perspective. He has had experience in the regions and the types of investments in which Cap Energy intends to acquire petroleum interests and conduct its business.



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### CAROLINE BELCHER

Caroline, a Bristol University graduate, has spent her career working with a number of companies to increase their overall profits and value.

From an operations perspective she has achieved this in Management, Interim Executive and Consulting roles. In order to increase value she operates within the strategy, revenue generation, cost reduction and business creation spaces.

From an investment perspective she has been an investment analyst at Credit Suisse and an investment advisor at Venture Consulting where she identified companies for investment and business

support. Throughout her 18 year career she has held the following positions: Founder and Managing Director of Venture Consulting UK, a consulting and venture business; Global Head of Sales and Customer Relationship Management (CRM) for Personal Financial Services at American Express, a sales and customer service organisation of \$1.1bn; CRM Financial Services practice leader at Gemini Consulting, a \$20m operation in its first year; Senior Consulting positions in the Mac Group and Arthur D Little and investment analyst at Credit Suisse.

### SHAREHOLDINGS

	Number	%		Number	%
Caroline Belcher	375,000	15.8	Philippe Schreiber	125,000	5.3
Timothy Hearley	125,000	5.3	Winterflood Securities Limited	128,700	3.13

### FINANCIAL HISTORY

#### Consolidated profit and loss account for the six months ended 30<sup>th</sup> June

£'000	Six months 30 <sup>th</sup> June 2006	31 December 2005
Administrative expenses	(57,918)	(141,439)
OPERATING LOSS	(57,918)	(141,439)
Interest receivable	4,701	3,834
Interest payable	(3)	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(53,220)	(137,605)
TAX ON LOSS ON ORDINARY ACTIVITIES	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	(53,220)	(137,605)
Loss per share	(0.02)	(0.07)

#### 2006 Balance Sheet as at 31 December 2005

£'000	As at 31 December 2005
Tangible fixed assets	92,690
Debtors	2,339
Cash at bank	401,539
CURRENT ASSETS	403,878
CREDITORS: amounts falling due within one year	(16,723)
NET CURRENT ASSETS	387,155
Called up share capital	16,682
Share premium account	600,768
Profit and loss account	(137,605)
SHAREHOLDERS' FUNDS	479,845

### RISK FACTORS

In addition to the other relevant information, the following specific factors should be considered carefully when evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective Investors should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. A prospective Investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal

circumstances and the financial resources available to him/her. There are various risk and other factors associated with an investment of the type described in this document. In particular:

The value of an investment in the Company is largely dependent upon the expertise of the Directors and their ability to identify and acquire or invest in suitable companies or businesses. There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable.



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In the event of an aborted acquisition it is likely that resources may have been expended on investigative work and due diligence, which cannot be recovered. The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Company.

If the Company has not undertaken an acquisition or a significant investment within 24 months of the start of trading on PLUS, there is no guarantee that the Company can maintain a PLUS trading facility if the

Directors do not deem any acquisitions or investments to be suitable within any such period.

It is likely that the Company will need to raise further funds in the future, either to complete a proposed investment or acquisition or to raise further working or development capital for such a transaction. There is no guarantee that the then prevailing market conditions will allow for such a fundraising or that the new investors will be prepared to subscribe for Ordinary Shares at prices that are the same or greater than the price at which they are being introduced.

## OPORTUNITY FOR INVESTORS

The investment company fund raising vehicle has become an accepted method which allows institutions and private investors to back a management team and their investment focus. Institutions and private investors are attracted to this method as they can invest at an early stage and at a reasonable valuation and take advantage of the

potential upside, which has typically been the case when the acquisition has been completed and a share trading facility is in place. Private investors and institutions usually access these opportunities only when private equity firms sell their investments after taking a significant profit.

## CONTACT

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London  
EC3A 6DE  
England

## RANKING

	Ranking out of 50 (50 being highest)
<b>Business model - competitive advantage</b>	
Competition	12
Customers	15
Low cost	9
Management	
- corporate governance	11
- quality	10
- shareholding	10
Product	11
Sector	12
<b>Financial evaluation</b>	
Early and profitable exit potential	11
Financial strength	
- cash flow	15
- conservative accounting	16
- need for funding	
Growth at a reasonable price	11
Risk	13
<b>Overall average rating</b>	<b>12</b>



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### FURTHER INFORMATION ABOUT THE RANKING

#### Competitive advantage

Companies are assessed according to their business model and how this translates into strong and sustainable competitive advantage. This can only be achieved with low cost activities and doing something different from the competition. This 'differentiation' must add value to the customer who is then prepared to pay a premium price. The differentiation is most obvious in the product but it can exist anywhere in the company's

value chain of activities, such as easy payment terms, convenient locations, superior management, and quality of suppliers. Companies that do not achieve competitive advantage because they have the same costs and/or do the same as the competition are marooned in a profitless zone. They helplessly try to compete with the one weapon left open to them, which is the disaster of cutting prices and typically leads to similar retaliation by competitors, with disastrous results.

### THE FOLLOWING ELABORATES ON THE RANKING CRITERIA

#### Competition

How intense is the competition and are there barriers to entry?

#### Customers

Is the company controlling its customers and therefore its revenue streams? Are customers glued to the company and providing valuable and reliable recurring revenue or are they one-off, or 'transactional', providing shaky revenue? The company should ideally have weak and numerous customers.

#### Low costs

Has the company achieved low cost activities thus allowing more of the top line revenue to trickle down to the profit line?

#### Management

Is there good corporate governance? What is the quality of management, as this is crucial to any business? Are the directors' shareholdings significant but not so large that they control the company?

#### Product

Is the product different from the competition and adds value to the customer? Are there threatening substitutes? Does it have a powerful brand?

#### Sector

Is the company in an attractive sector that is profitable and adds value?

Services tend to be more protected than products from international competition. Does the sector ride the tailwind of multi-year mega trends? Is the business well positioned in the current stage of the economic cycle? What is its resistance to a recession?

#### Profitable exit potential

What is the potential for selling the share profitably? This is more applicable to pre-flotation investments.

#### Financial strength

Does the company have strong cash flow, the lifeblood of any business? Is the accounting conservative or is there 'accounting for growth'? Does it need more funding? Is the profit margin healthy and at least equal to its sector? What has been the track record in the growth rate of profits?

#### Growth at a reasonable price

Does the share offer growth at a reasonable price? This is commonly measured using the PEG. This is the price earnings ratio (PE) divided by the forecast growth rate in earnings per share (EPS). The lower the PEG the better and under 1.0 is considered good for a blue chip company and under 0.6 for a small growth company.

#### Risk

What is the risk rating of the share due to factors such as new markets, its business model and strategies?

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